FISCAL IMPACT REPORT

BILL NUMBER: Senate Bill 156

SHORT TITLE: Social Security Income Tax Cap

SPONSOR: Campos

LAST UPDATE: 02/03/26 **ORIGINAL DATE:** 02/02/26 **ANALYST:** Graeser

REVENUE*
(dollars in thousands)

Type	FY26	FY27	FY28	FY29	FY30	Recurring or Nonrecurring	Fund Affected
PIT	($19,050.0	($40,200.0))	($42,500.0)	($44,800.0)	($47,300.0	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	No fiscal impact	$15.2	No fiscal impact	$15.2	Nonrecurring	General Fund

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

Related to HB264, which permits taxpayers to claim a deduction from net income equal to the amount of social security income for which the taxpayer is entitled to deduct under federal law.

Sources of Information

LFC Files
2024 HB248 FIR, 2025 SB-184 FIR, 2025 HB-293

Agency or Agencies Providing Analysis
Regulation and Licensing Department
Taxation and Revenue Department
New Mexico Attorney General

SUMMARY

Synopsis of SB156

Senate Bill 156 (SB156) removes the personal income cap on social security income that is exempt from income tax. The current taxable income caps are $75 thousand for married individuals filing separately, $150 thousand for heads of household, married individuals filing joint returns, and surviving spouses, and $100 thousand for singles.

FISCAL IMPLICATIONS

This bill expands a tax expenditure with a cost that is likely significant. 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.

The Taxation and Revenue Department has estimated the fiscal impact of this proposal.

> By removing the maximum AGI limits for exempting social security income, this bill allows higher-income social security earners to claim the exemption.
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> 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 (TRD) calculated the weighted average annual social security income and number of New Mexico taxpayers with AGIs over $150 thousand by AGI ranges.[1] TRD then estimated the existing tax due using the effective tax rate range of 3.6 percent and 4.3 percent for tax year 2025 based on the SOI AGI levels and assumes taxpayers will claim this amount against personal income taxes. TRD calculates that the average tax liability on social security is $1,182 per New Mexico taxpayer with AGIs greater than $150 thousand.
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> TRD 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. TRD 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 percent, the most recent years available. This reflects the growing population eligible for retirement and social security benefits.
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> The fiscal impact for FY2026 captures changes in withholding and estimated payments by eligible taxpayers.

Rates and brackets were changed in 2024, generally imposing additional burden on the relatively wealthy.

TRD recently updated the tax expenditure data for the 2024 tax year.

Social Security Income Exemption	**Tax Year (Calendar)**	2022	2023	2024
	Claims	134,093	138,378	131,570
	Expenditure (thousands)	$80,216	$88,240	$86,362
	Fiscal Year	2023	2024	2025
	Claims	123,266	139,147	141,274
	Expenditure (thousands)	$73,823	$88,523	$92,301

[1] www.irs.gov/statistics

The drop in expenditure from the 2023 tax year to the 2024 tax year can be attributed to the rate and bracket change in tax rates in 2024. Total social security amounts have increased annually from the 2010 to 2022 tax years at a 3.1 percent rate.

SIGNIFICANT ISSUES

In a similar bill proposed during the 2023 legislative session, the Aging and Long-Term Services Department noted this additional exemption overwhelmingly benefits higher income seniors and the loss in revenue may negatively impact programs for lower-income New Mexicans that are funded by this tax though the general fund.

In current statute, there is a "cliff effect" at the income caps where those with incomes just under the cap do not pay income tax on their social security income, while those with incomes just over the cap do pay income tax on their social security income. This erodes horizontal equity at those income levels near the exemption caps because those with similar incomes are not treated equally. This bill removes that "cliff" effect.

TRD notes the following policy issues:

> Personal income tax (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 "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.
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> 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.
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> 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 thousand, for married joint filers it is $150 thousand, and for married filing separately it is $75 thousand. The average tax savings per taxpayer is $656 under current law.
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> Removing the current cap and exempting all social security income will benefit about the top 15 percent 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 taxes[2]. 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.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is nominally <u>not</u> met because TRD is <u>not</u> required in the bill to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the exemption and other information to determine whether the exemption is meeting its purpose. However, as a general rule, the exemption is published in the Tax Expenditure Report required by 7-1-84 NMSA 1978.

ADMINISTRATIVE IMPLICATIONS

TRD 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 TRD's Information Technology Division (ITD), implementing this bill will have a low impact, requiring approximately 220 hours or about one and a half months.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB156 is related to HB264, which seeks to conform the income tax to the changes made in the federal "One Big Beautiful Bill" passed in July 2025 affecting the 2025 tax year. HB264 permits taxpayers to claim a deduction from net income equal to the amount of social security income for which the taxpayer is entitled to deduct under federal law. Although the mention of social

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

security income is probably not entirely accurate since the text of the OBBB allows up to a $6,000 bonus deduction per individual 65+ years old with the intent of reducing taxes on seniors, most of whom receive social security.

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.	✓	**This has been debated in 2023 and 2025**
Targeted: The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals.		The purpose is to eliminate state income tax on social security income. This may be a desirable goal for social security recipients.
Clearly stated purpose	✓	
Long-term goals	✓	
Measurable targets	✓	
Transparent: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies	✓	
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.		This proposal has defects as noted in TRD's Policy Comments.
Fulfills stated purpose		
Passes "but for" test		
Efficient: The tax expenditure is the most cost-effective way to achieve the desired results.		
Key: ✓ Met ✗ Not Met ? Unclear		

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