

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

February 5, 2026

Bill:
HB-224

Sponsor:
Representatives Randall T. Pettigrew and Gail Armstrong

Short Title:
Medical Care Expenses Tax Deduction

Description:
This bill reinstates and expands the deduction from personal income tax (PIT) for unreimbursed or uncompensated medical care expenses that expired January 1, 2025. The bill expands the previous deduction to provide that 100% of unreimbursed or uncompensated medical expenses paid by a taxpayer are deductible. Before it expired, the deduction was equal to 10% to 25% percent of unreimbursed or uncompensated medical expenses, based on the taxpayer’s filing status and adjusted gross income. The bill does not contain a sunset date.

Effective Date, Applicability, and Contingency Language:
Not specified or 90 days following adjournment (May 20, 2026). Applicable to tax 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
--	(\$56,700)	(\$60,700)	(\$64,800)	(\$68,900)	R	General Fund

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

Methodology for Estimated Revenue Impact:
The previous unreimbursed or uncompensated medical care expenses deduction (Section 7-2-37 NMSA 1978) sunset on January 1, 2025. This bill reinstates this deduction and expands it, allowing the taxpayer to deduct 100% of eligible unreimbursed or uncompensated medical care expenses.

The Taxation and Revenue Department (Tax & Rev) calculates the historical aggregate amount of unreimbursed or uncompensated medical care expenses by using the amounts taxpayers report on their annual New Mexico personal income tax (PIT) returns. Tax & Rev used 2023 and 2024 taxpayer income tax returns, which are the last tax years during which the deduction was available, to calculate the aggregate amount of unreimbursed or uncompensated medical care expenses. The average amount of eligible unreimbursed or uncompensated medical care expenses is approximately \$5,800 per taxpayer.

Tax & Rev inflated the unreimbursed or uncompensated medical care expenses using S & P Global’s most recent growth rate forecast for consumer spending on health care. Tax & Rev then applied the 2025 estimated effective tax rate for of 2.8%, resulting in an average tax savings of \$162.40 per taxpayer.

In 2023 and 2024, approximately 324,560 taxpayers claimed this deduction. Using this as a base, Tax & Rev calculated the total aggregate cost of deducting eligible medical care expenses at 100%. For FY2027, Tax & Rev estimates the fiscal impact to be \$56.7 million.

Policy Issues:

Federal H.R. 1, enacted in July 2025, contains several changes to federal health care programs, including imposing work requirements on Medicaid enrollees beginning in 2027. This may result in higher out-of-pocket medical expenses for some taxpayers as they may decide to forgo health insurance. Federal enhanced premium tax credits, which provided subsidies for Americans receiving health insurance under the Affordable Care Act, expired at the end of 2025. Nationally, the Congressional Budget Office anticipates that changes in work requirements and the loss of the enhanced federal premium tax credits will reduce health insurance coverage for an estimated 16 million people by 2034, which could eventually impact the amount of unreimbursed medical spending.¹

As a result, New Mexico expects to use State resources to cover the loss of federal health care subsidies in the short-term. New Mexico's health care marketplace for health insurance, BeWell, reports that more than 80,400 New Mexicans enrolled in the New Mexico health insurance marketplace in 2026. For these taxpayers, out-of-pocket expenses may be minimal. However, premiums are expected to rise by almost 36%.² This increase in premiums may cause some taxpayers to drop health insurance during the year. If faced with an uninsured medical debt, these taxpayers may utilize the unreimbursed or uncompensated medical care expenses tax deduction.

The expired deduction was scaled to decrease as a percentage of adjusted gross income (AGI) as AGI increased, making the deduction more progressive. The proposed deduction of 100% of medical expenditures regardless of AGI is more regressive as those of higher income are more likely to have higher unreimbursed care and receive the majority of the benefit of the deduction than those of lower incomes.

Bill proponents assert that by reducing State income tax liability, taxpayers will have more disposable income, leading to indirect increases in consumption subject to the gross receipts tax. This case can be stated with regard to any material tax reduction.

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 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.

This tax deduction does not include a sunset date. 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:

None.

Administrative & Compliance Impact:

¹ <https://www.brookings.edu/articles/a-little-known-way-the-tax-code-subsidizes-spending-on-health-care/>

² <https://www.abqjournal.com/news/new-mexico-sees-record-aca-enrollment-following-states-move-to-offset-subsidy-losses/2951641>

Tax & Rev will update forms, instructions and publications and make information system changes. Staff training to administer the credit will be required. Implementation of this bill will be included in the annual tax year changes.

For Tax & Rev’s Information Technology Division (ITD), implementing this bill will have a low impact on ITD, 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	ITD – Staff workload

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