

OBBBA – New Mexico Tax Implications

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Outline

- Overview of OBBBA tax implications
- Internal Revenue Code (IRC) and New Mexico Conformity
- Direct New Mexico Personal Income Tax (PIT) Implications
- Direct New Mexico Corporate Income Tax (CIT) Implications
- Indirect PIT & CIT implications
- New federal deductions with no impact to New Mexico
- Indirect revenue impacts to New Mexico

Overview of OBBBA Tax Implications to New Mexico

- HR-1 (OBBBA) is a federal bill that adjusts large sections of the IRC and extends many tax provisions previously set to expire, especially those in the Tax Cuts & Jobs Act (TCJA) of 2017
- Tax sections generally fall under Title VII – Finance, Subtitle, Chapters 1 through 5
- Chapters 1 and 2 directly impact New Mexico PIT:
 - Extension of increased standard deduction
 - Termination of deduction for personal exemptions
 - Limitation of tax benefit of itemized deductions
 - No tax on car loan interest
- Chapter 3 directly impacts New Mexico CIT:
 - Limitation on individual deduction for certain state and local taxes (SALT)
 - Continuation and Expansion of other TCJA provisions

Overview of OBBBA Tax Implications to New Mexico

- Chapters 5 and 6 indirectly impact New Mexico PIT and CIT:
 - Termination or phase-out of federal credits, including:
 - Clean vehicle credits
 - Energy efficient building credits
 - Advanced manufacturing credit
 - New task force on the replacement of IRS Direct File system
- Title VII, Subtitle B – Health and Title I, Subtitle A – Nutrition
 - Changes to Medicaid and the Supplemental Nutrition Assistance Program (SNAP) will indirectly impact Gross Receipts Tax (GRT) and Insurance Premium Tax and Surtax

IRC and New Mexico Tax Code Conformity

- New Mexico, like many states, begins its income taxes with federal definitions of income, which is referred to as “federal conformity”
- Federal definitions of income flow through to New Mexico’s PIT and CIT
 - New Mexico PIT conforms to Federal Adjusted Gross Income (AGI)
 - New Mexico CIT conforms to Federal Taxable Income (FTI)
 - Federal changes to AGI and FTI automatically flow through to New Mexico PIT and CIT
- Federal conformity reduces burden on both State administrators and taxpayers, and leads to higher taxpayer compliance

OBBBA Direct Impacts to New Mexico PIT: Standard Deduction

- Section 70102 - Extension and enhanced standard deduction
 - Makes TCJA increases in the standard deduction permanent
 - Increases base amount for Tax Year 2025, continues inflation adjustment
 - Effective Tax Year 2025
 - New Mexico conforms to federal standard deduction (7-2-2N(1) NMSA 1978)
 - General Fund average estimated loss of \$45 million per year for FY26 to FY30
- Tax Policy
 - A higher standard deduction reduces the number of taxpayers that itemize deductions. This lowers taxpayers' administrative burden and promotes simplicity and compliance.

OBBBA Direct Revenue Impacts to PIT: Dependent Deduction

- Section 70103 – permanently terminates federal deduction for personal exemption other than temporary senior deduction
 - Effective Tax Year 2025
- Federal Conformity
 - In response to TCJA temporarily eliminating the federal personal exemption, New Mexico enacted a \$4,000 dependent deduction (7-2-39 NMSA 1978) to hold New Mexicans harmless from federal tax increase
 - Over 155,000 taxpayers claimed New Mexico dependent deduction in Tax Year 2023
 - General Fund annual revenue loss of about \$25 million now permanent
- Tax Policy
 - Federal termination of deductions for personal exemptions is less progressive; New Mexico's dependent deduction offsets this to a degree

OBBBA Direct Revenue Impacts to PIT: Itemized Deduction Limitation

- Section 70111 - Limitation on tax benefit of itemized deductions
 - Permanently repeals the “Pease limitation” on overall itemized deductions
 - Creates formula for new itemized deduction limitation applicable only to taxpayers with taxable income subject to the 37% marginal rate
 - Effective Tax Year 2026
- Federal Conformity
 - New Mexico conforms to itemized deductions (7-2-2N(2) NMSA 1978)
- May increase General Fund revenue, but no estimate is currently available – depends on taxpayer behavior
- New Mexico has relatively few high-income taxpayers that will benefit
- Tax Policy
 - Predominantly progressive – restricts itemized deductions for high income taxpayers, leaving more income subject to taxation

OBBBA Direct Revenue Impacts to New Mexico PIT: Car Loan Interest Deduction

- Section 70203 - Car loan interest deduction
 - New federal deduction for car loan interest payments made by individuals who purchase a qualified passenger vehicle for personal use; vehicles must have final assembly in the United States
 - Limited to \$10,000 and subject to a phase out based on AGI (\$200,000 for joint filers, \$100,000 for other filers)
 - Previous law did not allow deduction of 'personal interest.' Car loan interest will now be deductible
 - Effective Tax Years 2025 through 2028
- Federal Conformity
 - New Mexico conforms to the federal itemized deductions (7-2-2N(2) NMSA 1978)
- General Fund average estimated loss of \$7.6 million per year for FY26-FY29
- Tax Policy
 - Predominantly regressive: likely to be utilized by higher-income taxpayers who itemize deductions and can maximize the use of this deduction

OBBBA Direct Revenue Impacts to CIT: SALT Cap

- Section 70120 - Limitation on state and local taxes (SALT) deduction
 - Temporarily increases the federal deduction limitation for state and local taxes (SALT) paid to \$40,000 (\$20,000 for married individuals filing separately)
 - Phases out of the SALT cap for taxpayers with modified AGI over \$500,000 to a minimum of \$10,000
 - SALT cap and income thresholds adjusted for inflation for Tax Years 2026 through 2029
 - SALT cap reverts to \$10,000 in Tax Year 2030.
 - Restrictions on states from using pass-through entity taxes was removed from the final bill

OBBBA Direct Revenue Impacts to CIT: SALT Cap continued

- Federal Conformity
 - New Mexico does not conform to the SALT deduction (income deducted from federal returns is added back in to New Mexico taxable income)
 - In response to TCJA imposing a SALT cap of \$10,000, New Mexico enacted a new entity-level tax, which pass-through entities (PTEs) may elect to pay (7-3A-10 NMSA 1978). With an election by a PTE, the tax rate is 5.9% and is binding on all PTE owners. Owners may receive a credit on their PIT or CIT return for their owner's share of the entity tax.
- General Fund average estimated loss of \$52 million per year for FY26-FY30
- Federal Tax Policy
 - Violates tax policy concept of horizontal equity – taxpayers with same level of AGI not treated equally
 - Predominantly regressive: likely to be utilized by higher-income taxpayers that can maximize use of this deduction

OBBBA Direct Revenue Impacts to CIT: Other

- Extension of several TCJA provisions which New Mexico conforms, including:
 - Section 70105 - Extension and enhancement of deduction for qualified business income is made permanent effective Tax Year 2025
 - Section 70301 - Full expensing for certain business property is made permanent effective Tax Year 2026
 - Section 70303 - Modification of limitation of business interest is made permanent effective Tax Year 2026
- General Fund Revenue Impact
 - No estimated impact as these continue current law

OBBBA Revenue Impacts to CIT: Other

- Modified federal provisions to which New Mexico conforms include:
 - Section 70306 - Increased dollar limitations for expensing of certain depreciable business assets effective Tax Year 2025
 - Section 70431 - Expansion of qualified small business stock gain exclusion. Effective to stock issued after date of OBBBA enactment
- General Fund Revenue Impact
 - Overall downward risk to CIT revenue but not estimated as dependent on taxpayer behavior
- Federal Tax Policy
 - Predominantly regressive

OBBBA Sections with indirect impacts to PIT & CIT

- Termination or phase-out of federal credits, including:
 - Clean vehicle credits (Sections 70501-70503)
 - Energy efficient building credits (Sections 70505 – 70508)
 - Advanced manufacturing production credit (Section 70514)
- Conformity
 - While New Mexico has similar credits, they are not dependent on federal credits
 - Exception – the new state Advanced Energy Equipment income tax credit (7-2-18.39 & 7-2A-19.3 NMSA 1978) has definitions tied to the IRC code under Section 45X modified by OBBBA
- General Fund Revenue Impact
 - Overall upward risk to PIT & CIT to the extent taxpayers planned on pairing federal and state credits and no longer plan certain purchases and seek the state credits

OBBBA Sections with no impact to PIT

- New federal 'below-the-line' adjustments
- New Mexico *does not* conform
- Section 70203 - No Tax on Tips
 - Creates new federal deduction for qualified tips
 - Tips defined as cash tips received by an individual in an occupation that traditionally and customarily receives tips
 - Capped at \$25,000 and limited by AGI
 - Effective Tax Years 2025 through 2028
- Federal Tax Policy
 - Predominantly progressive – tipped workers are primarily lower-income
 - Violates tax policy concept of horizontal equity – taxpayers with same level of AGI not treated equally
 - Violates tax policy concept of simplicity - increases complexity of federal tax code

OBBBA Sections with no impact to PIT

- New Federal 'below-the-line' adjustments
- New Mexico *does not* conform
- Section 70202 - No Tax on Overtime
 - Creates new federal deduction for qualified overtime compensation under the Fair Labor Standard Act of 1938
 - Deduction capped at \$25,000 (joint filers) and \$12,500 (other fields) and limited by AGI
 - Effective Tax Years 2025 through 2028
- Federal Tax Policy
 - Violates tax policy concept of horizontal equity – taxpayers with same level of AGI not treated equally
 - Violates tax policy concept of simplicity - Increases complexity of federal tax code

OBBBA Sections with no impact to PIT

- New Federal 'below-the-line' adjustments
- New Mexico *does not* conform
- Section 70103 - Termination of deduction for personal exemption other than temporary senior deduction
 - Creates new federal temporary deduction of \$6,000 for seniors age 65 and older, subject to a phase out based on modified AGI (\$150,000 for joint filers, \$75,000 for other filers.)
 - Effective Tax Years 2025 through 2028
- Federal Tax Policy
 - Violates tax policy concept of horizontal equity – taxpayers with same level of AGI not treated equally

OBBBA Indirect Impacts to other Tax Revenues

- Title 1, Subtitle A – Nutrition contains numerous changes to SNAP
 - Changes within SNAP include work requirements for certain populations
- General Fund Impact
 - New work requirements may reduce the population receiving SNAP benefits, increasing demand for State assistance programs (appropriations risk)
 - Some consumption of food will shift from being covered under SNAP (exempt from GRT, to food consumption that is deductible under GRT deduction 7-9-92 NMSA 1978
 - Shifting food receipts to the 7-9-92 GRT deduction increases State hold harmless distributions to local governments, a downward risk to the General Fund GRT
 - To the extent SNAP work requirements increase employment, could be upward impacts to PIT and GRT

OBBBA Indirect Impacts to Tax Revenues

- Title VII -Subtitle B – Health contains changes to Medicaid including:
 - Redetermination of Medicaid eligibility for certain population every six months
 - Limiting retroactive coverage
 - Work requirements for certain populations
 - Cost sharing for certain populations
 - Phase down for State Directed Payments
- General Fund Revenue Impact
 - The redetermination of eligibility, work requirements and cost-sharing are likely to decrease enrollment in Medicaid
 - Reduced Medicaid premiums will pose a downside risk to the Insurance Premium Tax and Health Insurance Premium Surtax as the taxable base shrinks

OBBBA Indirect Impacts to other Tax Revenues

- Phase down for State Directed Payments to the Medicaid payment rate will impact the amount of provider rate increases to hospitals under Medicaid passed into law under SB17 (2024)
- This will pose a downside risk to the Insurance Premium Tax and Health Insurance Premium Surtax as the premium amounts for Medicaid recipients will be proportionately impacted
- Also poses a downside risk to GRT with a lower taxable base for Hospitals than estimated in SB17 fiscal impact. Estimate to be determined.

Concluding Thoughts

- Tax & Rev will continue to analyze these impacts with members of the Consensus Revenue Estimating Group
- Best estimates will be included in August 19, 2025 CREG forecast
- State policymakers may choose to decouple from areas of conformity under current law



Thank you!

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