

**Bill Analysis and Fiscal Impact Report
Taxation and Revenue Department**

February 1, 2026

Bill:
HB-92

Sponsor:
Representatives Elaine Sena Cortez, Cathrynn N. Brown, and Nicole Chavez

Short Title:
Senior Income Tax Deduction

Description:
This bill amends the exemption for Social Security income. As under current law, individuals with the following adjusted gross incomes (AGI) or less will remain eligible to claim a 100% exemption: \$75,000 for married individuals filing separate returns, \$150,000 for married individuals filing joint returns, heads of household, and surviving spouses and \$100,000 for single individuals.

Beginning in tax year 2026, the bill provides that the exemption will apply as a graduated percentage of Social Security income for taxpayers with higher AGI. For tax years 2026 and 2027, the exemption is equal to 20% of social security income included in AGI, increasing to 40% in tax years 2028 through 2029, 60% for tax years 2030 through 2031, 80% for tax years 2032 through 2033, and from 2034 to 2035, the exemption is 100% of the taxpayer's social security income included in AGI.

Effective Date, Applicability, and Contingency Language:
Not specified or 90 days following adjournment (May 20, 2026).

Taxation and Revenue Department Analyst:
Sara Grubbs

Estimated Revenue Impact*

FY26	FY27	FY28	FY29	FY30	Recurring or Non-Recurring	Fund(s) Affected
(\$3,800)	(\$8,000)	(\$8,500)	(\$17,900)	(\$18,900)	R	General Fund

* In thousands of dollars. Parentheses () indicate a revenue loss.

Methodology for Estimated Revenue Impact:

By removing the maximum AGI limit, this bill allows higher-income Social Security recipients to claim the exemption.

The Internal Revenue Service's (IRS) Statistics of Income (SOI) tabulates the number of social security recipients of taxable income and the amount of social security income by AGI brackets. The Taxation and Revenue Department (Tax & Rev) calculated the weighted average annual social security income and the number of New Mexico taxpayers with AGIs over \$150,000 by AGI ranges¹. Tax & Rev then estimated the existing tax due using the effective tax rate of 2.8% for tax year 2025 and assumed that taxpayers will claim this amount against their personal income taxes. Tax & Rev calculates that the current average tax liability on Social Security income is \$1,182 for each New Mexico taxpayer with an AGI greater than \$150,000.

Tax & Rev then grew the average tax liability by the Congressional Budget Office's inflation forecast for FY2027 to FY2030 as a proxy for cost-of-living adjustments. Tax & Rev also grew the number of higher-

¹ www.irs.gov/statistics
HB-92

income eligible taxpayers by 3.1%, based on the average growth rate from 2021 to 2022 of New Mexico recipients of taxable Social Security income, according to the most recent SOI data available. This reflects the growing number of people eligible for retirement and Social Security benefits.

Tax & Rev applied the graduated rates of the exemption on social security income based on the tax year. The fiscal impact for FY2026 captures changes in withholding by eligible taxpayers.

Tax & Rev recognizes that the full fiscal impact of this exemption at 100% occurs in tax year 2034, which is outside the scope of the fiscal impact. Tax & Rev estimates the fiscal impact for tax year 2034 is approximately \$61.5 million. Tax & Rev also notes that the exemption stops for tax year 2036 and would reverse the loss of revenue to the General Fund.

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 (AGI) and ties to other statutes in the federal tax code, referred to as "conformity." 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.

With the adoption of this bill, New Mexico would join thirty-six other states and D.C. who do not tax social security benefits at all because they do not have PIT or do not include social security in their tax base. Excluding types of retirement income from the taxable base is seen as eroding horizontal equity in state income taxes. By excluding income based on age, taxpayers in similar economic circumstances are no longer treated equally, with older taxpayers receiving a benefit not available to younger taxpayers at the same level of income.

The Social Security exemption was enacted in tax year 2022. In tax year 2024, approximately 132,000 taxpayers claimed the exemption under current law, providing tax relief of \$86.4 million. The current maximum adjusted gross income (AGI) is applicable to low- and middle-income taxpayers; for individuals, the cap is \$100,000, for married joint filers, it is \$150,000, and for married filing separately, it is \$75,000. The average tax savings per taxpayer under current law is \$656. Removing the current cap and exempting all social security income will benefit high-income individuals who do not depend solely on social security benefits, relying instead on other sources of income. As noted in the fiscal methodology, the average PIT tax liability benefit for higher-income taxpayers is \$1,078, compared with the current average of \$656. Because the legislation benefits only higher-income individuals, it erodes the tax code's progressivity. The change would benefit about the top 15% highest earning Social Security recipients.

There are many other reasons why states may exempt some income for those over 65, such as reducing the economic burdens for individuals on fixed incomes and trying to attract retirees to the state. If the goal is to attract retirees to move to New Mexico, exempting Social Security from income taxation may not necessarily achieve that goal. For example, Texas does not tax any income, social security or otherwise. Yet, Texas features as one of the least tax-friendly states for retirees in the country because of its high property and sales taxes². Notably, New Mexico's property taxes are amongst the lowest in the nation. It is, therefore, necessary to take a holistic look at New Mexico's tax code, and attempts should be made to make

² https://www.kiplinger.com/kiplinger-tools/retirement/t055-s001-state-by-state-guide-to-taxes-on-retirees/index.php?state_id=44#

the tax structure simpler, broader, and more equitable, without being punitive to any segment of the population.

Reducing a taxpayer’s New Mexico taxable income may result in a taxpayer’s marginal income bracket falling. As this bill applies to higher-income taxpayers, there may be a secondary effect of a more pronounced reduction in overall aggregate personal income taxes.

Additional analysis of the Social Security exemption can be found in the 2025 New Mexico Tax Expenditure Report³.

Technical Issues:

None.

Other Issues:

None.

Administrative & Compliance Impact:

Tax & Rev will update forms, instructions and publications, and make information system changes. Staff training to administer the credit will be required. This implementation will be included in the annual tax year changes, as appropriate, for every tax year through 2036.

For Tax & Rev’s Information Technology Division (ITD), implementing HB-92 will have a low impact, requiring approximately 220 hours or about one and a half months and \$15,226 of staff workload costs. ITD will incur costs in subsequent fiscal years as the percentage increases to 40%, 60%, 80% and 100% and then back to 0%.

Estimated Additional Operating Budget Impact*

FY26	FY27	FY28	3 Year Total Cost	Recurring or Non-Recurring	Fund(s) or Agency Affected
--	\$15.2	--	\$15.2	NR	ITD – Staff workload

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

³ See <https://www.tax.newmexico.gov/forms-publications/>
HB-92