

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

January 27, 2026

Bill:
HB-93

Sponsor:
Representatives Elaine Sena Cortez and Rebecca Dow

Short Title:
Standard Income Tax Deduction Increase

Description:
This bill increases the standard deduction for New Mexico personal income tax to 205% of the standard deduction allowed by the federal government.

Effective Date, Applicability, and Contingency Language:
Not specified or 90 days following adjournment (May 20, 2026). Applicability – taxable years beginning on or after 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 |
|------|-------------|-------------|-------------|-------------|------------------------------|------------------|
| -- | (\$571,000) | (\$585,000) | (\$598,000) | (\$611,000) | 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 increases the standard deduction by 205%. The table below details the current 2026 federal standard deduction and at a 205% increase under the proposal.

| Filing Status | Current 2026 Federal Standard Deduction | Proposed Standard Deduction |
|-------------------------|---|-----------------------------|
| Single | \$16,100 | \$33,005 |
| Married Filing Joint | \$32,200 | \$66,010 |
| Head of Household | \$24,150 | \$49,508 |
| Married filing Separate | \$16,100 | \$33,005 |

The impact of the proposed changes was estimated using tax years 2023-2024 tax return data for New Mexico individual taxpayers. The 2023-2024 tax return data was evaluated under the current New Mexico tax brackets, beginning January 1, 2025 (see policy). The Taxation and Revenue Department (Tax & Rev) assumes taxpayers who itemize deductions will continue to do so. The decision to itemize is influenced more by federal tax code than state tax code as the savings are often more substantial. Also, the federal standard deduction remains at the same amounts.

To forecast for FY 27-30, Tax & Rev grew the estimate annually using S & P Global’s December 2025 inflation forecast to increase the standard deduction.

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. 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.

The table below contains the current personal income tax brackets.

| Current Tax Bracket | Taxable Income Range | Rate |
|---|---------------------------------|-------------|
| Married Filing Separate | | |
| 1 | Not over \$4,000 | 1.50% |
| 2 | \$4,000 -- not over \$12,500 | 3.20% |
| 3 | \$12,500 -- not over \$25,000 | 4.30% |
| 4 | \$25,000 -- not over \$50,000 | 4.70% |
| 5 | \$50,000 -- not over \$157,500 | 4.90% |
| 6 | Over \$157,500 | 5.90% |
| Married Filing Joint, Heads of Household | | |
| 1 | Not over \$8,000 | 1.50% |
| 2 | \$8,000 -- not over \$25,000 | 3.20% |
| 3 | \$25,000 -- not over \$50,000 | 4.30% |
| 4 | \$50,000 -- not over \$100,000 | 4.70% |
| 5 | \$100,000 -- not over \$315,000 | 4.90% |
| 6 | Over \$315,000 | 5.90% |
| Single | | |
| 1 | Not over \$5,500 | 1.50% |
| 2 | \$5,500 -- not over \$16,500 | 3.20% |
| 3 | \$16,500 -- not over \$33,500 | 4.30% |
| 4 | \$33,500 -- not over \$66,500 | 4.70% |
| 5 | \$66,500 -- not over \$210,000 | 4.90% |
| 6 | Over \$210,000 | 5.90% |

Under this bill, this increase in the standard deduction essentially removes the tax liability for taxpayers who fall in the lower income tax brackets. For almost all taxpayers with taxable income in tax brackets 1, 2, and 3, there would not be a tax liability under this bill. However, taxpayers in all brackets will see a decrease in their tax liability with most of the savings from this bill occurring for middle-income taxpayers in tax brackets 2-5 as demonstrated in the table below.

| Tax Bracket | Estimated No. of Taxpayers under Current Tax Brackets | Estimated No. of Taxpayers under Proposal | Estimated Fiscal Impact for FY2027 | Average Tax Relief Per Taxpayer |
|--------------------|--|--|---|--|
| 1 | 398,500 | 611,000 | (\$119,000) | (\$195) |
| 2 | 128,500 | 100,000 | (\$100,000) | (\$1,000) |
| 3 | 166,000 | 106,000 | (\$117,000) | (\$1,104) |
| 4 | 184,000 | 115,000 | (\$127,000) | (\$1,104) |
| 5 | 182,000 | 113,000 | (\$113,000) | (\$863) |
| 6 | 50,000 | 47,000 | (\$16,000) | (\$340) |

The increase in the standard deduction will apply to all taxpayers, including taxpayers that are not residents. For tax equality, this is important, but it is worth noting that this change could also lower the tax liability of non-residents who apportion income to New Mexico.

The proposed bill maintains the so-called “marriage penalty”. As defined by the Tax Foundation, a marriage penalty exists when a state’s income brackets for married taxpayers filing jointly are less than double the bracket widths for single filers¹. As of tax year 2024, New Mexico is one of 15 states with a “marriage penalty” built into its income tax brackets.

This bill would likely reduce uptake of some existing New Mexico income tax exemptions that provide tax relief for low- and middle-income taxpayers, rendering those current exemptions less necessary. As most low- and middle- income taxpayers apply the standard deductions, depending on an individual’s income, very little taxable income may remain to be exempted by the Low- and Middle-income Taxpayer exemption and the Social Security Income Exemption for example. Both exemptions provide personal income tax relief based on the taxpayer’s filing status and adjusted gross income. The Low- and Middle-income Taxpayer Exemption excludes on average more than \$1.7 billion annually from the PIT tax base. In FY2025, the state saw a reduction in revenue of approximately \$13 million. The Social Security Income Exemption resulted in a reduction of revenue of \$92 million in FY2025²

Technical Issues:

None.

Other Issues:

[Section 2] This policy change will require notifying the public as the 2026 withholding tables have been published. With an applicable date of January 1, 2026, the change in the standard deduction may result in taxpayer and employer confusion and may result in more and higher refunds. If the point of the bill is to provide tax relief that taxpayers will see in their paychecks, Tax & Rev suggests an applicability date of January 1, 2027.

Administrative & Compliance Impact:

Tax & Rev will update forms, instructions and publications and make information system changes. Staff training to administer the change in the standard deduction will take place. This implementation will be included in the annual tax year changes.

¹ <https://taxfoundation.org/state-marriage-penalty-2022/>

² See <https://www.tax.newmexico.gov/forms-publications/>

For Tax & Rev’s Information Technology Division (ITD), implementing this bill will have a low impact, requiring 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 |
|-------------|-------------|-------------|--------------------------|-------------------------------------|-----------------------------------|
| -- | \$15.2 | -- | \$15.2 | NR | IT – Staff workload |

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