

LFC Requestor: **Brendon Gray**

**2026 LEGISLATIVE SESSION  
AGENCY BILL ANALYSIS**

**Section I: General**

**Chamber:** House

**Category:** Bill

**Number:** 264

**Type:** Introduced

**Date** (of THIS analysis): 02/03/2026

**Sponsor(s):** Mark Duncan, Mark B. Murphy, Jonathan A. Henry, Rebecca Dow, and William A. Hall II

**Short Title:** Various Income Tax Deductions

**Reviewing Agency:** Agency 665 - Department of Health

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**Section II: Fiscal Impact**

**APPROPRIATION (dollars in thousands)**

| <b>Appropriation Contained</b> |              | <b>Recurring or Nonrecurring</b> | <b>Fund Affected</b> |
|--------------------------------|--------------|----------------------------------|----------------------|
| <b>FY 26</b>                   | <b>FY 27</b> |                                  |                      |
| \$0                            | \$0          | NA                               | NA                   |
|                                |              |                                  |                      |

**REVENUE (dollars in thousands)**

| <b>Estimated Revenue</b> |              |              | <b>Recurring or Nonrecurring</b> | <b>Fund Affected</b> |
|--------------------------|--------------|--------------|----------------------------------|----------------------|
| <b>FY 26</b>             | <b>FY 27</b> | <b>FY 28</b> |                                  |                      |
| \$0                      | \$0          | \$0          | NA                               | NA                   |
|                          |              |              |                                  |                      |

**ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)**

|              | <b>FY 26</b> | <b>FY 27</b> | <b>FY 28</b> | <b>3 Year Total Cost</b> | <b>Recurring or Non-recurring</b> | <b>Fund Affected</b> |
|--------------|--------------|--------------|--------------|--------------------------|-----------------------------------|----------------------|
| <b>Total</b> | \$0          | \$0          | \$0          | \$0                      | NA                                | NA                   |

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**Section III: Relationship to other legislation**

Duplicates: None

Conflicts with: None

Companion to: None

Relates to: House Bill 224 (HB 224)

Duplicates/Relates to an Appropriation in the General Appropriation Act: None

**Section IV: Narrative**

**1. BILL SUMMARY**

a) Synopsis

This analysis is on Section 7-2-37 NMSA 1978 – Deduction – Unreimbursed or Uncompensated Medical Care Expenses, starting at line 9 on page 10 onto page 14, ending at line 6.

House Bill 264 (HB 264) proposes to revise Section 7-2-37 NMSA 1978 – Deduction – Unreimbursed or Uncompensated Medical Care Expenses to allow a taxpayer of any income level to claim a deduction from net income in an amount equal to eligible medical expenses during the taxable year instead of an amount equal to the percentage of medical care expenses paid during the taxable year based on the taxpayer's filing status (surviving spouses and married filing jointly; single and married filing separately; or heads of household) and adjusted gross income.

HB 264 would also require the taxpayer to report the deduction amount to the New Mexico Taxation and Revenue Department (NMTRD). NMTRD would then be responsible for incorporating these deductions into the tax expenditure budget, including reporting the annual aggregate cost of the deduction. These are new provisions.

This would apply starting in taxable years beginning on or after January 1, 2026.

Is this an amendment or substitution?  Yes  No

Is there an emergency clause?  Yes  No

b) Significant Issues

During a special session in 2015, the Legislature amended Section 7-2-37 NMSA 1978 in House Bill 2 (HB 2) and added a new section (<https://www.nmlegis.gov/Sessions/15%20Special/final/HB0002.pdf>, pages 10-13) to reduce the burden of out-of-pocket medical care costs not covered by health insurance plans. This deduction included a sunset provision effective January 1, 2025, impacting taxpayers beginning in tax year 2025. ([New Mexico 2025 Tax Expenditure Report](#), page 250). With the enactment of this bill, the sunset is removed; however, the bill does not go into effect until the 2026 tax year. In addition, the graduated nature of the tax deduction is eliminated, allowing all incomes to deduct the full amount of uncovered medical care.

The New Mexico 2025 Tax Expenditure Report finds that over the preceding three-year period, the average number of claims was 316,058, totaling \$5.7 million in deductions annually. On average, more than 31% of the more than 1 million New Mexicans who filed a tax return claimed out-of-pocket medical expenses to lower their taxes.

Department of Health (DOH) is unable to analyze Sections regarding Qualified Tips, Qualified Overtime Compensation, Social Security Income Deductible, Earned Income Tax Credit, or Foster Parent and Guardian Income Tax Credit.

## 2. PERFORMANCE IMPLICATIONS

- Does this bill impact the current delivery of NMDOH services or operations?  
 Yes  No
- Is this proposal related to the NMDOH Strategic Plan?  Yes  No

## 3. FISCAL IMPLICATIONS

- If there is an appropriation, is it included in the Executive Budget Request?  
 Yes  No  N/A
- If there is an appropriation, is it included in the LFC Budget Request?  
 Yes  No  N/A
- Does this bill have a fiscal impact on NMDOH?  Yes  No

## 4. ADMINISTRATIVE IMPLICATIONS

Will this bill have an administrative impact on NMDOH?  Yes  No

## 5. DUPLICATION, CONFLICT, COMPANIONSHIP OR RELATIONSHIP

HB 264 starting at line 9 on page 10 onto page 14, ending at line 6 duplicates HB 224.

## 6. TECHNICAL ISSUES

Are there technical issues with the bill?  Yes  No

## 7. LEGAL/REGULATORY ISSUES (OTHER SUBSTANTIVE ISSUES)

- Will administrative rules need to be updated or new rules written?  Yes  No
- Have there been changes in federal/state/local laws and regulations that make this legislation necessary (or unnecessary)?  Yes  No

- Does this bill conflict with federal grant requirements or associated regulations?  
 Yes  No
- Are there any legal problems or conflicts with existing laws, regulations, policies, or programs?  Yes  No

## 8. DISPARITIES ISSUES

Tax deductions are designed to mitigate health disparities by focusing on lowering out-of-pocket medical expenses. Taxpayers can deduct unreimbursed, out of pocket medical expenses that exceed 7.5% of their adjusted gross income. ([Topic no. 502, Medical and dental expenses | Internal Revenue Service](#)). The deduction applies only to expenses not compensated by insurance, regardless of whether you receive the reimbursement directly or payment is made on your behalf to the doctor, hospital, or other medical provider.

According to the New Mexico Department of Health ([NM IBIS, 2025](#)), families are paying more out-of-pocket for health care year after year even when they have insurance. Being able to deduct medical care expenses from their taxes may help families stay insured, which is shown to increase access to health care and improve health outcomes—especially for our most vulnerable.

## 9. HEALTH IMPACT(S)

There are approximately 2.1 million New Mexicans and about 538,970 are living in rural areas (25% of New Mexicans) ([2020 Decennial Census](#)). The cost of health care, including paying for health insurance and out-of-pocket expenses, tops the list of the public’s economic anxieties. Most adults (55%) say their health care costs have gone up in the past year, including at least one in five who say health care costs have increased at a faster rate than food or utilities. A majority (56%) of the public say they expect health care costs for them and their families to become even less affordable in the coming year. ([KFF Health Tracking Poll: Health Care Costs, Expiring ACA Tax Credits, and the 2026 Midterms | KFF](#)).

Seniors and those living in rural communities often have diminished access to health care because of increased costs associated with insurance and risks associated with aging. Furthermore, people without financial means and/or adequate health insurance coverage are at risk of not receiving the kinds of health care that can optimize their health, especially as costs continue to increase and options for care expand ([NM-IBIS - Health Care Access](#)).

## 10. ALTERNATIVES

None

## 11. WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL?

If HB 264 starting at line 9 on page 10 onto page 14, ending at line 6 is not enacted, then Section 7-2-37 NMSA 1978 – Deduction – Unreimbursed or Uncompensated Medical Care Expenses will not be revised that will allow a taxpayer of any income level to claim a deduction from net income in an amount equal to eligible medical expenses during the taxable year. Additionally, Section 7-2-37 NMSA 1978, will cease to exist due to the sunset provision effective January 1, 2025.

## 12. AMENDMENTS

None