FISCAL IMPACT REPORT

BILL NUMBER: House Bill 55

SHORT TITLE: First Responder Retirement Tax Deduction

SPONSOR: Martinez, A/Block/Vincent

LAST UPDATE: ______ **ORIGINAL DATE:** 1/26/2026 **ANALYST:** Gray

REVENUE*
(dollars in thousands)

Type	FY26	FY27	FY28	FY29	FY30	Recurring or Nonrecurring	Fund Affected
PIT	$0.0	($7,300.0)	($7,700.0)	($8,100.0)	($8,500.0)	Recurring	General Fund

Parentheses indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY26	FY27	FY28	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
TRD	$40.0	$95.2	$80.0	$215.2	Recurring	General Fund

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files

<u>Agency or Agencies Providing Analysis</u>
Taxation and Revenue Department
Public Employee Retirement Association
Department of Health
Department of Homeland Security and Emergency Management

SUMMARY

Synopsis of House Bill 55

House Bill 55 (HB55) provides an income tax deduction for 50 percent of the retirement pay of a first responder or the unmarried surviving spouse of a first responder. First responders are defined as law enforcement officers, firefighters, or emergency medical services personnel whose duties include responding rapidly to an emergency.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns, which is May 20, 2026. The provisions of the bill apply to tax years beginning on or after January 1, 2026.

FISCAL IMPLICATIONS

HB55 is expected to reduce recurring general fund revenues by $6.1 million in FY27. The Taxation and Revenue Department (TRD) estimated the revenue impact by estimating the number of beneficiaries using public sources, including data from the Public Employees Retirement Association (PERA) and the New Mexico Health Care Workforce Committee Report, then estimated the average retirement income for these groups, relying on PERA data and U.S. Census Bureau's estimates.

TRD notes PERA reports the number of retirees and monthly retirement pay for state police, municipal police, municipal firefighters, and volunteer firefighters. That data is summarized for FY25 below:

Profession	Monthly Retirement Pay	Number of Retirees
State Police/Corrections	$3,307	1,447
Municipal Police	$3,954	3,530
Municipal Firefighters	$4,193	1,895
Volunteer Firefighters	$152	1,539

Source: TRD

TRD then applied the 50 percent deduction contemplated by HB55 and an effective tax rate of 2.8 percent to estimate the fiscal impact for law enforcement officers and firefighters.

For emergency medical services personnel, TRD relied on data from the New Mexico Health Care Workforce Committee Report, which estimated an average of 4,610 EMTs in New Mexico between 2022 and 2024. The agency continues:

> Tax & Rev then calculated the percent of EMTs as a proportion of the total number of individuals employed in New Mexico. The Bureau of Labor Statistics provides the number of individuals employed by state. For New Mexico, approximately 940,000 persons employed in 2024. The percentage of EMTs is calculated to be 0.49%.
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> The population of New Mexico residents over the age of 65 is approximately 397,000. Tax & Rev assumes this population receives retirement pay and the source mimics the current workforce. First responders generally do not have a required retirement age. Tax & Rev assumes these taxpayers would receive retirement pay at 65 or older. This results in an estimate of 1,940 retired EMTs eligible for this deduction.
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> To estimate the retirement pay income, Tax & Rev used the U.S. Census Bureau's estimate of the mean retirement income for persons 65 and older in New Mexico, at $36,000 per year, or $3,000 per month. Tax & Rev then applied the 50% deduction and the 2.8% effective tax rate.
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> For FY2026 to FY2030, the number of eligible retirees grew at an annual rate of approximately 2%, calculated from the growth rate of first responder retirees from FY2023 to FY2025. Tax & Rev also applied the S & P Global December 2025 forecast for inflation to the retirement pay to account for cost-of-living adjustments.

The agency notes that the TRD fiscal impact does not include the number of first responders who receive retirement income from tribal governments, other states or the federal government.

Accordingly, this analysis estimates the share of federal and tribal law enforcement employees based on the Federal Bureau of Investigation's Uniform Crime Reporting Program. Based on these estimates, for every four state law enforcement personnel there is one additional federal or tribal law enforcement personnel. To account for the additional costs associated with federal and tribal law enforcement personnel, this estimate increases the TRD estimate of the law enforcement impact by 25 percent.

Additionally, the bill does not specify that the beneficiary's first responder services were primarily conducted in New Mexico. Because of this, the bill may act to incentivize retirees to move to New Mexico, although the average magnitude of the benefit (about $585 a year) would not likely influence much taxpayer behavior. This analysis adds an additional 10 percent revenue impact to account for this potential impact.

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

TRD notes that introducing more tax incentives has two main consequences: "First: 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. Increasing complexity and exceptions in the tax code is generally not in line with sound tax policy."

The agency points out that states deduct income for retirees for several reasons, including decreasing the tax burden for individuals on fixed incomes and trying to attract retirees to the state. The agency notes that the bill would reduce a taxpayer's tax burden by an average of $585 per year and that it "will provide some tax relief but is unlikely to attract retirees to the state on its own."

The agency notes that it does not have the necessary information to independently verify eligibility or ways to calculate the portion of a taxpayer's income attributable to the eligible services. The agency also points out definitional concerns:

> [The] bill's broad, duty-based definition of "first responder" gives Tax & Rev no reliable way to determine which retirees actually performed qualifying emergency response work. The definition of "law enforcement officer" could include corrections or security personnel; the definition of "firefighter" does not distinguish between volunteer and career service; and the definition of "EMS personnel" could include emergency-room nurses or other medical staff who do not perform field response duties. Some administrative or supervisory positions could also be interpreted as first responder roles. Without a clear definition of "first responder" and the inability to verify employment as a first responder of the retirement income for the credit.

TECHNICAL ISSUES

TRD notes:

> Page 1, Line 24 to page 2, line 2 states that the taxpayer shall submit information to the department to establish that the taxpayer is eligible to claim the deduction. To aid Tax & Rev in administering the deduction, Tax & Rev suggests replacing "information" on line 25, page 1 with "information establishing that the taxpayer retirement income as a first responder for the tax year and the amount of the income."

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 are:

- **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 information was found indicating that the proposed legislation was vetted through an interim 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 expenditure does not have a purpose, long-term goals, or measurable targets.
Transparent: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies	✓	Annual reporting is required.
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	 ✓ ✗	The expenditure would allow some public analysis but does not include an 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	 ✗	Because there is no purpose provided, it is unclear whether the expenditure would be effective or efficient.

Passes “but for” test	×	
Efficient: The tax expenditure is the most cost-effective way to achieve the desired results.	×	
Key: ✓ Met × Not Met ? Unclear		

BG/ct/dw/rl