FISCAL IMPACT REPORT

SPONSOR	Reps. Sena Cortez, Murphy, Montoya, and Block/Sen. Block	**LAST UPDATED**	
		ORIGINAL DATE	2/20/2025
SHORT TITLE	Eliminate Social Security Tax	**BILL NUMBER**	House Bill 293
		ANALYST	Gray

REVENUE*
(dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
PIT	$0	($33,600)	($35,900)	($38,500)	($41,200)	Recurring	General Fund

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

Duplicates Senate Bill 184

Sources of Information

LFC Files

<u>Agency Analysis Received From</u>
Aging and Long-Term Services Department (ALTSD)
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of House Bill 293

House Bill 293 (HB293) removes the income cap on social security income that is exempt from income tax. Currently, social security income is exempt from state income tax for individuals with income of less than $75 thousand for married filers filing separately, $150 thousand for heads of household, surviving spouses, and married filers filing jointly, and $100 thousand for single filers. This bill removes the income caps and exempts all social security income from state income tax.

The provisions of this bill are applicable to tax years beginning 2025.

FISCAL IMPLICATIONS

This bill creates or expands a tax expenditure. Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for a tax expenditure may be ambiguous, further complicating the initial cost estimate of the fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures.

House Bill 293 is estimated to reduce recurring general fund revenues by $33.6 million in FY26. This estimate was provided by the Taxation and Revenue Department (TRD), which used the Internal Revenue Service's Statistics of Income to calculate the average annual social security income, weighted by the number of New Mexico taxpayers with adjusted gross income over $150 thousand per year. The agency then used the effective tax rate and estimated the average tax liability on social security. Lastly, TRD increased the average tax liability by the Congressional Budget Office's inflation forecast for FY26 to FY29 as a proxy for cost-of-living adjustments and grew the number of higher-income eligible taxpayers by their average growth rate from 2020 to 2021.

Preliminary LFC analysis of this bill and of its duplicate (Senate Bill 184) made an estimate using similar data but estimated a lower average tax liability and a slower population growth rate, producing a lower cost. Accordingly, this analysis uses TRD estimated revenue impact.

SIGNIFICANT ISSUES

Currently, 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 income levels near the exemption caps as those with similar incomes are not treated equally.

TRD analysis provides context of this bill, writing:

> In tax year 2023, approximately 137,000 taxpayers claimed the exemption under current law, a 2.6% increase from tax year 2022, with total tax year 2023 tax relief of $87.6 million, 9.5% over tax year 2022. 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 $639 under current law. Removing the current cap and exempting all social security income will benefit high-income individuals who tend not to depend solely on social security benefits for their income, and who have other sources of income as well. As noted in the fiscal methodology, the average PIT liability benefit for these individuals is $1,078 versus the current population average of $639. Because the legislation benefits only higher-income individuals, it erodes progressivity in the tax code.

Policymakers may consider many factors when deciding whether to exempt some form of income for those over 65, including lessening the economic burden on that population and trying to attract retirees to the state. The provisions of HB293 may have a limited impact on attracting retirees to the state in part because this exemption is just one among a tapestry of tax policies that may make New Mexico attractive or unattractive for a retiree. For example, New Mexico's property taxes are among the lowest in the nation, but the state has a relatively high sales tax. Removing the current cap and exempting all social security income will primarily benefit high-income individuals who do not depend solely on social security benefits for their income, and who have other sources of 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:

- **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 bill was not 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	 × × ×	There is no stated purpose, goal, or target.
Transparent: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies	✓	The expenditure will be included in the Tax Expenditure Report.
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	 × ×	There is no 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	 ? ?	There are no stated goals or targets by which to measure effectiveness.
Efficient: The tax expenditure is the most cost-effective way to achieve the desired results.	?	
Key: ✓ Met × Not Met ? Unclear		

BG/hj/SR