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FISCAL IMPACT REPORT

BILL NUMBER: House Bill 224

SHORT TITLE: Medical Care Expenses Tax Deduction

SPONSOR: Pettigrew/Armstrong

LAST ORIGINAL
UPDATE: 2/12/2026 **DATE:** 2/5/2026 **ANALYST:** Gray

REVENUE* (dollars in thousands)

Type	FY26	FY27	FY28	FY29	FY30	Recurring or Nonrecurring	Fund Affected
PIT	\$0.0	(\$56,700.0)	(\$60,700.0)	(\$64,800.0)	(\$68,900.0)	Recurring	General Fund

Parentheses indicate revenue decreases.

*Amounts reflect most recent analysis of this legislation.

Relates to House Bill 264

Sources of Information

LFC Files

Agency or Agencies Providing Analysis

New Mexico Attorney General

Department of Health

State Ethics Commission

Taxation and Revenue Department

SUMMARY

Synopsis of House Bill 224

House Bill 224 (HB224) allows taxpayers to deduct 100 percent of unreimbursed or uncompensated medical care expenses from their adjusted gross income when calculating income tax liability. Prior to 2025, taxpayers were able to deduct a portion of unreimbursed or uncompensated medical care expenses from adjusted gross income, reducing taxable income and tax liability. Previously, the deduction was provided on a sliding scale based on income:

- 25 percent for taxpayers with incomes below \$15,000 for single filers (\$30,000 joint)
- 15 percent for taxpayers with incomes between \$15,000 and \$35,000 for single filers (\$30,00 and \$70,000 joint)
- 10 percent for taxpayers with income over \$35,000 for single filers (\$70,000 joint)

HB224 proposes allowing a 100 percent deduction regardless of income.

The provisions of the bill are applicable to tax years beginning 2026.

FISCAL IMPLICATIONS

HB224 is expected to reduce recurring general fund revenue by \$56.7 million in FY27. To estimate the revenue impact, the Taxation and Revenue Department calculated the historical aggregate amount of unreimbursed or uncompensated medical care expenses from annual taxpayer data. The agency used 2023 and 2024 tax returns. The agency continues:

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

LFC has serious concerns about the substantial risk to state revenues from tax expenditures and the increase in revenue volatility from erosion of the revenue base. The committee recommends the bill adhere to the LFC tax expenditure policy principles for vetting, targeting, and reporting or action be postponed until the implications can be more fully studied.

SIGNIFICANT ISSUES

Prior to its expiration, the partial medical care expenses deduction was claimed by over 300 thousand taxpayers, about one-third of all taxpayers. The average reduced tax liability was \$5.7 million. Since 2000, the deduction was offered on a sliding scale so that more of the benefits were targeted to taxpayers with lower incomes. Under HB224, the deduction will not target lower incomes, eroding progressivity in the tax code.

Horizontal equity is a core tenet of tax policy that holds that taxpayers with similar income and circumstances should be treated similarly under the tax code. This provision may erode that principle. This expenditure reduces the tax liability of taxpayers with eligible medical care expenses but offers no benefit for taxpayers that face other significant expenses, such as major household repairs, transportation issues, or costs associated with natural disasters. However, policymakers may view that the benefits of providing a medical care deduction outweigh the tax policy issues.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

This bill is duplicated in Section 6 of House Bill 264.

OTHER SUBSTANTIVE ISSUES

In assessing all tax legislation, LFC staff considers whether the proposal is aligned with committee-adopted tax policy principles. Those five principles:

- **Adequacy:** Revenue should be adequate to fund needed government services.
- **Efficiency:** Tax base should be as broad as possible and avoid excess reliance on one tax.
- **Equity:** Different taxpayers should be treated fairly.
- **Simplicity:** Collection should be simple and easily understood.
- **Accountability:** Preferences should be easy to monitor and evaluate.

In addition, staff reviews whether the bill meets principles specific to tax expenditures. Those policies and how this bill addresses those issues:

Tax Expenditure Policy Principle	Met?	Comments
Vetted: The proposed new or expanded tax expenditure was vetted through interim legislative committees, such as LFC and the Revenue Stabilization and Tax Policy Committee, to review fiscal, legal, and general policy parameters.	✘	No evidence was found that this bill was vetted through an interim tax committee.
Targeted: The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals. Clearly stated purpose Long-term goals Measurable targets	✘ ✘ ✘	The bill does not include a purpose, goal, or targets.
Transparent: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies	✔	The bill requires annual reporting but does not contain an expiration date.
Accountable: The required reporting allows for analysis by members of the public to determine progress toward annual targets and determination of effectiveness and efficiency. The tax expenditure is set to expire unless legislative action is taken to review the tax expenditure and extend the expiration date. Public analysis Expiration date	✔ ✘	
Effective: The tax expenditure fulfills the stated purpose. If the tax expenditure is designed to alter behavior – for example, economic development incentives intended to increase economic growth – there are indicators the recipients would not have performed the desired actions “but for” the existence of the tax expenditure. Fulfills stated purpose Passes “but for” test	? ? ?	Because there is no purpose, it is unclear whether the bill is effective or efficient.
Efficient: The tax expenditure is the most cost-effective way to achieve the desired results.	?	
Key: ✔ Met ✘ Not Met ? Unclear		