

BILL ANALYSIS AND FISCAL IMPACT REPORT
Taxation and Revenue Department

February 1, 2024

Bill: HB-249

Sponsor: Representatives Cathrynn R. Brown and Gail Armstrong

Short Title: Social Security Income Indexing

Description: This bill amends Section 7-2-5.14 NMSA 1978, the personal income tax exemption for social security income to require that the amounts for the limitations based on the adjusted gross income to be adjusted based on the consumer price index. This bill requires the first adjustment to take place for the 2025 taxable year and each year following.

Effective Date: Not specified; 90 days following adjournment (May 15, 2024). Applicability – The provisions of this act apply to taxable years beginning on or after January 1, 2024.

Taxation and Revenue Department Analyst: Sara Grubbs

| Estimated Revenue Impact* | | | | | R or NR** | Fund(s) Affected |
|---------------------------|--------|-----------|-----------|-----------|-----------|------------------|
| FY2024 | FY2025 | FY2026 | FY2027 | FY2028 | | |
| -- | -- | (\$1,000) | (\$1,400) | (\$1,700) | R | General Fund |

* In thousands of dollars. Parentheses () indicate a revenue loss. ** Recurring (R) or Non-Recurring (NR).

Methodology for Estimated Revenue Impact: The personal income tax (PIT) exemption for social security income, Section 7-2-5.14 NMSA 1978, was enacted in 2022. 12% of New Mexico tax filers claimed the exemption. Using tax year 2022 taxpayer returns that claimed the social security exemption, the Taxation and Revenue Department (Tax & Rev) calculated the amount of the exemption by tax filing status per tax filer. See table below.

| Filing Status | 2022 Exemption per Tax Filer |
|--|------------------------------|
| Single | \$453 |
| Head of Household, Surviving Spouses, and Married Filing Joint | \$706 |
| Married Filing Separate | \$432 |

Tax & Rev then adjusted the maximum adjusted gross income (AGI) from tax year 2025 to tax year 2027 using the Congressional Budget Office’s inflation forecast¹. See table on the next page for the estimated maximum AGI by filing status.

¹[Analysis of CBO's February 2023 Budget and Economic Outlook | Committee for a Responsible Federal Budget \(crfb.org\)](https://www.crfb.org/analysis-of-cbo-s-february-2023-budget-and-economic-outlook)

| Inflation-Adjusted Maximum AGI to Qualify for Social Security Exemption | | | |
|---|-------------------------|--|-----------|
| | Married Filing Separate | Head of Household, Surviving Spouses, and Married Filing Joint | Single |
| Current | \$75,000 | \$150,000 | \$100,000 |
| Tax Year 2025 | \$78,000 | \$156,000 | \$104,000 |
| Tax Year 2026 | \$79,000 | \$159,000 | \$106,000 |
| Tax Year 2027 | \$81,000 | \$163,000 | \$108,000 |

Tax & Rev estimated the additional number of tax filers that would qualify for the social security exemption under the adjusted AGI and multiplied this by the amount of exemption per tax filer by filing status.

Policy Issues: Personal income tax (PIT) represents a consistent source of revenue for many states. For New Mexico, PIT is approximately 25% of the state’s recurring general fund revenue. While this revenue source is susceptible to economic downturns, it is also positively responsive to economic expansions. New Mexico is one of 41 states, along with the District of Columbia, that impose a broad-based PIT (New Hampshire and Washington do not tax wage and salary income). Like several states, New Mexico computes its income tax based on the federal definition of taxable income and ties to other statutes in the federal tax code. This is referred to as “conformity” to the federal tax code. The PIT is an important tax policy tool that has the potential to further both horizontal equity, by ensuring the same statutes apply to all taxpayers, and vertical equity, by ensuring the tax burden is based on taxpayers’ ability to pay. This bill will continue to affect horizontal equity in state income taxes offering one taxpayer a competitive advantage over another.

Assuming the purpose of the statute is to reduce the tax liability of middle- and low-income taxpayers that receive social security income, adjusting the maximum AGI at the state level for inflation ensures that these taxpayers will continue to qualify for the exemption as federal social security income is adjusted for inflation.

Additional analysis of Section 7-2-5-14 NMSA 1978 can be found in the 2023 New Mexico Tax Expenditure Report².

Technical Issues: The ‘consumer price index’ referenced in the proposed subsection B, is not defined. Tax & Rev suggests using the following definition currently in law for the indexing of the Low-Income Comprehensive Tax Rebate, Section 7-2-14 NMSA 1978. “Consumer price index” means the consumer price index for all urban consumers published by the United States department of labor for the month ending September 30.

On page 2, line 13, the formula refers to multiplying each amount of “modified gross income”. The amount referenced should be to “adjusted gross income”.

Other Issues: None

² See <https://www.tax.newmexico.gov/forms-publications>
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Administrative & Compliance Impact: Tax & Rev will make information system changes and update forms, instructions, and publications annually. This implementation will be included in the annual tax year changes.

This bill will have a low impact on Tax & Rev’s Information Technology Division (ITD), approximately 220 hours or over one month and \$12,210 of staff workload costs. This will add recurring work in tax year 2026 and beyond, as AGI thresholds may now be updated each year. For subsequent tax years, the impact of ITD recurring work will be about 120 hours per tax year or \$6,660 of staff workload costs.

| Estimated Additional Operating Budget Impact* | | | | R or NR** | Fund(s) or Agency Affected |
|--|---------------|---------------|--------------------------|------------------|-----------------------------------|
| FY2024 | FY2025 | FY2026 | 3 Year Total Cost | | |
| -- | \$12.2 | -- | \$12.2 | NR | Tax & Rev – ITD staffing |
| -- | -- | \$6.7 | \$6.7 | R | Tax & Rev – ITD staffing |

* In thousands of dollars. Parentheses () indicate a cost saving. ** Recurring (R) or Non-Recurring (NR).