Bill Analysis and Fiscal Impact Report
Taxation and Revenue Department

January 23, 2026

Bill:
HB-55

Sponsor:
Representatives Alan T. Martinez and John Block

Short Title:
1st Responder Retirement Tax Deduction

Description:
This bill provides a deduction from personal income tax for 50% of the retirement pay of a first responder or the unmarried surviving spouse of a first responder. The bill defines a first responder to be a law enforcement officer, a firefighter or emergency medical services (EMS) personnel whose duties include responding rapidly to an emergency. The bill requires the Taxation and Revenue Department (Tax & Rev) to include the annual aggregate cost of the deduction in the tax expenditure report.

Effective Date, Applicability, and Contingency Language:
Not specified or 90 days following adjournment (May 20, 2026). Applicable for tax years starting January 1, 2026.

Taxation and Revenue Department Analyst:
Sara Grubbs

Estimated Revenue Impact*

FY26	FY27	FY28	FY29	FY30	Recurring or Non-Recurring	Fund(s) Affected
--	($6,100)	($6,400)	($6,700)	($7,000)	R	General Fund

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

Methodology for Estimated Revenue Impact:
This bill defines a first responder as a law enforcement officer, a firefighter or emergency medical services personnel. The Public Employees Retirement Association (PERA) of New Mexico provides a count of the number of retired state police, municipal police, municipal firefighters, and volunteer firefighters in New Mexico in their Annual Financial Reports[1]. These reports also provide the average monthly retirement benefit amount for each group. The table below details these numbers for fiscal year 2025:

Profession	Monthly Retirement Pay	No. of Retirees
State Police/Corrections	$3,307	1,447
Municipal Police	$3,954	3,530
Municipal Firefighters	$4,193	1,895
Volunteer Firefighters	$152	1,539

---

[1] In addition to the listed professions above, PERA also administers New Mexico's retirement system for other public employees, including general judicial, municipal, legislative, and other state employees.

Tax & Rev cannot differentiate between those drawing retirement pay by state police or corrections officers and assumes both professions would qualify under this bill. Tax & Rev applied the 50% deduction to the retirement pay, then applied the effective tax rate for New Mexico residents at 2.8%[2] for the fiscal estimate for law enforcement officers and firefighters.

To estimate the number of emergency medical services personnel, Tax & Rev first used the annual New Mexico Health Care Workforce Committee Report. This report is submitted by the University of New Mexico Health Sciences Center to the New Mexico legislature per Section 24-14C-1 NMSA 1978. The 2025 New Mexico Health Care Workforce Committee Report provides a count of the number of emergency medical technicians (EMTs) by state and county. In this report, EMT is defined as those licensed as EMTs, first responders or dispatchers, and counted only once. Tax & Rev assumes all potential qualified EMS workers are captured by this definition. Using the average number of EMTs from 2022 to 2024, Tax & Rev estimates the total number of EMTs in New Mexico is 4,610.

Tax & Rev then calculated the percent of EMTs as a proportion of the total number of individuals employed in New Mexico. The Bureau of Labor Statistics provides the number of employed by state. For New Mexico, approximately 940,000 persons employed in 2024[3]. The percent of EMTs is calculated to be 0.49%.

The population of New Mexico residents over the age of 65 is approximately 397,000[4]. Tax & Rev assumes this population receives retirement pay and the source mimics the current workforce. First responders generally do not have a required retirement age. Tax & Rev assumes these taxpayers would receive retirement pay at 65 or older. This results in an estimate of 1,940 retired EMTs eligible for this deduction.

To estimate the retirement pay income, Tax & Rev used the U.S. Census Bureau's estimate of the mean retirement income for persons 65 and older in New Mexico, at $36,000 per year, or $3,000 per month. Tax & Rev then applied the 50% deduction and the 2.8% effective tax rate.

For FY2026 to FY2030, the number of eligible retirees grew at an annual rate of approximately 2%, calculated from the growth rate of first responder retirees from FY2023 to FY2025. Tax & Rev also applied the S & P Global December 2025 forecast for inflation to the retirement pay to account for cost-of-living adjustments.

Tax & Rev has no straightforward way to identify the number of potentially eligible first responder retirees who receive retirement income from tribal governments, other states or the federal government. Tax & Rev recognizes that this may result in a higher revenue impact.

Policy Issues:
Personal income tax (PIT) represents a consistent source of revenue for many states. For New Mexico, PIT is approximately 16% 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 adjusted gross income and ties to other statues 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

---

[2] The effective rate is estimated under current New Mexico tax brackets.
[3] Bureau of Labor Statistics, Local Area Unemployment Statistics (www.bls.gov)
[4] U.S. Census Bureau, U.S. Department of Commerce. "Population 65 Years and Over in the United States." *American Community Survey, ACS 5-Year Estimates Subject Tables, Table S0103.*

vertical equity, by ensuring the tax burden is based on taxpayers' ability to pay. By basing the credit on a specific profession or retirement status, taxpayers in similar economic circumstances are no longer treated equally.

While tax incentives can support specific industries or promote desired social and economic behaviors, the growing number of such incentives complicate the tax code. Introducing more tax incentives has two main consequences: (1) it creates special treatment and exceptions within the code, leading to increased tax expenditures and a narrower tax base, which negatively impacts the general fund; and (2) it imposes a heavier compliance burden on both taxpayers and Tax & Rev. Increasing complexity and exceptions in the tax code is generally not in line with sound tax policy.

There are many reasons why states may deduct some income for retirees, such as lessening the economic burdens for individuals on fixed incomes or trying to attract retirees to the state. This bill reduces the tax burden to a first responder by an average of $585 per year. This will provide some tax relief but is unlikely to attract retirees to the state on its own.

This tax deduction does not include a sunset date with a delayed repeal. Tax & Rev supports sunset dates for policymakers to review the impact of a deduction or other tax incentive before extending it if a sufficient timeframe is allotted for tax incentives to be measured.

Technical Issues:
None.

Other Issues:
Eligibility for the deduction depends on verifying that retirement income was earned through first responder service will be difficult to administer due to inability to verify information submitted to claim the credit.

First, PERA retirement income is reported on 1099-R forms which do not distinguish first responder service from other service, and many retirees have mixed service histories that combine first responder and non-first-responder employment. Tax & Rev has no independent way to verify eligibility or calculate the portion of retirement income attributable to first responder service.

Second, Tax & Rev also has no mechanism to verify out-of-state first responder retirement income. Like New Mexico, pension systems in other states do not provide service-type information on 1099-R forms, and Tax & Rev has no authority to obtain employment or pension records from other jurisdictions. Tax & Rev would therefore be forced to rely entirely on taxpayer-submitted documentation.

Third, the bill's broad, duty-based definition of "first responder" gives Tax & Rev no reliable way to determine which retirees actually performed qualifying emergency response work. The definition of "law enforcement officer" could include corrections or security personnel; the definition of "firefighter" does not distinguish between volunteer and career service; and the definition of "EMS personnel" could include emergency-room nurses or other medical staff who do not perform field response duties. Some administrative or supervisory positions could also be interpreted as first responder roles. Without a clear definition of "first responder" and the inability to verify employment as a first responder of the retirement income for the credit.

Because of this inability to verify the retirement income, Tax & Rev would be required to manually review unverifiable taxpayer-submitted documents, creating additional administrative burdens and a high risk of improper deductions. Verification challenges are compounded by the fact that 1099-R forms do not identify the retiree's job classification or whether the retirement income was earned through first responder service.

Page 1, Line 24 to page 2, line 2 states that the taxpayer shall submit information to the department to establish that the taxpayer is eligible to claim the deduction. To aid Tax & Rev in administering the deduction, Tax & Rev suggests replacing "information" on line 25, page 1 with "information establishing that the taxpayer retirement income as a first responder for the tax year and the amount of the income."

Administrative & Compliance Impact:
Tax & Rev will update forms, instructions and publications and make information system changes. Staff training to administer the credit will need to take place. This implementation will be included in the annual tax year changes.

Implementing this bill will have a moderate impact on Tax & Rev's Revenue Processing Division (RPD). To verify eligibility, RPD will need the additional workload of one FTE (pay band 5) Senior Tax Collection Coordinator.

Implementing this bill will have a low impact on Tax & Rev's Information Technology Division (ITD), with approximately 220 hours or about 1 ½ months and $15,226 of staff workload costs.

Estimated Additional Operating Budget Impact*

FY26	FY27	FY28	3 Year Total Cost	Recurring or Non-Recurring	Fund(s) or Agency Affected
$40	$80	$80	$200	R	RPD – FTE
--	$15.2	--	$15.2	NR	ITD – Staff workload

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