

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

February 13, 2026

Bill:

HB-264

Sponsor:

Representatives Mark Duncan, Mark B. Murphy, Jonathan A. Henry, Rebecca Dow, and William A. Hall II

Short Title:

Various Income Tax Deductions

Description:

This bill creates new personal income tax (PIT) deductions for qualified tips, qualified overtime compensation, and social security income to couple with new deductions created in the federal budget reconciliation bill, H.R.1.

This bill replaces the State's working families tax credit (WFTC) in Section 7-2-18.15 NMSA 1978 with a new State earned income tax credit (SEITC) that is calculated using a state formula, but retains the federal definitions of "earned income" "eligible child," and "qualifying child" in the federal EITC (FEITC). The earned income tax credit is calculated based on a taxpayer's earned income, taking into consideration a credit percentage and phaseout percentage that vary based on the number of qualifying children.

This bill also creates the foster parent and guardian income tax credit. The credit is \$250 each month that the taxpayer is a foster parent or guardian not to exceed \$3,000 in a taxable year. Eligibility for the credit is determined by the Children, Youth, and Families Department (CYFD). Any amount of the credit more than the taxpayer's liability is refundable.

The deduction for unreimbursed or uncompensated medical care expenses expired on January 1, 2025. 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. This bill reinstates and provides a deduction for 100% of unreimbursed or uncompensated medical care expenses. The bill does not contain a sunset date.

This bill amends the deduction for certain receipts for services provided by health care practitioners or association of health care practitioners. Section 7-9-93 NMSA 1978 to include coinsurance in addition to the current copayment or deductibles and removes the fixed dollar requirement. The bill extends the GRT deduction sunset date from July 1, 2028, to July 1, 2031, with the inclusion of coinsurance.

Effective Date, Applicability, and Contingency Language:

Sections 1-6 Not specified or 90 days following adjournment (May 20, 2026). Section 7, July 1, 2026. Applicability – The provisions of Sections 1-6 of this act apply to taxable years beginning on or after January 1, 2026.

Taxation and Revenue Department Analyst:

Sara Grubbs & Pedro Clavijo

Estimated Revenue Impact*

FY26	FY27	FY28	FY29	FY30	Recurring or Non- Recurring	Fund(s) Affected
--	(\$5,800- \$11,600)	(\$6,200- \$12,300)	(\$6,500- \$12,900)	(\$6,800- \$13,500)	R	Section 1 – General Fund – Exempting Tip Income
(\$13,250)	(\$27,100)	(\$27,800)	(\$7,000)	\$0	R	Section 2 – General Fund – Exempting Overtime Compensation
--	--	--	--	--	R	Section 3 – General Fund – Deduction for Social Security
--	\$138,100	\$141,300	\$144,400	\$147,500	R	Section 4 – General Fund – Repeal of WFTC
--	(\$203,700)	(\$208,400)	(\$213,100)	(\$217,700)	R	Section 4 – General Fund – Proposed EITC
--	(\$3,800- \$5,100)	(\$3,800- \$5,100)	(\$3,800- \$5,100)	(\$3,800- \$5,100)	R	Section 5 – General Fund – Foster Parent Credit
--	(\$56,700)	(\$60,700)	(\$64,800)	(\$68,900)	R	Section 6 – General Fund – Unreimbursed Medical Expenses Deduction
--	(\$18,900)	(\$19,700)	(\$35,500)	(\$36,300)	R	Section 7 – General Fund – GRT Coinsurance Deduction
--	(\$20,500)	(\$21,300)	(\$38,200)	(\$39,100)	R	Section 7 - Local Governments– GRT Coinsurance Deduction
--	(\$5,800)	(\$4,900)	(\$6,800)	(\$4,800)	R	Section 7 - General Fund – GRT Hold Harmless
--	\$5,800	\$4,900	\$6,800	\$4,800	R	Section 7 - Local Governments – GRT Hold Harmless
(\$13,250)	(\$183,700- \$190,800)	(\$190,200- \$197,600)	(\$193,100- \$200,800)	(\$190,800- \$198,800)	R	General Fund – Total
--	(\$14,700)	(\$16,400)	(\$31,400)	(\$34,300)	R	Local Governments - Total

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

Methodology for Estimated Revenue Impact:

[Section 1] The Taxation and Revenue Department (Tax & Rev) does not have information regarding tip income separate from other wages or salary income, as tip income is commingled with other wages and compensation in cell 1 on each individual’s W-2 form. Therefore, Tax & Rev used data from the state of Montana to estimate the average amount of tip income per taxpayer. In 2021, the Montana state legislature exempted tipped income from state income tax effective January 1, 2024 and therefore provides the best available proxy for the breakdown between different forms of income. According to the Montana

Department of Revenue, tipped employees saved on income tax, on average, approximately \$279 per taxpayer in 2021.¹ Tax & Rev then calculated the average amount of tip income per taxpayer by applying Montana's tax year 2021 effective income tax rate and adjusted the tip income for wage inflation using the University of New Mexico's Bureau of Business and Economic Research (BBER) January 2026 forecast. This resulted in an average tip income of \$7,352 per taxpayer in tax year 2023. Tax & Rev assumes that tip workers in New Mexico have comparable annual tip income in Montana and that the tips are eligible under this bill.

Tax & Rev then applied the 2025 effective tax rate for New Mexico residents of 2.8% to estimate the average tax savings for an individual with tip income at \$206 per taxpayer.² The Yale Budget Lab estimates that approximately 2.2% of workers in the western United States work in jobs that regularly receive tips.³ Tax & Rev assumes each worker will file one tax return. Using this percentage, Tax & Rev estimates that approximately 24,200 taxpayers would have tip income annually. Finally, Tax & Rev calculated the fiscal impact by multiplying the average tax savings by the number of eligible taxpayers.

Tax & Rev recognizes that this estimate may omit many workers that receive tips as contractors (such as rideshares), because the number of these workers is unavailable. Therefore, Tax & Rev doubled the percentage of workers that receive tip income to 4.4% and provided a range for the fiscal impact.

[Section 2] This section allows a deduction from net income for qualified overtime compensation as defined by 26 U.S.C. 225(c). Tax & Rev does not track a taxpayer's overtime income and, therefore, is unable to directly quantify this amount. Given this and because this section couples to the federal definition of overtime, to estimate the fiscal impact, Tax & Rev used The Joint Committee on Taxation's (JCT) report on estimated federal tax expenditures. This report provided an estimate of federal expenditures from the overtime deduction by fiscal year.⁴ Tax & Rev used a federal effective tax rate of 14.4% as reported by the Internal Revenue Service's (IRS) most recent Statistics of Income (SOI) at the national level and applied this effective rate to estimate the aggregate national income earned from working overtime.⁵

To allocate overtime income to New Mexico, Tax & Rev calculated the percentage of New Mexico tax returns to total U.S. tax returns using the IRS' SOI count of tax returns. Approximately 0.62% of federal tax returns are from New Mexico residents. Tax & Rev then applied this to the total U.S. overtime income. The fiscal impact to New Mexico is calculated by applying the 2025 New Mexico effective rate of 2.8% to each fiscal year.

The fiscal impact for FY2026 captures changes in withholding and estimated payments by eligible taxpayers. The federal deduction expires before January 1, 2029 and therefore the state revenue impact goes to \$0 in FY2030.

[Section 3] This section provides an income tax deduction for social security income. Section 3(A) states "a taxpayer may claim a deduction from net income in an amount equal to the amount of social security income for which the taxpayer is eligible to deduct pursuant to 26 U.S.C. 151, as that section may be amended or renumbered." As 26 U.S.C. 151 does not allow a deduction for income received specifically from social security, social security income could not be deducted for New Mexico individual income tax purposes. Therefore, there is no fiscal impact.

¹ <https://mtrevenue.gov/dor-publications/biennial-reports/>

² For more information on the effective tax rate, see 2025 Tax Expenditure Report at, <https://www.tax.newmexico.gov/forms-publications/>

³ <https://budgetlab.yale.edu/news/240624/no-tax-tips-act-background-tipped-workers>

⁴ Titled "Estimates of Federal Tax Expenditures for Fiscal Years 2025-2029," 12-3-2025; <https://www.jct.gov/publications/2025/jcx-45-25/>

⁵ <https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-size-of-adjusted-gross-income>

[Section 4] This bill creates a New Mexico earned income tax credit (NMEITC). Tax & Rev used TY2023 and TY2024 New Mexico PIT returns to evaluate the fiscal impact of this proposal. Approximately 197,000 taxpayers claimed the WFTC in TY23 and approximately 199,000 for TY2024. For these taxpayers, Tax & Rev calculated the incremental increase they would receive under this bill. Under the WFTC, taxpayers currently receive 25% of the federal EITC (FEITC). Under the proposed NMEITC, taxpayers' credit would increase to an average of 33.1% of the FEITC. Tax & Rev estimates indicate the aggregate increase under the new credit is approximately \$42.7 million, or an average increase in tax relief of \$214.67 per taxpayer.

Tax & Rev then estimated the number of taxpayers that would be eligible to receive this new credit but currently are not eligible for the WFTC. Under the proposed bill, the income range for a taxpayer to qualify for the new credit is wider than for the current WFTC, which allows more New Mexico taxpayers to qualify.

Tax & Rev used adjusted gross income (AGI) as a proxy for earned income. The amount of the credit was calculated for each taxpayer using the formulas on pages 4 and 5. Those taxpayers without a qualifying dependent and taxpayers over the age of 65, who are currently eligible for the WFTC, will not qualify for this credit because this new credit defines eligible individuals based on the definition contained in the FEITC.⁶

The table below summarizes an estimated 79,081 additional taxpayers will receive this credit for total tax relief of \$19.9 million, an average of \$251.51 per taxpayer.

Filing Status	Number of Taxpayers	WFTC Total Expenditure (\$1000)	WFTC per Taxpayer
Single	50,793	\$7,900	\$155.53
Head of Household	16,094	\$7,600	\$472.24
Married Filing Joint	12,194	\$4,400	\$360.84
Total	79,081	\$19,900	\$251.64

Using the Congressional Budget Office's January 2026 forecast, Tax & Rev grew the estimate annually by the CBO's inflation forecast as the FEITC is adjusted for inflation annually.

[Section 5] To estimate the number of eligible foster children, Tax & Rev used data from CYFD. In 2025, there were 1,684 foster children placed in a relative or non-relative foster home. Tax & Rev assumes each qualifying child would make a taxpayer eligible to receive this credit.

Section 5(B) states that this credit is \$250 per month for each qualified foster child, or \$3,000 annually. This credit also allows an eligible taxpayer to claim the credit for a partial year or a full year. There is no straightforward way to determine the duration of foster placements. Therefore, the estimate assumes that half of the eligible foster parents may receive the credit for 6 months. Given this, Tax & Rev provides a range for the estimated revenue impact.

It is unknown if this bill will incentivize additional taxpayers to become foster parents. As a result, Tax & Rev held the number of foster parent households flat.

⁶<https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/who-qualifies-for-the-earned-income-tax-credit-eitc#basic>

[Section 6] 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.

Tax & Rev calculated the historical aggregate amount of unreimbursed or uncompensated medical care expenses by using the amounts reported on by 324,560 individuals on their annual New Mexico PIT returns. Tax & Rev used 2023- and 2024-income tax returns, which are the last tax years 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 estimated 2025 effective tax rate of 2.8%, resulting in an average tax savings of \$162.40 per taxpayer.

Using the number of deductions claimed as a the 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.

[Section 7] This Section expands the current GRT deduction under Section 7-9-93 NMSA 1978 to include receipts from coinsurance payments made directly to the provider by the patient. Deductibles and co-payments are already deductible from gross receipts and represent an amount a patient must pay at the time medical services are received, with the remainder being covered by the insurance provider. Coinsurance represents the amount that a patient must pay after the deductible is satisfied.

Tax & Rev used data from the RP80 GRT report for FY2025 and retrieved taxable GRT by NAICS codes in the associated health practitioner fields to identify the proportion of taxpayers that might claim the deduction. Then, Tax & Rev used data reported by the Centers for Medicare & Medicaid Services on private health expenditures in New Mexico from for 1991-2020 to estimate the tax base. The estimate also assumes that the average coinsurance paid by individuals is 30% of the health costs.⁷ The fiscal impact was grown using the average annual percentage growth of private health expenditures from 1991 to 2020. The statewide effective GRT rate for health care services was applied to the forecast to determine the fiscal impact of this deduction on distributions to municipalities pursuant to Section 7-1-6.4 NMSA 1978, as the majority of the tax base is in municipalities. The fiscal impact also accounts for the impact of the partial hold harmless payments to municipalities and counties based on the estimated fiscal impact. The current Consensus Revenue Estimating Group's (CREG) December 2025 forecast accounts for a revenue increase from the current sunset of this deduction on July 1, 2028. The revenue impact for fiscal years 2029 and 2030 includes the loss of revenue from the sunset extension from July 1, 2028, to July 1, 2031.

Policy Issues:

[Sections 1-7] PIT represents a consistent source of revenue for many states. For New Mexico, PIT is approximately 16 percent 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. 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 erodes both horizontal and vertical equity with

⁷ <https://www.uhc.com/understanding-health-insurance/understanding-health-insurance-costs/types-of-health-insurance-costs>

the exemption of certain types of income, such as tips and overtime pay, so that taxpayers with similar AGI and taxable income are no longer treated equally. Vertical equity is eroded by the expansion of the medical expense deduction to 100% regardless of AGI thus benefiting higher income taxpayers. With the passage of this bill, for FY27, New Mexico would see a decline of 8.4% of personal income tax revenue to the state and an overall decline in recurring general fund revenue of 1.3%.⁸

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. This proposal adds several deductions and credits that increase complexity for taxpayers and the administration of the tax code for PIT, CIT and GRT. Increasing complexity and exceptions in the tax code is generally not in line with sound tax policy.

[Section 1] Generally, tips may consist of the following payments: a cash tip received directly from a customer, a monetary amount rendered through an electronic payment, a non-cash tip (such as a ticket or coupon of monetary value), or amounts received from other employees through tip pools, tip splitting, or other tip-sharing agreements.⁹ Some tipped employees are subject to a tipped minimum wage depending on the state. The federal tipped minimum wage is \$2.13 per hour (\$7.25 per hour for non-tipped wages) and the minimum tipped wage for New Mexico is \$3.00 per hour (\$12 per hour for non-tipped wages).¹⁰ Employers are responsible for ensuring each employee receives at least the minimum tip wage, called the tip credit, and employers must cover the difference if the worker earns under the minimum tipped wage. If a worker earns more than \$20 a month in tips, the worker generally must report it to the employer who is then required to withhold federal payroll taxes under the Federal Insurance Contributions Act (FICA).

The Tax Policy Center estimates that the exclusion of tip income from federal taxes would result in approximately 2% of US households receiving a tax cut. For households with an adjusted gross income (AGI) under \$75,000, about 1.5% of U.S. households would benefit. Households earning between \$63,000 and \$113,000 would see the greatest benefit in terms of an increase in after-tax income, at a 2.8% increase.¹¹

Tipped workers generally have a lower income. The median weekly wage for tipped occupations in 2023 was \$538, versus \$1,000 for non-tipped workers.¹² This means that the average tipped employee had a lower federal income tax burden. Thirty-seven percent of tipped workers had incomes low enough that they no federal income tax liability in 2022. For non-tipped occupations, this was 16 percent.¹³

The amount of tipped income a worker receives varies each day worked. Pay can vary depending on the day, week, or season. Tipping can be influenced by a customer's personal preferences, cultural norms, social conventions, or geographic location. Thus, tipping is not necessarily based on an economic activity or directly dependent on the worker's performance.

Legally, if a tipped worker does not earn the tipped minimum wage, the employer is required to cover the tip credit. In practice, evidence suggests that this employer requirement is difficult to enforce,¹⁴ resulting in potential wage theft.

⁸ As a percent of the FY27 December 2025 CREG forecast

⁹ <https://www.kiplinger.com/taxes/are-tips-taxable>

¹⁰ https://www.epi.org/minimum-wage-tracker/#/tip_wage/New%20Mexico

¹¹ <https://taxpolicycenter.org/model-estimates/options-change-taxation-tips-september-2024/t24-0069-options-change-taxation-tips>

¹² <https://budgetlab.yale.edu/news/240624/no-tax-tips-act-background-tipped-workers>

¹³ Ibid.

¹⁴ Ibid.

In New Mexico, common tipped occupations include:

Occupation	Number of NM Workers	Average Annual Income ¹⁵	Average NM Tax Liability ¹⁶
Bartender	3,460	\$31,370	\$1,074
Waiter or waitress	13,370	\$30,440	\$1,034
Hairdresser, hair stylist, or cosmetologist	1,380	\$28,150	\$935
Manicurist or pedicurist	80	\$42,840	\$1,604
Courier or messenger	370	\$36,790	\$1,320
Bellhop or baggage porter	100	\$33,430	\$1,162

Tax & Rev cannot predict behavioral changes that may occur because of this exemption. If employees were to be reclassified as tipped employees, this bill’s overall cost could substantially increase. For example, if high-income workers were able to shift their earnings into tips, state revenue losses could increase. Additionally, Tax & Rev is unable to estimate the impact of contract workers who receive tips which may increase the fiscal impact.

[Section 2] Many states have been looking for ways to increase take-home pay for taxpayers and deducting overtime pay from taxable income has been one possible option. In 2025, 19 states proposed bills to exempt or deduct overtime income.¹⁷

The Fair Labor Standards Act (FLSA) of 1938 created the 40-hour work week and includes overtime regulations. Under the FLSA, certain employees are entitled to minimum wage and overtime compensation at one and one-half times their regular pay rate for over 40 hours worked in a week. These employees are “non-exempt” employees under the FLSA. The FLSA does not limit on the number of hours employees (16 and older) may work in any week. The FLSA does not require overtime pay for work on Saturdays, Sundays, holidays, or regular days off, unless the overtime is worked on these days.¹⁸

Not all occupations are protected by the FLSA’s requirement to pay minimum wage and overtime. Those not protected by FLSA’s wage and overtime requirements are commonly referred to as “exempt employees.” The FLSA exemption typically applies to executive, administrative, and professional jobs, are typically paid a salary, and perform high-level or independent duties, unless the positions certain criteria under the salary and duties tests defined by the U.S. Department of Labor (DOL).¹⁹

By basing this deduction on certain professions or on the ability to work overtime, taxpayers in similar economic circumstances are no longer treated equally, eroding horizontal equity. Some taxpayers cannot work overtime due to family responsibilities, health needs, or other constraints. For other taxpayers, job reclassification from exempt to non-exempt, or salary to hourly, would result in more income becoming tax exempt.

This exemption could incentivize changing position classification, job duty changes, and salaries to enable more individuals to be eligible for the exemption. For example, in 2024, Alabama became the first state to exempt overtime pay from state income taxes. Originally projected to cost the state \$34 million for TY24

¹⁵Bureau of Labor Statistics, Occupational Employment and Wage Statistics (OEWS); 2024 annual median wage and employment

¹⁶ Under tax year 2025 tax brackets, single filing status

¹⁷ <https://www.epi.org/>

¹⁸ <https://www.dol.gov/agencies/whd/overtime>

¹⁹ <https://www.dol.gov/agencies/whd/compliance-assistance/handy-reference-guide-flsa#2>

and did not have an aggregate cap. By the end of 2024, the cost to the state was \$350 million. Alabama saw numerous claims of exemption in the manufacturing and health care industries which was expected. But other sectors that generally are not associated with overtime, such as logistics or technology, saw an increase in overtime pay.²⁰ The administrative burden for the state of Alabama to verify qualified taxpayers may have been underestimated. Alabama's overtime deduction was not extended the overtime deduction beyond 2024. The increase in fiscal impact in Alabama may be attributable to reclassifying positions and changing the basis on which employees are paid.

Tax & Rev recommends a cap per taxpayer for this deduction because of the risk of job reclassification and the challenges of the state to ensure taxpayer compliance.

[Section 3] Currently, New Mexico offers a social security income exemption from PIT, which was enacted in 2022. This exemption is restricted to taxpayers under certain adjusted gross incomes (AGI) based on filing status. Additional analysis of the Social Security exemption can be found in the 2025 New Mexico Tax Expenditure Report.

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 taxes.²¹ 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 the tax structure simpler, broader, and more equitable, without being punitive to any segment of the population.

[Section 4] New Mexico's WFTC, calculated using the federal EITC, is one of several tax incentives that provide tax relief to working families to offset the costs of raising children and effectively reduce poverty rates. 2024 U.S. Census data reports that New Mexico had amongst the second highest Official Poverty Measure for children at 24.2%.²² But, New Mexico's Supplemental Poverty Measure (SPM) for children was 10.3%, near the national average. The SPM considers other factors, such as federal and state tax credits, housing and medical costs, and programs that provide relief to low- and middle-income families.²³ New Mexico was the only state that saw a dramatic reduction between the two measures for 2022 through 2024.

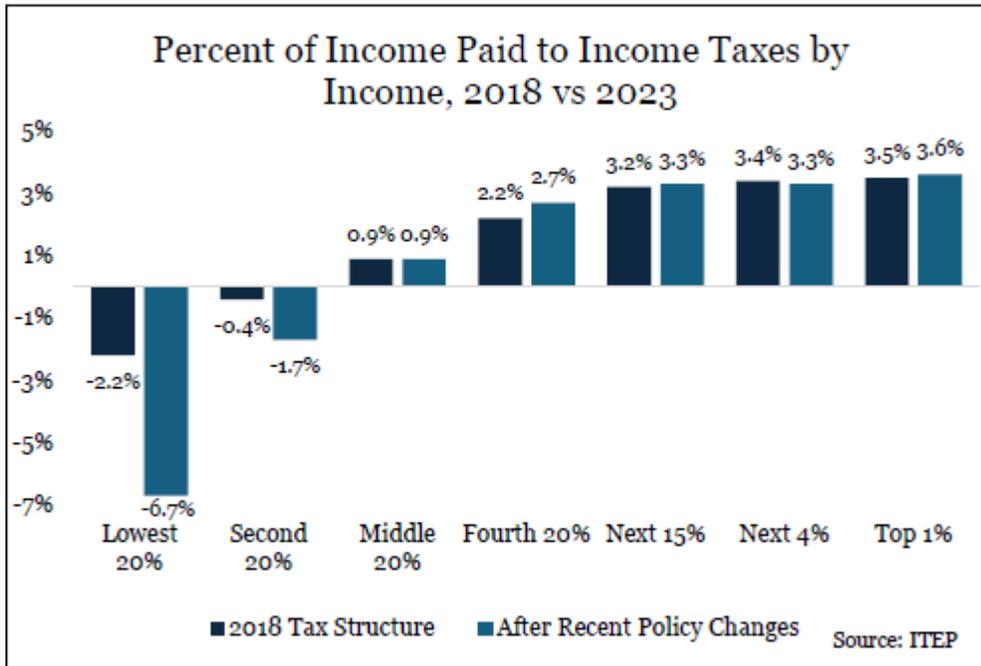
As measured by the Institute of Economic and Tax Policy (ITEP), the progressivity of New Mexico's PIT improved dramatically between 2018 and 2023, as indicated below. Two recent expansions of the WFTC are major contributors to this improvement.

²⁰<https://huntsvillebusinessjournal.com/news/2025/07/02/alabamas-overtime-tax-experiment-ends-amid-350m-fiscal-shock-and-suspected-exploitation/>

²¹https://www.kiplinger.com/kiplinger-tools/retirement/t055-s001-state-by-state-guide-to-taxes-on-retirees/index.php?state_id=44#

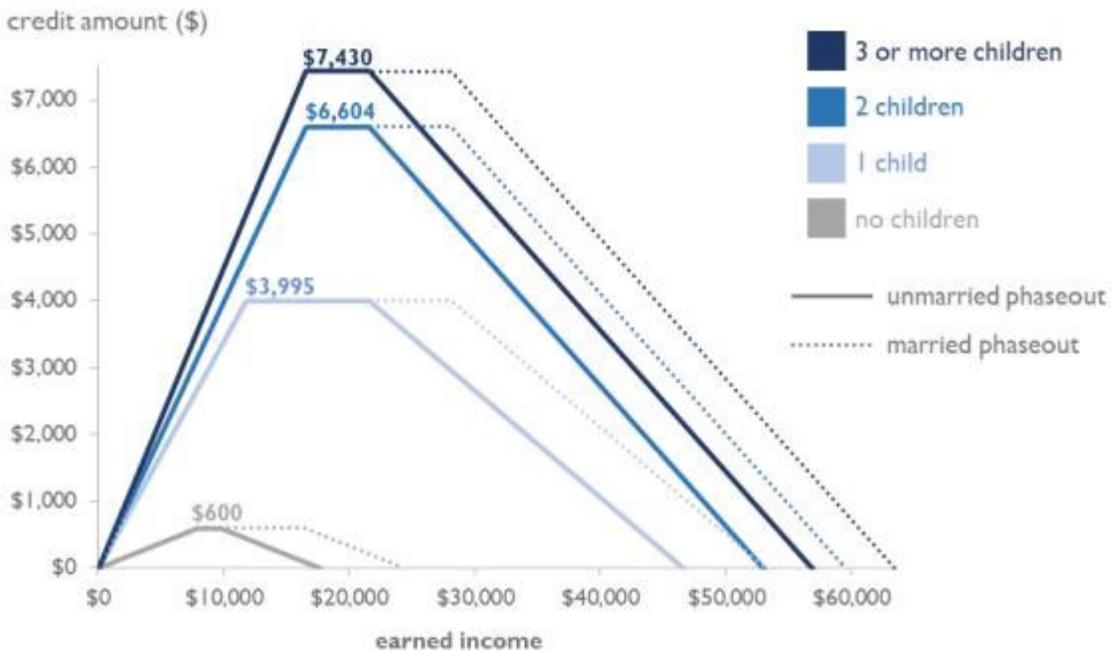
²² The U.S. Census Bureau provides two measures of poverty: the official poverty measure and the Supplemental Poverty Measure (SPM). The official poverty measure is estimated using pretax money income. The SPM extends the official poverty measure by accounting for several government programs and geographic variations in housing expenses.

²³ U.S. Census Bureau, Current Population Survey, 2022-2024 Annual Social and Economic Supplements (CPS ASEC)



The proposed bill increases the administrative burden for Tax & Rev and taxpayers. While the State’s current WFTC is easily administered because it mainly ties directly to a taxpayer’s federal EITC credit, this bill introduces varying credit and phaseout percentages based on the number of qualifying children and is similar to the criteria for the federal EITC. The graphic below shows the credit amounts available for the federal EITC for 2023 under different filing statuses, number of dependents, and income levels. Instead of leaving the complex calculation in the federal IRC, this proposal creates a new graphical representation, like the chart below, for the state EITC and requires Tax & Rev to expand the PIT returns and instructions for taxpayers to calculate their credit amount.

EITC Amount by Number of Qualifying Children, Marital Status, and Income, 2023



Source: CRS calculations based on IRS Revenue Procedure 2022-38 and Internal Revenue Code §32.

This complexity can create confusion for taxpayers, as they will need to accurately determine their eligible credit percentage and phaseout amount based on their specific circumstances when they file their New Mexico personal income tax returns. While the state will provide tables and other support for taxpayers to estimate the credit, taxpayers will be estimating two different credits at the federal and state level. This variation increases the likelihood of errors in reporting and claiming the credit, which can lead to incorrect or fraudulent claims and place additional burdens on taxpayers and Tax & Rev.

[Section 5] New Mexico has a shortage of foster parents who can help support children facing upheaval in their homes. A foster parent must support the financial, social, and psychological needs of foster children, which comes at a cost. Besides being a moral good to support foster parent households, keeping foster children in a home environment may reduce social costs over the long-term by reducing social, economic, and psychological problems that children who remain away from their biological families or otherwise lack a stable family environment may experience. In this sense, the bill is expected to have a positive future social impact, and therefore a positive fiscal impact in the long term.

[Section 6] Federal H.R. 1 (One Big Beautiful Bill Act or OBBBA), 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, because they may be unable to afford 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.²⁴

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%.²⁵ This increase in premiums may cause some taxpayers to drop health insurance during the year. If faced with uninsured medical debt, these taxpayers may utilize the unreimbursed or uncompensated medical care expenses tax deduction.

The expired deduction was scaled to decrease as AGI increased, making the deduction more progressive. The proposed deduction of 100% of medical expenditures, regardless of an AGI, is regressive as higher income individuals are more likely to have higher unreimbursed care and receive more benefit from the deduction than individuals with lower incomes.

This 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.

[Section 7] Rising health care costs are a major challenge facing state governments and patients, who must cope with steadily rising medical costs. Fiscal incentives to reduce health care costs will positively affect health care consumers by reducing out-of-pocket healthcare costs. Studies have shown that low health care spending by individuals contributes to increasing disposable income for workers, boosting job growth. Lower health care spending also affects state and local budgets because it results in lower health insurance

²⁴ <https://www.brookings.edu/articles/a-little-known-way-the-tax-code-subsidizes-spending-on-health-care/>

²⁵ <https://www.abqjournal.com/news/new-mexico-sees-record-aca-enrollment-following-states-move-to-offset-subsidy-losses/2951641>

spending for state and local government employees, and these deductions and the lost tax revenue will ease the government's costs of health insurance spending.

The National Institute of Health's (NIH) National Center for Biotechnology Information published a study that predicts that nationwide the demand for doctors will outpace the supply so that by 2030, 34 states will have physician shortages. This shortage is more prominent for states in the South and West regions of which Mississippi and New Mexico will have the severest shortage. The NIH study predicts a shortage of 2,118 physicians in New Mexico by 2030, due in part to a higher percentage of physicians over 60 years of age compared to other states. Without a nationwide solution, New Mexico will continue to compete with other states for a smaller pool of physicians. It is unclear how the deductions of this bill will directly reduce patient costs and improve the present challenges the U.S. health system faces. Furthermore, diverting resources from the General Fund to provide a GRT deduction for healthcare practitioners for a majority of the payments they receive may limit the State's capacity to invest in expanding healthcare access.

Technical Issues:

[Section 3] This section does not change taxable income and has no practical effect under current law. Section 3(A) states "a taxpayer may claim a deduction from net income in an amount equal to the amount of social security income for which the taxpayer is eligible to deduct pursuant to 26 U.S.C. 151, as that section may be amended or renumbered." 26 U.S.C. 151 does not allow a deduction for income received from social security therefore, no fiscal impact. If the intent was to exempt the taxable portion of Social Security benefits, the bill would need reference a different section in the Internal Revenue Code.

[Section 5(C)] page 8, lines 18-20 should be modified to clarify that several household adults cannot claim a credit for the same foster child. Tax & Rev suggests replacing the sentence on line 18 that starts "except" with the following language: "Except as provided in Subsection E of this section, only one tax credit shall be certified for all taxpayers in a household per taxable year."

Other Issues:

[Section 1] The bill proposes to exempt tips from income tax presents many challenges for Tax & Rev, particularly with respect to verifying the accuracy of exemption claims. Tips are included in total wages reported on both the W-2 and IRS Form 1040. Tax & Rev does not have the ability to verify the accuracy of the tips claimed as exempt.

[Section 4:] The proposed state EITC will require Tax & Rev to develop and maintain state specific credit tables each year, including earned income amounts, phaseout thresholds, credit percentages, and the minimum credit, with annual inflation adjustments beginning in 2027. This represents a significant increase in programming this credit compared to the current WFTC, which is calculated as a simple percentage of the federal EITC. Because Tax & Rev already experiences delays when federal forms and tables are issued late, shifting to a standalone state EITC structure could further compress development timelines and delay other system projects.

Administering a tax credit that is based on a fixed percentage of the federal credit is less burdensome for taxpayers and Tax & Rev. Because of the complexity of the credit calculation and its phaseout, as is provided on Pages 4 and 5 of the bill, Tax & Rev will have to generate and validate state EITC tables to assist taxpayers with calculating their credit and the phaseout. This complexity of the credit and the required tables increases the potential for discrepancies between department systems and commercial tax preparation software.

The only filing status identified in Section 4 (D) is married filing joint. In New Mexico's PIT tax code, there are three filing statuses: 1) married filing joint returns, heads of household and surviving spouses, 2) single returns; and 3) married individuals filing separate returns. Tax & Rev suggests clarifying this issue

by explicitly stating whether taxpayers filing single or married filing separate returns are included or excluded for the increased phase-out amount of \$5,000.

[Section 6:] Because the deduction is no longer percentage-based or limited by income, the risk of overstated or unsupported claims may increase. The deduction applies to all filers, including nonresidents, and is not prorated for residency, which may further increase the need for verification in cases involving substantial out-of-state medical expenses.

Administrative & Compliance Impact:

This bill requires Tax & Rev to implement five new or revised individual income tax deductions, implement three new income tax credits, and the expanded health care GRT deduction. Tax & Rev will update or create forms, instructions, and publications and make information system changes. Staff training to administer the bill will take place. This implementation will be included in the annual tax year changes.

Tax & Rev’s Administrative Services Division (ASD) anticipates that implementing this bill will require two existing FTEs to split 40 hours between pay-band eight and 10 positions. Pay band eight hours are estimated at time and a half due to the extra hours worked required for implementation.

Implementing this will have a high impact on Tax & Rev’s Information Technology Division (ITD), approximately 2,310 hours or about 14 months and \$159,875 of staff workload costs.

[Section 4]: Updates to publications include creating new lookup tables for the EITC amounts for each taxable year. Staff training to administer the credit will take place.

Tax & Rev estimates 25 hours of administrative impact on Tax & Rev’s Office of the Secretary (OOS) to create new tax reference tables for the PIT publications beginning for tax year 2026. In subsequent years, an estimated five hours is estimated for the recurring staff workload costs to update the tables for inflation.

Implementing and enforcing the new EITC credit structure independent of the federal EITC will place an additional administrative burden on the return process for Tax & Rev. This includes the need for system updates, additional documentation requirements, and increased verification procedures. Systematic verifications to determine eligibility may be required, adding further complexity to the administration process.

Estimated Additional Operating Budget Impact*

FY26	FY27	FY28	3 Year Total Cost	Recurring or Non-Recurring	Fund(s) or Agency Affected
--	\$2.7	--	\$2.7	NR	All Sections: ASD - Operating
--	\$159.9	--	\$159.9	NR	All Sections: ITD - Staff workload costs
--	\$1.4	--	\$1.4	NR	Section 4: OOS – Staff workload
--	--	\$0.4	\$0.4	R	Section 4: OOS – recurring staff workload

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

Related Bills:

Relates to HB-14 (2025 regular session), HB-225 (2025 regular session), HB-484 (2025 regular session), SB-272 (2025 regular session), SB-285 (2025 regular session), SB-335 (regular session), SB-156 (2026 regular session), HB-224 (2026 regular session)