

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

February 2, 2026

Bill:

SB-156

Sponsor:

Senator Pete Campos

Short Title:

Social Security Income Tax Cap

Description:

This bill amends the exemption for social security income to be extended to all individuals filing a personal income tax return who have social security income in their adjusted gross income (AGI).

Effective Date, Applicability, and Contingency Language:

Not specified or 90 days following adjournment (May 20, 2026). Applicability – The provisions of this act apply to 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
(\$19,050)	(\$40,200)	(\$42,500)	(\$44,800)	(\$47,300)	R	General Fund

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

Methodology for Estimated Revenue Impact:

By removing the maximum AGI limits for exempting social security income, this bill allows higher-income social security earners 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 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 range of 3.6% and 4.3% for tax year 2025 based on the SOI AGI levels and assumes taxpayers will claim this amount against personal income taxes. Tax & Rev calculates that the average tax liability on social security is \$1,182 per New Mexico taxpayer with AGIs 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-income eligible taxpayers by the average growth rate from 2021 to 2022 of the number of New Mexico recipients of taxable social security income per SOI at 3.1%, the most recent years available. This reflects the growing population eligible for retirement and social security benefits.

The fiscal impact for FY2026 captures changes in withholding and estimated payments by eligible taxpayers.

¹ www.irs.gov/statistics
SB-156

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.

With the adoption of this bill, New Mexico would join 36 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 2022. In tax year 2024, approximately 132,000 taxpayers claimed the exemption, with total tax year 2024 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 is \$656 under current law.

Removing the current cap and exempting all social security income will benefit about the top 15% of earners who have Social Security 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 liability benefit for these higher income individuals is \$1,182 compared with the current average of \$656. Because the legislation benefits only higher-income individuals, it erodes the tax code's progressivity.

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 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.

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

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

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 exemption will take place. This implementation 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, requiring approximately 220 hours or about one and a half 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).

Related Bills:

Relates to SB-184 (2025 regular session), HB-293 (2025 regular session)