HULL GALLEGOS
GOVERNOR | LT. GOVERNOR

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STRONGER FAMILIES.
A MORE PROSPEROUS
NEW MEXICO.

POLICY WHITE PAPER

FOUR STEPS TO ZERO

A PROPOSAL TO PHASE OUT NEW MEXICO'S TAX ON ELIGIBLE PERSONAL INCOME

Letting New Mexicans keep more of what they earn while protecting our schools, healthcare, public safety and our financial future.

FOUR CONDITIONAL STEPS.

FOUR YEARS IS THE GOAL.

STRONGER FAMILIES | A MORE COMPETITIVE NEW MEXICO | FISCAL RESPONSIBILITY THAT LASTS | A BRIGHTER FUTURE FOR GENERATIONS

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The proposal in one page

I propose phasing out state tax on eligible personal income through four expanding tax-free bands, while keeping net business profits taxable. People above each band receive its benefit too.

For single filers, the bands would be $25,000, then $50,000, then $100,000. For married couples filing jointly, they would be $50,000, then $100,000, then $200,000. The fourth step would remove the remaining state tax on eligible personal income. These amounts apply after relevant deductions and exemptions.

Qualifying wages, salaries, retirement income, reasonable documented pay for an owner's actual work, and personal investment income would receive relief. Net operating-business profits, net rental profits, royalties and taxable business-sale gains would remain taxable. Corporate income tax and gross receipts tax would remain.

Every step requires legislative authority and a public finding that the state can fund its obligations, protect services, preserve benefits and administer the change. If a step cannot meet those conditions, it waits. A four-year goal does not override those requirements.

The proposal makes five commitments:

- No replacement tax increase to finance the phaseout.
- Fund classrooms, student services, healthcare obligations, public safety and justice before advancing a step.
- Preserve eligible refundable benefits and funded delivery through the Taxation and Revenue Department, or TRD.
- Meet the proposed reserve, recurring-revenue, annual funding and downturn tests after counting the tax reduction.
- Protect permanent wealth, without extraordinary fund withdrawals or increased distributions to finance relief. What is established today: The proposed bands and income-treatment principles are selected. A complete statewide cost, distribution of relief, funded service budget and affordable completion schedule have not been established for this design. Detailed statutory and administrative rules

also require completion. No state agency has been represented as endorsing or certifying the proposal. Those findings are requirements before implementation, not results this publication claims to have achieved.

1. Why pursue personal-income tax relief?

Reducing state tax on eligible personal income lets people retain more of the income that is currently taxed. It can help workers, families and retirees meet their own priorities. Tax policy is one part of New Mexico's appeal; schools, healthcare, public safety, infrastructure and economic opportunity also matter.

The benefit will vary. Someone with no ordinary tax before credits has no further ordinary tax to remove. Someone whose refundable credits already exceed a positive tax amount can still receive a larger refund when that tax falls, if the credits are preserved. Higher eligible personal-income liabilities generally produce larger dollar reductions at completion. This proposal does not claim equal savings for every household or that all relief goes to lower-income taxpayers.

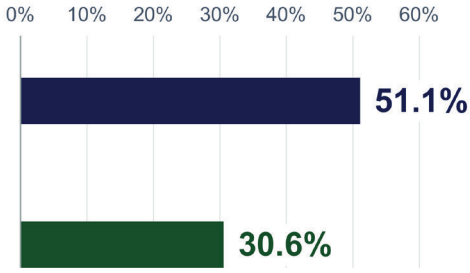
The goal is relief the state can sustain. A larger public investment portfolio or one strong revenue year does not establish that a permanent tax reduction is affordable.

FIGURE 1

State budget and household income growth

Nominal changes over five-year intervals; fiscal and survey years are labeled separately.

Measure	Starting value	Ending value	Increase
Recurring General Fund appropriations, FY2019-FY2024	$6.3398 billion	$9.5789 billion	51.1%
Median household income, 2019-2024 ACS one-year estimates	$51,945	$67,816	30.6%



Sources: LFC FY2021 recommendations, Table 4; December 2024 CREG, p.40; U.S. Census Bureau, 2019 and 2024 ACS one-year household-income reports. Calculations: (end/start - 1) x 100.

2. How the four steps work

Each band is the portion of eligible taxable personal income that receives zero-rate treatment. It is available even when eligible income exceeds the band. Business profits are outside the personal-income band.

The existing filing-status rate schedules supply the underlying rates. Married-separate filers use the proposed single bands but retain their distinct underlying schedule, so their dollar savings can differ. There is no additional percentage rate cut layered onto the bands.

Source: TRD, published PIT rate schedules, 2005-2025

Step One establishes the first band. Step Two expands it after another full review. Step Three expands it again under the same conditions. Step Four removes the remaining tax on eligible personal income, while the defined business-income base remains taxable.

The new band amounts remain fixed through the phaseout, including any pause. A substantial delay would prompt legislative review; an adjustment would require its

FIGURE 2

Four conditional steps

The first portion of eligible taxable personal income receives zero-rate treatment.
Business profits remain taxable.

Filing status	Step One	Step Two	Step Three	Step Four
Single	**$25,000**	**$50,000**	**$100,000**	All eligible personal income
Married filing separately	**$25,000**	**$50,000**	**$100,000**	All eligible personal income
Married filing jointly	**$50,000**	**$100,000**	**$200,000**	All eligible personal income
Head of household	**$50,000**	**$100,000**	**$200,000**	All eligible personal income
Qualifying surviving spouse	**$50,000**	**$100,000**	**$200,000**	All eligible personal income

Sources: Four Steps to Zero, selected policy; TRD published 2025-and-later rate schedule. Proposed bands are campaign policy, not enacted law.

own fiscal analysis and the same protections. This does not freeze benefit formulas or deductions that adjust under existing law.

The first change would begin with a full tax year after enactment and adequate preparation. No unconditional start or finish date is selected. A delayed step would not trigger automatic catch-up reductions. Four years is the goal, subject to legislative passage and the requirements at every step.

3. Earning another dollar does not take away the band

With the Step Two single band of $50,000, a filer with only eligible personal income would retain the exemption on that first $50,000 when income rises above it. Under the published schedule, $50,001 of eligible taxable income would produce $0.047 of ordinary state tax before return rounding and credits. Crossing the band does not restore tax on all earlier income. This example excludes business income and special calculations.

Source: TRD, published PIT rate schedules, 2005-2025

The underlying marginal rates continue above the band. The method removes tax attributable to the exempt band; it does not restart all tax brackets after subtracting an exemption.

An individual who owes no tax one year could owe tax later if income, filing status or credits change. During a pause, the enacted tax schedule stays in place under this proposal. A campaign proposal cannot prevent a future Legislature from changing tax law.

4. Personal income and business profits receive different treatment

Eligible personal income includes qualifying employee pay, retirement distributions, reasonable documented compensation for an owner's actual work, personal bank interest, portfolio dividends, and gains on stocks or mutual funds held as personal investments.

The continuing-tax base includes operating-business profits, net rental profits, royalties and taxable gains from selling a business or its assets. Applicable expenses, exemptions, deductions and basis continue to matter. The tax applies to the covered net taxable amount, not gross sales or gross sale proceeds. A passive owner's share of operating profit remains business income. Income must retain its

source character through entities and trusts; changing a label or payment route cannot turn business profit into exempt investment income.

FIGURE 3

Personal income and business profits

The phaseout applies to defined personal income; net business profits stay taxable.

Eligible personal income for phaseout	Continuing taxable business income
Qualifying wages and salaries	Net operating-business profits
Retirement income	Net rental profits
Reasonable, documented compensation for an owner's actual work	Royalties
Personal bank interest and portfolio dividends	Taxable gains from selling a business or its assets
Gains on stocks or mutual funds held as personal investments	A passive owner's share of operating-business profits

Source: Four Steps to Zero proposal. Proposed rules require legislation and fiscal analysis.

This treatment must work across sole proprietors, single-member businesses, partnerships, S corporations and other relevant arrangements. Corporate income tax and gross receipts tax remain in place.

Owner compensation. Owners who perform actual work would receive comparable relief for reasonable, documented compensation. That compensation shares one personal band with their other eligible income. Ownership alone or a cash withdrawal does not establish compensation for work. Wages or service payments already deducted cannot be deducted again, and each business does not create another personal band.

No automatic dollar allowance or percentage of profit has been selected. Valuation, substantiation, related-business and loss rules require legislation and fiscal analysis.

This new treatment can reduce the continuing business base, so its cost must be counted.

Mixed income. Business profits use the lower graduated brackets first. Eligible personal income sits above them in the combined calculation; each step removes the tax attributable to its covered personal-income band. At completion, ordinary business tax is calculated on residual business income alone. Exempt personal income no longer raises that final business tax rate. Equal bands can therefore produce different savings for wage-only and mixed-income returns.

Deductions. Source-specific expenses follow their source. An otherwise allowable deduction that applies to the whole return is used once, first against positive taxable business income and then, if any remains, against eligible personal income. This creates no new deduction, artificial loss or carryforward.

Entity payments and owner credits. New Mexico's existing pass-through election connects entity payments with owner credits. Leaving that election unchanged does not by itself establish retained revenue after personal-income relief. Continuing business liability, payments, credits and refunds must be coordinated before the first affected step, without collecting the same liability twice.

Sources: TRD, pass-through entity tax information; Enacted 2023 HB368, Section 3

The legislation must also resolve losses, carryforwards, ownership tiers, fiduciaries, source allocation and federal interactions. The fiscal analysis must identify taxpayer-level increases or decreases caused by classification or allocation changes. Preserving business taxation is a policy choice; the amount of revenue retained has not been established.

5. What the household examples mean

The examples below show the selected bands applied to ordinary personal-income tax calculations. They are not individualized estimates or a forecast of when a step takes effect.

FIGURE 4

What the steps mean for a household

Annual ordinary state income tax still owed, before credits.

Eligible taxable personal income	Current tax	Step One	Step Two	Step Three	Step Four
Single, $40,000	$1,471	$671	$0	$0	$0
Single, $65,000	$2,646	$1,846	$705	$0	$0
Joint, $75,000	$2,914	$1,175	$0	$0	$0
Joint, $100,000	$4,089	$2,350	$0	$0	$0
Joint, $150,000	$6,539	$4,800	$2,450	$0	$0
Joint, $200,000	$8,989	$7,250	$4,900	$0	$0

Source: TRD published TY2025 ordinary rate schedule; campaign calculations. Full-year resident, eligible nonbusiness taxable income; before credits and special calculations.

A return with business income has an additional continuing liability. For example, a single filer with $100,000 of eligible personal income and $50,000 of taxable business income, both already allocated after applicable adjustments, has ordinary tax of $6,808 under the published schedule. The selected method produces $5,616 at Step One, $4,391 at Step Two and $1,941 at Steps Three and Four. The final $1,941 is tax on the business income. These are before-credit illustrations, not a completed owner-compensation or loss calculation.

Source: TRD, published PIT rate schedules, 2005-2025

No percentage of returns reaching zero is published as a result of this proposal. Historical return groups include business income and cannot establish that result for the revised design.

6. Fund services before scheduling tax relief

Each step must use an explicit annual budget for the services and obligations that will continue after the reduction. The state must first identify what it costs to protect classroom instruction, student services, healthcare obligations, public safety, justice and other legal commitments.

For education, that means accounting for enrollment and student needs, staffing, compensation and benefits, transportation, special education and necessary support functions. A flat appropriation does not automatically preserve services when needs or costs change. Administrative functions should be evaluated on their work and cost; they are not all waste.

Approximately 2% annual growth in recurring General Fund spending is a planning target. It is subordinate to the funded service requirement. If protected services require a higher budget, the fiscal model must use that budget. Healthcare growth does not automatically imply an unnamed cut elsewhere. If the complete funding tests fail, the next tax step waits.

Any proposed saving must name the program or activity, describe the change, show its recurring financial effect and identify service consequences. Vacancies require workload and recruiting review, including overtime and contracting effects. Temporary programs require evidence before becoming permanent. New recurring commitments require recurring funding. No unspecified savings, automatic TRD staff reductions or reductions in protected services are counted as financing.

Past education appropriations are not a ready source of savings. The LFC instructional-time review's approximately $2.6 billion covers cumulative FY2018-FY2027 appropriations across instructional-time and extended-learning efforts. It is

neither annual administrative waste nor an annual amount available for this plan.

Source: LFC, 2026 progress report on instructional time and extended learning

Tax incentives should be evaluated on their merits. Revenue from withdrawing or limiting them would not finance this phaseout.

7. Preserve refundable benefits and reliable administration

The plan preserves eligible refundable benefit formulas and funded claims and payment delivery through TRD, including after eligible personal-income tax reaches zero if necessary. A return or other claim process may still be required.

Preservation includes the Working Families Tax Credit, Child Income Tax Credit, Low-Income Comprehensive Tax Rebate and its additional elderly/blind component, and qualifying elderly medical assistance. All other affected credits, rebates, carryforwards, assignments and obligations also require a complete inventory. The appendix explains why historical selected-benefit totals are not a complete future budget or a cap.

Source: TRD, 2025 Tax Expenditure Report

A later move to another benefit-delivery system would require separate authority, funding, testing and a functioning fallback. Existing delivery must remain available until an authorized replacement can operate reliably. The phaseout is not premised on an unbuilt direct-benefit system.

TRD must retain the capacity to administer business taxes, benefits, prior-year and amended returns, refunds, audits and appeals. The transition must fund staff, systems, employer and pension-payor guidance, withholding changes, estimated payments, forms and software. No automatic recurring administrative saving is assumed.

Taxpayer assistance should connect people to normal service channels and the existing taxpayer advocate when appropriate, while preserving formal appeal rights.

Public reporting should track accuracy, response times, unresolved cases, refunds and timely benefit delivery. Service targets need a measured baseline and funded staffing.

Source: TRD, Taxpayer Advocate

8. The financial requirements at every step

The following are proposed requirements, not a finding that the plan has passed them:

FIGURE 5

Requirements before every step

Every requirement must be met before any step takes effect.

1
Law and readiness

Legislative authority, funded administration, systems, forms and payment coordination are ready.

2
Funded services and benefits

Costed classroom, student-service, healthcare, public-safety and justice obligations and continuing refundable benefits are funded.

3
105% recurring-revenue coverage

Recurring General Fund revenue after all applicable reductions is at least 105% of total recurring General Fund appropriations.

4
25% reserve floor

Projected General Fund reserves remain at least 25% of recurring appropriations; legal availability and cash are reviewed separately.

5
Full annual funding

Recurring and nonrecurring commitments, statutory distributions, transfers and cash needs are funded.

6
Downside review

Base and adverse scenarios account for existing cuts, the next step and continuing obligations, including after completion.

If every requirement is met, the next step may proceed under the enacted law.
A failed or unresolved requirement delays that step. A pause does not restore revenue already lost.

Permanent tax cuts will not be paid for with one-time balances or reserves. Relief will not be financed by extraordinary permanent-fund withdrawals or increased distributions. The actual cost of protected services comes before the target of roughly 2% annual spending growth.

Source: Four Steps to Zero, proposed requirements. These are proposed conditions, not current law.

For a $12 billion recurring budget, the 105% test requires $12.6 billion of post-change recurring revenue. That margin is not a separate reserve account. Passing the ratio does not prove services are adequately funded or that cash and nonrecurring commitments are covered.

One-time balances and extraordinary receipts cannot finance permanent reductions. Reserves retain a stabilization role, subject to legal availability and sustainable use. Their headline size is not proof that they cover every downturn.

The enabling legislation must specify who makes the findings, which dated forecast and proposal are assessed, publication and decision deadlines, how missing or disputed findings are handled, and what permits a paused step to resume. Unresolved costs are not treated as zero.

9. Use the state's forecast and show the proposal separately

The official August 26, 2026 Consensus Revenue Estimating Group forecast supplies this revenue baseline. These are recurring General Fund revenues before the proposal's effects, in billions of dollars.

Source: CREG, August 26, 2026 revenue outlook and General Fund Financial Summary

Fiscal year	Official recurring General Fund revenue
FY2027	$14.5320
FY2028	$14.7563
FY2029	$15.2750
FY2030	$15.8613
FY2031	$16.5529

The model must show the tax changes, retained business revenue, benefits, linked payments, implementation and service costs separately. Business revenue already in the baseline cannot be added again. Credits reflected in net collections and continuing payments must be reconciled so costs are neither omitted nor counted twice.

Later official forecasts must be used when available. Forecast revisions are not revenue created by this proposal. No additional economic-growth dividend attributed to the phaseout is included, and use of official data does not mean the state has endorsed the plan.

The forecast's total revenue is not the amount available for tax relief. The September LFC budget-planning presentation adds a service-liability scenario and highlights continuing retiree-healthcare distributions. Those obligations reinforce the need for a complete spending and cash schedule. The appendix records a difference between that presentation's FY2028 entry and the August consensus table; this proposal retains the August consensus baseline.

Source: LFC, September 23, 2026 budget-planning presentation

The proposed bands and income-treatment principles are selected. A complete statewide cost, distribution of relief, funded service budget and affordable completion schedule have not been established for this design. Detailed statutory and administrative rules also require completion. No state agency has been represented as endorsing or certifying the proposal. Those findings are requirements before implementation, not results this publication claims to have achieved.

10. Oil prices, recessions and the limits of a pause

The revenue outlook remains exposed to energy prices, production, investment markets and the wider economy. Omitting an added growth dividend does not remove those risks.

In the August CREG low-oil scenario, General Fund revenue falls below its baseline by about $789 million in FY2027, $1.733 billion in FY2028 and $1.779 billion in FY2029. Those are state scenario differences before this proposal, not completed stress-test results for it.

Source: CREG, August 26, 2026 revenue outlook and General Fund Financial Summary

The completed model must apply the same tax design to each scenario and include service pressures, benefits, reserves and cash. It must avoid charging the state twice for a revenue stream already removed in the base calculation. Analysis must continue through the first full fiscal year after Step Four and at least three additional full years, longer when needed to reveal a later shortfall. Any extension beyond an official forecast must be labeled as an analyst assumption.

A pause stops a future reduction; it does not recover revenue already lost. After Step Four, there is no remaining personal-income step to pause. The state therefore needs a disclosed response to persistent shortfalls as well as entry tests for each step.

If completed analysis cannot protect services and meet the financing commitments, timing or design must change before the step proceeds. The proposal does not guarantee the absence of future fiscal emergencies.

11. Protect permanent wealth

Permanent-fund assets, annual investment returns and lawful distributions are different measures. Assets held for protected beneficiaries are not a checking account for this proposal.

No extraordinary withdrawals or increased permanent-fund distributions would finance the phaseout. Existing lawful distributions and beneficiary protections remain. Their contribution to the official forecast is counted once. The size of the state’s portfolio does not establish when another step is affordable.

Constitutional and statutory restrictions, cash availability and continuing distributions

must be respected in the legislation and model.

FIGURE 6

Public assets and household finances

New Mexico's public investment assets and median household income.

Long-term public investment assets

More than
$68 billion
in SIC assets under management;

October 2025 snapshot.

Existing support for public services

Lawful fund distributions support education and other designated services and beneficiaries.

Household income

$67,816
median New Mexico household income;
2024 ACS one-year estimate.

Sources: New Mexico SIC, About the SIC (October 2025); U.S. Census Bureau, 2024 ACS one-year household-income report. Asset stock and annual household income are different measures.

Source: New Mexico Constitution

12. Legislative passage and a retirement-relief alternative

The New Mexico Legislature must approve the proposal. I will work to secure passage of a complete enabling bill with conditional steps, funded benefit delivery, service and financial requirements, and coordinated business-income treatment. Legislative support cannot be guaranteed by this document.

HB275 in 2025 proposed immediate PIT elimination and did not pass. Its record shows indefinite postponement in House Taxation and Revenue, not a vote by both

chambers rejecting this future proposal. That history identifies a legislative obstacle; it does not establish support for this plan or settle its merits.

Source: Official HB275 legislative record

If the full plan cannot secure passage, I will pursue separately costed legislation to remove remaining New Mexico PIT on Social Security benefits and qualifying military retirement pay. It would require legislative approval and the same fiscal and service protections, with existing exemptions accounted for before measuring additional relief.

Sources: TRD, Social Security exemption; Enacted 2024 HB252, Section 32

That fallback covers those two categories only. Other pensions and qualifying IRA and 401(k) withdrawals remain within the broader personal-income phaseout. Completing the broader proposal would eliminate state PIT on that eligible retirement income too. Federal income-tax rules would remain unchanged.

If legislators enact only part of the proposal, the public explanation and fiscal model must describe the law actually passed. A smaller measure is not enactment of the full plan.

13. Fair administration and public accountability

Residents, part-year residents, nonresidents and covered estates and trusts require legally appropriate treatment. The legislation must coordinate New Mexico income, allocation, credits and fiduciary rules without duplicating personal bands through multiple entities. This plan does not reserve relief exclusively to residents or claim that its individual table completes those rules.

Each public report should show the official baseline, proposal effects, funded services, benefits, reserves, cash and downside results. It should identify the next step, the required findings and any reason for a pause.

Distribution reporting must distinguish people from returns, taxable income from

gross earnings, existing zero-tax returns from newly zero-tax returns, and zero personal tax from zero combined personal-and-business liability. It should report incremental and cumulative relief by income and filing status, mixed-income returns and resident benefits separately.

Other states' tax changes can inform design and administration, but their tax bases and financing do not prove affordability here. A public calculator likewise cannot substitute for completed legal rules and a matched fiscal analysis. Any eventual calculator must use the same dated schedule, disclose limitations and be tested before publication.

14. The commitment

I will work toward four steps of relief on eligible personal income, with business profits remaining taxable. I will use the official revenue forecast, show costs separately and fund the protections before scheduling a reduction.

Four years is the goal. If a step must wait, I will explain why. If the full proposal cannot secure legislative passage, I will pursue the separately costed Social Security and military-retirement alternative.

The measure of success is affordable relief, reliable services, preserved benefits and financial stability. The technical appendix provides the calculation method, source record and work required before implementation.

Four Steps to Zero: Technical and Source Appendix

This appendix accompanies the proposal. It distinguishes selected policy, official baseline data, individual calculations and unfinished implementation analysis.

A. What the evidence can and cannot establish

The proposed bands and income-treatment principles are selected. A complete statewide cost, distribution of relief, funded service budget and affordable completion schedule have not been established for this design. Detailed statutory and administrative rules also require completion. No state agency has been represented as endorsing or certifying the proposal. Those findings are requirements before implementation, not results this publication claims to have achieved.

Public grouped data and the published tax schedules support the historical descriptions and individual examples below. They do not reveal the joint distribution of income sources, owner compensation, deductions, losses, credits and ownership needed to score this design. No confidential return access or custom agency tabulation is assumed.

Before enactment, fiscal and legal analysis must establish the effects of the complete bill. Before each step, the required financial, service and operational findings must also be made. If evidence does not support a step, it waits or the proposed design must change. Publication is not fiscal certification.

B. Selected calculation method

The proposal selects fixed bands of $25,000, $50,000 and $100,000 for single and married-separate filers, and $50,000, $100,000 and $200,000 for joint, head-of-household and qualifying-surviving-spouse filers. Step Four removes the remaining tax on eligible personal income. Reasonable, documented owner compensation receives comparable relief; residual net business profits remain taxable. For ordinary examples containing only eligible nonbusiness income, before-credit tax is max(0, B(y) - B(H)), using each filing status's own underlying schedule B, eligible taxable income y and band H. This preserves marginal rates above the band. It is not a deduction that restarts brackets.

For nonnegative taxable amounts after allocation, let B be the existing filing-status tax function, p eligible personal income, b residual business profit and h the selected personal band. Total ordinary tax is B(b+p) - B(b+min(p,h)) + B(b). At Step Four it is B(b). With no business income this reduces to max(0, B(p) - B(h)); with no personal income it remains B(b). The formula does not define shared deductions, losses or special taxes.

For nonnegative source-adjusted amounts before shared deductions, let p0 be eligible personal income, b0 the continuing business-tax base and d the otherwise allowable shared deduction. Allocate b = max(0, b0 - d) and p = max(0, p0 - max(0, d - b0)). Then apply the selected graduated-bracket formula to p and b. This uses the shared deduction once; any amount beyond combined income creates no new loss or carryforward in this illustration.

These formulas cover nonnegative allocated amounts and ordinary tax. They do not resolve special lump-sum calculations, losses, carryforwards, credit limitations or nonresident allocation. Those rules must be drafted and analyzed together. In particular, owner-compensation and shared-deduction treatment can reduce retained business revenue and must be included in the statewide score.

C. Household and mixed-income examples

The following examples show annual ordinary New Mexico tax still owed, before credits, for returns with only eligible nonbusiness income. They use the published 2025 rates and the selected single/joint bands. Eligible taxable income is after applicable deductions and exemptions, not gross salary. Business-profit tax is not included because these examples assume no business profits.

Source: TRD, published PIT rate schedules, 2005-2025

Filing status and eligible taxable income	Current ordinary tax	Step One	Step Two	Step Three	Step Four
Single, $40,000	$1,471	$671	$0	$0	$0
Single, $65,000	$2,646	$1,846	$705	$0	$0
Single, $100,000	$4,358	$3,558	$2,417	$0	$0
Joint, $75,000	$2,914	$1,175	$0	$0	$0
Joint, $100,000	$4,089	$2,350	$0	$0	$0
Joint, $150,000	$6,539	$4,800	$2,450	$0	$0
Joint, $200,000	$8,989	$7,250	$4,900	$0	$0
Joint, $250,000	$11,439	$9,700	$7,350	$2,450	$0

For example, the joint return at $150,000 would owe $6,539 before credits under the underlying schedule, $4,800 at Step One, $2,450 at Step Two and zero at Step Three. Annual ordinary-tax savings are the current-tax column minus the applicable step's column. These are cumulative results, not extra reductions to add across columns. Each column applies only after that step takes effect.

The amounts are reproducible rate-schedule illustrations. Credits, income allocation, special calculations and future law can change the net result. These personal-income tables are not a guarantee that a business owner will have a zero total income-tax bill. No statewide cost or affordable date follows from these examples.

The additional filing-status examples below use the same assumptions and show annual ordinary tax still owed. Married-separate amounts retain cents because their underlying schedule produces half-dollar results. These are not owner-compensation or mixed-income examples.

Source: TRD, published PIT rate schedules, 2005-2025

Filing status and eligible taxable income	Current ordinary tax	Step One	Step Two	Step Three	Step Four
Married filing separately, $40,000	$1,574.50	$705.00	$0.00	$0.00	$0.00
Married filing separately, $75,000	$3,269.50	$2,400.00	$1,225.00	$0.00	$0.00
Married filing separately, $125,000	$5,719.50	$4,850.00	$3,675.00	$1,225.00	$0.00
Head of household, $100,000	$4,089.00	$2,350.00	$0.00	$0.00	$0.00
Head of household, $250,000	$11,439.00	$9,700.00	$7,350.00	$2,450.00	$0.00
Qualifying surviving spouse, $150,000	$6,539.00	$4,800.00	$2,450.00	$0.00	$0.00

A mixed-income example shows why the distinction matters. For a single filer with $100,000 of eligible taxable personal income and $50,000 of residual taxable business profit, the selected method produces the following annual ordinary tax still owed. Both amounts are already after a hypothetical completed allocation of deductions and owner compensation. No credits, losses, entity payments or special calculations are included.

Source: TRD, published PIT rate schedules, 2005-2025

Current ordinary tax on $150,000	Step One	Step Two	Step Three	Step Four
$6,808	$5,616	$4,391	$1,941	$1,941

At Steps Three and Four the eligible personal income is fully covered, while $1,941 of ordinary business tax remains. That final amount is calculated on $50,000 of business profit alone. This is a calculation example, not a state revenue estimate or an approved owner-compensation allowance.

A household with zero ordinary tax before credits receives no further reduction in that tax from the band. A household whose refundable credits already exceed its positive ordinary tax can still receive a larger refund when that tax is reduced. For example, with $500 of tax and an unchanged $1,000 refundable credit, the refundable amount exceeding tax is initially $500. Removing that $500 tax increases that amount to $1,000, an additional $500. This is an illustrative calculation, not an additional $1,000 credit or a promise for every recipient. Nonrefundable credits require separate treatment.

Some taxpayers may also face an offsetting change in federal or another state's tax. For example, an applicable federal deduction or home-state credit for New Mexico tax may change when that tax falls. Those effects depend on individual

circumstances. They do not reduce the revenue New Mexico forgoes. The plan makes no claim that every dollar shown remains or is spent in New Mexico.

Sources: IRS, Topic 503: deductible taxes; California Franchise Tax Board, other state tax credit

D. Business treatment and accounting

Operating-business profits, net rental profits, royalty income and taxable gains from selling a business or its assets remain on the continuing-tax side. Applicable existing expenses, exemptions, basis and deductions still apply. The tax falls on the covered net taxable amount, not gross receipts or sale proceeds. Source character must be preserved through entities and trusts; a label or payment route cannot turn operating profit into exempt investment income. A passive owner's share of operating-business profit stays in this base; ownership alone does not establish compensation for work. Sole proprietors and single-member businesses must receive coordinated treatment, as must partnerships and S corporations. Ordinary personal investment income receives relief under the same personal-income bands. These are the proposed state classifications, not a claim that federal labels define every category identically.

New Mexico's existing pass-through election is a payment mechanism connected to owners' income taxes. The entity may elect to pay tax and owners receive related credits. Simply leaving the election in law does not ensure a continuing net tax when personal liability is reduced. The governing credit provision refunds excess owner credits, so entity collections and owner refunds must be considered together.

Sources: TRD, pass-through entity tax information; Enacted 2023 HB368, Section 3, §7-3A-10, pages 12-15

The proposed direction is a coordinated system with a continuing liability for net business profit and separate relief on eligible personal income. Business payments must be credited once against the corresponding business liability. Excess payments and valid refunds must still be reconciled, but the same business liability cannot be collected twice or erased through an unmatched credit. The legislation must specify the rates, deductions, losses, credits, allocation and filing rules together.

Business profits use the lower graduated brackets first. Eligible personal income sits above those profits in the combined schedule, and each step removes the tax

attributable to its covered personal-income band. Once all eligible personal income is exempt, ordinary business tax is calculated on the residual business profit alone. Exempt personal income no longer raises that final business tax rate. The band does not restart the remaining personal-income brackets.

The proposal retains the existing graduated owner-rate schedules for this calculation. It does not apply a new flat rate to all business profits. Because business profit determines the bracket position of personal income during the early steps, equal personal-income bands do not guarantee equal dollar savings across wage-only and mixed-income returns. The distributional analysis must show those differences. The complete transition must also identify effects of classification, deductions, credits and losses before implementation.

Reasonable, documented compensation for an owner's actual work will receive the same personal-income relief as employee pay. Remaining net business profits stay taxable. The rules must apply consistently to owner-employees, partners, sole proprietors and comparable single-member businesses, even though their federal reporting differs.

Sources: IRS, S corporation compensation; IRS, partners and employment status; IRS Publication 334, Employees' Pay

The owner's qualifying work compensation joins other eligible personal income under one filing-status band. It does not create a second band for each business. Compensation already deducted as wages or accounted for as a service payment cannot be deducted or classified as owner labor again. Ownership alone, a withdrawal of cash or a payment for invested capital does not establish compensation for work. The legislation must require evidence of actual services and reasonable compensation and prevent profit from being relabeled as exempt pay.

For illustration, suppose a sole proprietor has $100,000 after business expenses but before any allowance for their own work, and $60,000 is substantiated as reasonable compensation under the eventual rules. That would classify $60,000 as eligible personal income and leave $40,000 as business profit, before other applicable adjustments. The $60,000 uses the same band as the owner's other qualifying income. If a corporation already deducted $60,000 of qualifying owner wages and reports $40,000 of remaining profit, the same $60,000 cannot be

deducted again. These amounts illustrate classification; they are not a standard allowance, an approved compensation benchmark or a complete tax calculation.

The compensation principle is selected. The valuation rules, substantiation, treatment of losses and limits across related businesses still require drafting and fiscal analysis. No automatic dollar allowance or percentage of profit is authorized by this plan. The new treatment can reduce the taxable business base, so its cost must be included when estimating how much business revenue remains.

An otherwise allowable deduction that applies to the whole return will be used once, first against positive taxable business income, with any remainder applied to eligible personal income. Expenses and deductions attributable to a specific source stay with that source. This creates no new deduction, standard dollar allowance, artificial loss or carryforward. The legislation must identify the deductions covered and coordinate existing eligibility and limits.

For example, $60,000 of eligible personal income, $40,000 of business income and an otherwise allowable $10,000 shared deduction leave $60,000 personal and $30,000 business before applying the bands. At completion, the single-filer ordinary tax is $1,015 on that $30,000 business amount, before credits. The $10,000 is hypothetical; the plan does not create a deduction of that size.

The analysis must distinguish business income already in the PIT forecast from elective entity payments recorded in corporate income tax. Ordinary owner-reported business income must not be added a second time as an extra revenue loss. Conversely, an entity-tax receipt cannot be counted as retained General Fund revenue without its owner credit and refund effects. TRD identified the elective-payment issue in its analysis of HB275, a different proposal using an earlier forecast. Its cost is not this plan's cost.

Source: Official HB275 legislative record, TRD agency analysis, pages 1-2

The legal and accounting review must also cover PIT-related payments to the magistrate, judicial and legislative retirement funds and the retiree health care fund. Their replacement funding and any local-government or other earmarked effects must appear once in the model.

Source: Official HB275 legislative record, TRD agency analysis, pages 2 and 4

No recurring revenue from an unspecified business-tax redesign is counted as available financing. The approved direction is to keep profits taxed; the amount retained must follow from the enacted design, matched calculations and realistic compliance assumptions. The public record reviewed here does not establish the share of all New Mexico small businesses using each tax classification, and this plan relies on no unsupported percentage.

E. Benefits and the accounting baseline

New Mexico uses the tax system to deliver benefits to working families, children, low-income households and qualifying elderly taxpayers. A refundable benefit can be payable even when a taxpayer owes no income tax. Reducing the tax must not inadvertently remove eligibility, the benefit formula or the ability to claim it.

The plan will preserve funded delivery through TRD while PIT falls, including at zero if necessary. A return or other claim process may remain necessary. The promise is continuity of eligible benefits and an adequately funded administration; not that all paperwork disappears.

Any later move to a different delivery system would require separate legislation, funding, testing and readiness review. Existing delivery must remain available until an authorized replacement can operate reliably.

The preservation work includes the Working Families Tax Credit, Child Income Tax Credit, Low-Income Comprehensive Tax Rebate and its additional elderly/blind component, and qualifying elderly medical-expense assistance. A complete legal inventory must identify all other affected refundable provisions and related requirements.

Source: TRD, 2025 Tax Expenditure Report

Reported FY2025 expenditures for Working Families, Child Income, Low-Income Comprehensive and qualifying elderly medical assistance totaled about $339.083 million. Including the additional elderly/blind LICTR component brings that historical total to about $350.812 million. This $350.812 million is a historical subtotal of selected benefits, not the total of all refundable PIT provisions, a future cost

estimate or a benefit cap. Other affected provisions include property-tax rebates, qualifying childcare and adoption credits, and refundable business or energy credits. Their eligibility, carryforwards, assignments and funding must be accounted for individually.

Source: TRD, 2025 Tax Expenditure Report

Annual costs must follow the preserved eligibility rules and formulas. The model must reconcile credits already reflected in net PIT revenue with any continuing benefit payments or appropriations, so the same benefit is not omitted or counted twice. If net PIT collections already subtract a benefit that will continue after repeal, removing only that net revenue line understates the full-repeal cost. In a simplified example, $3 billion of receipts less $400 million of continuing credits produces $2.6 billion of net revenue; eliminating the receipts while continuing the credits costs $3 billion, not $2.6 billion. This is an accounting illustration, not a forecast for New Mexico. A larger excess refund arising from the same reduction in tax must not be added a second time. Staff, systems, claims, refunds and appeals must also be funded.

F. Official baseline and dated stress benchmarks

The official August 26, 2026 CREG forecast supplies the recurring General Fund revenue baseline below. It is reproduced without campaign adjustments and before this proposal's effects. All amounts are billions of dollars. 1, Attachment 1, "Total Recurring"

Fiscal year	Official recurring General Fund revenue
FY2027	$14.5320
FY2028	$14.7563
FY2029	$15.2750
FY2030	$15.8613
FY2031	$16.5529

The August forecast updates LFC's April 2026 outlook. Differences between those forecasts are not revenue created by this proposal.

Source: LFC, April 2026 Post-Session Review

LFC and executive presentations on September 14, 2026 continued to use the August forecast. A later presentation date alone does not create a newer revenue forecast.

Source: LFC, September 14, 2026 revenue forecast presentation

The baseline includes the state forecast's economic assumptions. No additional revenue from growth attributed to this phaseout is added. Use of official data does not mean CREG, LFC or TRD has endorsed or scored the proposal.

The annual reconciliation must begin with CREG revenue and separately identify the eligible personal-income reduction, business-profit taxes retained, elective entity payments and owner credits, continuing benefits, and statutory distributions. Business taxes already present in CREG are retained baseline revenue, not a new revenue source to add on top. Effects already incorporated in a later forecast must not be counted again. The comparison then uses the full recurring spending requirement and implementation costs.

A separate reserve schedule must reconcile balances, all relevant appropriations and transfers, legal availability and cash needs. Tax-year changes must be mapped to fiscal-year collections, including withholding, payments, refunds and settlements. Analysis must extend through the first full fiscal year after Step Four and at least three additional full fiscal years, continuing further when a shortfall would otherwise fall just outside the review period. Projections outside CREG's horizon must be labeled as analyst assumptions.

What the figures establish: the table provides the official revenue baseline before this proposal. The individual filing-status bands, fixed-band policy, owner-compensation principle and continued taxation of net business profits are selected. The business-first bracket method is selected. The income-source boundary and shared-deduction order are also selected. Detailed implementation, annual proposal costs and distribution estimates remain incomplete. No affordable step or completion date has been established.

What the Public Spending and Downside Tests Show

This analysis tests baseline, moderate economic downside, severe energy downside, slow growth and spending pressure, plus a combined stress case and the 2% spending reference. These benchmarks combine public inputs and disclosed assumptions. They do not yet score the retention of business-profit taxation.

LFC's April outlook puts FY2030 recurring spending at $12.8845 billion before its separate potential-liability allowance. That subtotal is not a complete budget protecting every continuing service. Required continuations and federal-funding backfills must be included before testing affordability. Paired with August revenue, the subtotal leaves $2.3326 billion under the 105% test before tax changes. The forecast's net PIT component is $2.4148 billion; removing that entire component would miss the test by about $82 million before other adjustments.

Sources: CREG, August 26, 2026 revenue outlook, Attachment 1; LFC, April 2026 Post-Session Review, Appendix G

The broad-base-removal benchmark above is not a failure finding for the revised proposal. The revised result requires a matched estimate of the net business tax retained, benefits, entity credits, linked distributions and implementation. Retaining business taxation can reduce the revenue loss, but its unscored amount cannot be used to announce that a step now passes.

Including LFC's potential recurring liabilities raises that FY2030 spending assumption to $14.1594 billion. Adding its $2.3578 billion nonrecurring assumption would produce an annual funding gap of about $656 million before a PIT reduction or additional reserve flows. Those potential liabilities are planning assumptions, not a claim that all have been enacted. The comparison shows why all spending and its funding sources must be considered.

Source: LFC, April 2026 Post-Session Review, Appendix G

The severe-energy screen also falls below the proposed reserve floor before tax cuts when those assumed spending commitments continue and no additional financing response is included. A pause alone cannot make that scenario work. The state would need to identify lawful funding or budget adjustments; the plan cannot count unspecified cuts to protected services.

These findings show why protected services must be costed first, all annual funding needs evaluated and a workable response to persistent downturns established. They do not support presenting the 2% spending illustration as a funded budget or the four-year goal as a forecast.

Oil Prices and Recessions

The absence of an added growth dividend does not make the official revenue outlook independent of oil prices, production, investment markets or the wider economy. The personal-income phaseout would change the revenue mix and leave continuing service obligations to be met from the revenues that remain.

The August 2026 CREG materials include downside scenarios. In the scenario labeled S8, oil at $31 per barrel in FY2028 is associated with General Fund revenue below baseline by approximately $789 million in FY2027, $1.733 billion in FY2028 and $1.779 billion in FY2029. These are official scenario differences before this proposal's tax changes, not completed results for this plan.

Source: CREG, August 26, 2026 revenue outlook and General Fund Financial Summary

The model must apply the proposal within each scenario. It cannot remove a tax in the base case and then charge the state again for losing the same eliminated tax in the stress case. It must also account for pressures on spending, reserves and cash.

A pause can prevent the next revenue reduction. It cannot restore revenue lost from earlier steps. After Step Four there is no remaining personal-income step to pause, so the framework must evaluate continuing downturn risk beyond completion.

Before enactment and each affected step, the analysis must show the remaining revenue base, the protected spending requirement, legally available reserves and a response to a persistent shortfall. One favorable year or a mechanical percentage margin does not demonstrate long-term resilience.

The plan does not finance permanent cuts with reserves, replacement taxes, extraordinary permanent-fund withdrawals or unspecified reductions in protected services. If the completed analysis cannot meet those commitments, the proposed timing or design must change before the step proceeds. A campaign document cannot guarantee the absence of every future fiscal emergency; it can require that risks and their consequences be disclosed before commitments are made.

G. October source reconciliation

The August consensus memo and Attachment 1 show FY2028 recurring revenue of $14,756.3 million. The September 23 LFC staff presentation's liability table, PDF page 13, displays $14,765.3 million. That $9.0 million difference is not identified there as a replacement consensus estimate. This proposal uses the August figure.

Source: CREG, August 26, 2026 revenue outlook and General Fund Financial Summary

Source: LFC, September 23, 2026 budget-planning presentation

September's FY2030 liability scenario shows recurring spending of $14,140.1 million and nonrecurring uses of $2,327.1 million against revenue of $15,861.3 million. The displayed annual gap is $605.9 million before this proposal. It is a staff scenario, not an enacted budget or this plan's cost. Earlier April-based benchmarks above remain historical; they are not the newest liability illustration.

Source: LFC, September 23, 2026 budget-planning presentation

H. Historical distribution and spending context

TRD's tax-year 2024 table reports 1,146,760 returns, including 323,977 with no New Mexico taxable income. Returns reporting more than $100,000 of taxable income account for about 14% of returns and about 60% of the table's estimated tax. Returns below $50,000, including those with no taxable income, account for about

72% of returns and about 20% of estimated tax. These are historical descriptions, not results of this proposal.

Source: TRD, 2025 Tax Expenditure Report, printed page 45

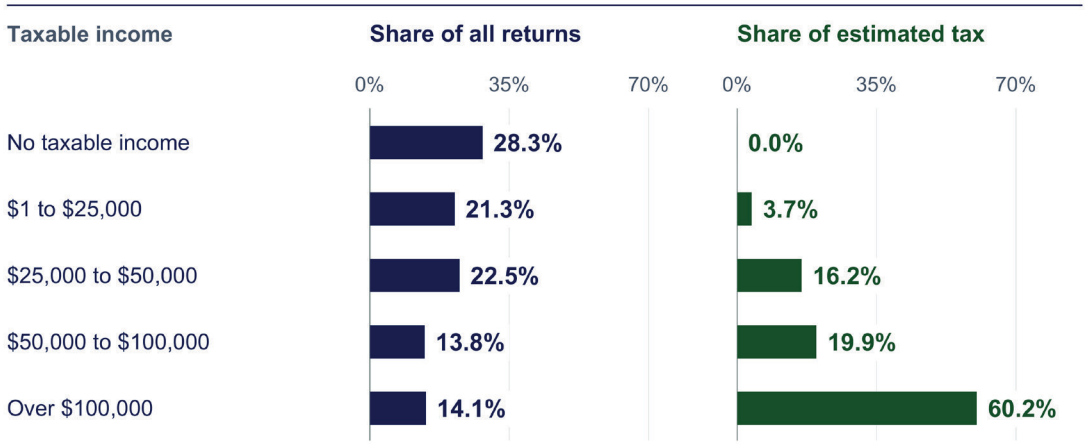
Historical taxable-income group	Returns	Share of all returns
No taxable income	323,977	28.3%
Positive income below $25,000	244,548	21.3%
$25,000-$50,000 source band	257,900	22.5%
$50,000-$100,000 combined source bands	158,108	13.8%
Above $100,000	162,227	14.1%
Total	1,146,760	100.0%

The groups follow the source table's reported band conventions. Percentages are rounded to one decimal place. The source's displayed estimated-tax rows sum to $8,860 less than its printed $2,184,968,126 total. The approximate tax shares use that printed total; the discrepancy does not change the rounded 60% and 20% descriptions. Taxable income is not wealth or gross salary. No taxable income is also different from no final liability after credits or no balance due when filing.

FIGURE A1

Historical returns and estimated income tax

Tax year 2024. Includes business income. Shows current tax, not who benefits from this proposal.



Source: TRD, 2025 Tax Expenditure Report, printed p.45 (TY2024). Groupings by the campaign; includes business income. Shares are rounded.

The historical distribution includes business income as well as other PIT income. It cannot be relabeled as the distribution of relief under this proposal. The tax-free band benefits eligible income above the band as well as income within it, but business profits remain taxable. Larger eligible personal-income liabilities still generally lead to larger dollar reductions at completion.

For each step, the fiscal analysis must report incremental relief from that step and cumulative relief from all enacted steps, by income group and filing status. It must show benefits to residents separately from the state's total revenue loss, account for preserved refundable credits, and identify taxpayers who already owe no PIT.

An expanding band benefits taxpayers above its threshold as well as those within it. The analysis must distinguish returns already at zero from those newly reaching zero and from existing net nonpayers receiving larger refundable payments. The share reaching zero and the cost of each step will be published only after the same complete schedule has been modeled.

Spending discipline and services

Permanently reducing recurring revenue is a substantial budget decision. It cannot be made affordable merely by calling the reduction a claim on future growth. What matters is the revenue that remains and the cost of the services and obligations it must support.

The August 2026 General Fund Financial Summary reports FY2027 recurring appropriations of $11.1658 billion. That is the starting budget reference, not a complete forecast of future service needs.

Source: CREG, August 26, 2026 revenue outlook and General Fund Financial Summary

The annual model must distinguish the cost of continuing services, changes in needs and prices, proposed program changes, implementation costs and verified savings. It must also identify nonrecurring commitments and restricted transfers in the reserve schedule. Tax relief advances only when the completed budget and financial tests support it.

What a 2% Planning Path Shows and What It Requires

Applying 2% growth each year to the FY2027 starting amount produces the arithmetic below. It does not establish a funded service budget or the affordability of any tax step.

Sources: CREG, August 26, 2026 revenue outlook; proposal calculation

Fiscal year	Recurring appropriations at 2% annual growth, billions
FY2027 starting amount	$11.1658
FY2028 illustration	$11.3891
FY2029 illustration	$11.6169
FY2030 illustration	$11.8492
FY2031 illustration	$12.0862

This illustration rises by approximately $920 million between FY2027 and FY2031 in nominal dollars. It is not a promise that this increase covers enrollment, healthcare, compensation, inflation or other obligations. The actual model must substitute the costed spending requirement when that requirement is higher.

A Responsible Spending Growth Target

My administration will use approximately 2% annual recurring General Fund growth as a planning target while developing the phaseout. It is subordinate to the cost of meeting the plan's protections and legal obligations.

Healthcare, education and public safety may require faster growth. That does not automatically create an unnamed cut elsewhere. The budget must first identify those costs. Any proposed restraint or saving elsewhere must name the program, describe the change and quantify its continuing effect and consequences.

If the resulting funded budget grows faster than the planning target, that is the budget used to test the next tax reduction. If the combined tests fail, the next step waits. The four-year goal does not override classrooms, benefits, essential services or financial stability.

Where Spending Growth Can Be Controlled

Review vacancies and proposed positions

Agencies should review vacant funded positions before requesting additional positions. A vacancy may reflect a recruiting problem or an important unmet need; it does not establish that the position is unnecessary or that its full salary is available as a saving.

The review should identify the work, recruitment history, overtime and contracting effects, service demand and consequences of leaving the role unfilled. Any proposed change must be evaluated net of those costs. The fiscal model will count a recurring saving only when there is an identified, supportable change and the protected service requirements remain met.

Workforce figures should be compared using the same dates and definitions. Filled positions, authorized positions, budgeted positions and classified-service vacancy rates cannot be combined as though they measure the same workforce.

Evaluate education investments accurately

The Legislative Finance Committee's (LFC) 2026 instructional-time review identified approximately $2.6 billion in cumulative FY2018-FY2027 appropriations across instructional-time and extended-learning efforts. The amount includes more than administration and includes appropriations for FY2027. It is not a verified subtotal of administrative spending, an amount necessarily already spent, or an annual saving available for PIT repeal.

Source: LFC, 2026 progress report on instructional time and extended learning

The review raises questions about the connection between funding, instructional time and results. It does not justify treating all supported activities as failures. Evaluations must account for changes in program rules, reporting and what students actually receive.

This plan will use those evaluations to improve decisions. It will not subtract $2.6 billion from future education budgets or use that cumulative figure to finance a recurring tax reduction.

Require evidence before making temporary programs permanent

Temporary programs should have clear objectives, evaluation measures and a decision point before becoming permanent recurring commitments. Reviews should consider results, cost per participant, overlap with other services and the effect of continuation or withdrawal on people served.

Effective programs may deserve continuing support. Others may need changes or an orderly conclusion. A program's temporary label alone does not prove it can end without costs or obligations.

Evaluate tax incentives on their merits

Tax incentives should be assessed for their purpose, cost and demonstrated results. Reviews, reporting, appropriate limits and expiration provisions can improve accountability. Those policy decisions must be described honestly, including when limiting an incentive increases someone's tax liability.

Protect students while improving results

Education reviews should distinguish classroom instruction, direct student services, necessary support and particular administrative activities. They should examine attendance, access, instructional time, learning outcomes and the needs of students served.

Any proposed budget change must include its legal and educational consequences, implementation costs and effect on service capacity. Savings that reduce protected services cannot be counted toward this phaseout. Nor should an assumed efficiency percentage stand in for a named and evaluated change.

The annual education requirement must be calculated before a tax step is judged affordable. This gives the classroom commitment a budget against which the public and legislators can check performance.

Keep incentive reform separate from PIT financing

My administration may support changes to incentives when the evidence supports them. Revenue from repealing or restricting incentives will not be counted as financing for the PIT phaseout. This commitment must remain visible even if a later official forecast incorporates an enacted incentive change: the reconciliation must identify and exclude its financing contribution when testing this plan.

Identify funding for new recurring commitments

New ongoing programs should identify an ongoing funding source and their future cost. During strong revenue years, the state should distinguish a temporary

opportunity from an affordable permanent obligation.

Budget choices must show their consequences for the protected service requirement and the next tax step. The model will not count an unspecified efficiency allowance or unidentified future program cuts as the source of funding.

Healthcare and the General Fund

Medicaid, provider payments, prescription drugs, behavioral healthcare, insurance costs and changes in federal policy can create substantial General Fund obligations. Their cost cannot be assumed to follow a uniform 2% path.

The budget must account for enrollment, utilization, rates, medical costs, federal matching requirements and relevant policy changes. A request or rate increase for one program should not be applied indiscriminately to the entire healthcare budget. Use a documented forecast for each material obligation.

Source: LFC, August 2026 FY2028 health-insurance material

This plan assumes no speculative Medicaid savings. A reform that produces verified net savings while preserving access and quality may strengthen the outlook, but the tax schedule must not depend on an unbuilt reform. When healthcare costs are higher, include them in spending and rerun affordability and downside tests before the next step.

I. Enactment, readiness and analysis still required

FIGURE A2

HB275 and the four-step proposal

How this proposal differs from the 2025 HB275.

Topic	Introduced 2025 HB275	Four Steps to Zero proposal
Timing	0% PIT rate beginning in tax year 2026; no phased schedule.	Four conditional steps; four years is the goal; each step depends on its conditions being met.
Income covered	Zero rate applied broadly to PIT taxable income, including business income reported through PIT.	Relief for defined eligible personal income; defined net business profits remain taxable.
Conditions	The introduced bill did not condition the zero rate on annual revenue, reserve or service-funding tests.	Legislative authority, funded services and benefits, revenue, reserves, annual cash, downside review and readiness requirements before every step.
Benefits and administration	Would make returns optional. The bill did not repeal existing credits; official analyses recognized continuing costs.	Preserve eligible refundable benefit formulas and funded TRD delivery; coordinate business liability, entity payments and owner credits before the first affected step.
Fiscal evidence	Separate official TRD and LFC fiscal analyses were published for that bill under their stated assumptions.	An official fiscal analysis of this proposal has not yet been done.
Legislative status	Indefinitely postponed in House Taxation and Revenue; did not pass.	Requires new legislation. Legislative support is not guaranteed.

Sources: Introduced 2025 HB275; official bill record; TRD and LFC fiscal analyses dated February 11, 2025; Four Steps to Zero proposal.

Work	Required result
Business and personal definitions	Statutory boundaries, gain and ownership treatment, substantiated compensation, loss and deduction rules, no relabeling or duplication
Credits and benefits	Complete inventory, protected formulas, continuing costs, lawful payment delivery and eligibility interactions
Annual fiscal model	Same dated design throughout; revenue effects, retained business base, entity credits/refunds and distributions reconciled once
Protected services	Explicit annual service costs, federal-funding changes, staffing and price pressures, verified savings with consequences identified
Reserves and cash	Beginning and ending balances, legal restrictions, all appropriations and transfers, timing and liquidity
Distribution	Incremental and cumulative relief; already-zero versus newly-zero tax; filing status, source, residency and mixed income
Downturn response	Base, weaker economy, energy decline, slow growth, higher spending and combined cases; continuing effects beyond completion
Certification	Legally workable authority, publication deadlines, missing/disputed findings, updates, pauses and resumption
Administration	Funded TRD operations, withholding, estimated payments, forms, software, benefits, legacy liabilities, appeals and taxpayer guidance
Retirement alternative	Current-law incremental cost for Social Security and qualifying military retirement only; separate legislation and safeguards

The open items above are next steps, not barriers to implementation. Until that analysis is complete, no cost is assumed to be zero and no step is declared affordable. Public reporting must identify estimates and limitations and use the law actually enacted.

J. Definitions

CREG: The Consensus Revenue Estimating Group. Its official forecast supplies the baseline. The proposal's assumptions, costs and certification remain separate from that forecast.

General Fund: The state's principal operating fund. A model must distinguish recurring revenue and appropriations from nonrecurring items, transfers and restricted balances.

Fiscal year: New Mexico's July-through-June budget year. A tax-year change can begin partway through a fiscal year, and collection timing must be modeled.

Tax year: The annual period for calculating a taxpayer's liability. These household illustrations use a calendar tax year.

Recurring revenue: Revenue classified as ongoing in the specified forecast. Forecast classification is not a guarantee that it cannot fall.

Reserves: Identified fund balances available under applicable law. A reported total, legal spending authority and cash immediately available are different measures.

Permanent funds: Assets held for long-term purposes and beneficiaries. Existing lawful distributions continue under their governing formulas. This plan excludes extraordinary withdrawals or increased distributions as financing for tax relief.

Structural-revenue test: The proposal's requirement that recurring revenue after tax changes equal at least 105% of total recurring appropriations. It is separate from the reserve test.

Underlying taxable income: Income calculated after applicable existing deductions and exemptions, before applying the proposed zero-rate band. It is not gross salary.

Eligible personal income: Qualifying wages, salaries, retirement income, reasonable documented owner compensation and personal investment interest, dividends and securities gains covered by the phaseout. Operating-business profits, net rentals, royalties and taxable business-sale gains remain in the continuing-tax base. A change of label, entity or payment route cannot by itself change the underlying source.

Tax-free band: The initial portion of eligible taxable personal income subject to a zero rate. Taxpayers retain its benefit when income exceeds the band. It is not a refundable payment or a new allowance for each household member.

Marginal rate: The rate on income in the applicable bracket. Under the proposed mechanism, rates above the band remain at their underlying levels while bracket base amounts are recalculated.

Refundable benefit: An eligible payment that can exceed income-tax liability. Preserving it requires both legal eligibility and funded delivery.

Pass-through entity: A business whose income passes through to its owners for tax purposes. New Mexico also permits qualifying entities to elect an entity-level tax with related owner credits. The proposed continuing business-profit tax must coordinate those interactions; not every sole proprietor or single-member business falls within the current statutory PTE definition.

Business profit and continuing-tax base: Net operating-business income after allowable source costs and qualifying owner-compensation treatment, plus covered net rental and royalty income and taxable business-sale gains under the proposed state classification. Apply existing relevant exemptions and deductions, then the selected shared-deduction allocation. Gross sales and withdrawals are not the tax base. Detailed loss, credit and transition rules require legislation.

Tax expenditure: A preferential tax provision measured relative to a stated baseline. Changing it can increase taxes; this plan excludes such increases from PIT financing.

K. Source key

The sources support the identified facts and methods. Their inclusion does not imply endorsement. Source years are retained; historical descriptions are not relabeled as current forecasts.

1. CREG, August 26, 2026 revenue outlook and General Fund Financial Summary. Attachment 1, Total Recurring, PDF pages 48-49; Attachment 2, PDF page 50; scenario materials in the same release. Baseline revenue, current appropriations and official downside inputs. Proposal effects are separate.
2. LFC, FY2021 budget recommendations, Volume I. Table 4, printed page 174/PDF page 180: FY2019 total recurring appropriations $6,339.8 million. The cited figure is the historical FY2019 column.
3. DFA/TRD, December 9, 2024 CREG presentation. Appendix 4 General Fund Financial Summary, PDF page 40: FY2024 recurring appropriations $9,578.9 million. Appropriations are not actual outlays.
4. Census Bureau: Household Income: 2019 and Household Income in States and Metropolitan Areas: 2024, state tables. New Mexico ACS one-year medians: $51,945 and $67,816. Also 2024 New Mexico profile. The comparison uses ACS one-year estimates. Each endpoint uses its own year's dollars; the comparison is nominal.
5. TRD, published PIT rate schedules, 2005-2025, page 1, schedule for tax years beginning in 2025. Ordinary examples exclude credits, allocation and special calculations. The law applicable to an eventual effective year may differ.
6. TRD, 2025 Tax Expenditure Report. Printed page 45: tax-year 2024 return distribution. Printed pages 81, 160, 249 and 259: historical refundable-benefit amounts. Estimated tax on taxable income is not net fiscal-year PIT collections.
7. TRD, pass-through entity tax information. Context for owner/entity interactions, not a selected replacement design or fiscal score.
8. Official HB275 legislative record, TRD agency analysis, February 11, 2025, and separate LFC fiscal impact report. These analyze immediate repeal under earlier assumptions. TRD and LFC published different analyses and totals.
9. LFC, 2026 progress report on instructional time and extended learning. Chart 9, printed page 9/PDF page 12: cumulative FY2018-FY2027 appropriations. Includes instructional-time and extended-learning activities; not a verified administrative subtotal or annual savings.
10. LFC, August 2026 FY2028 health-insurance material. Specific cost pressures and requests require program-level interpretation; this is not a complete current-service budget.
11. Legal context: New Mexico Constitution, Article IV (legislative authority), Article VIII §10 (severance-tax permanent fund) and Article XII §7 (land-grant funds), and Austin v. New Hampshire, 420 U.S. 656 (1975). The approved design includes nonresidents; no resident-only workaround is proposed. Statutory drafting and expert review remain outstanding.
12. Washington Department of Revenue, income-tax questions, and enacted RCW 82A.04.030. Enacted 2028 tax and return timing, not merely a pending proposal. Checked September 2026.

13. Mississippi Department of Revenue, 2025 legislation. PIT schedule and motor-fuel changes in the package. Their inclusion does not establish that earmarked fuel receipts directly replace PIT revenue.

14. Oklahoma Governor, April 23, 2026 endowment enactment announcement. A designated $200 million fund with a different scope from New Mexico's total investment portfolio.

15. TRD, Taxpayer Advocate. Existing scope and escalation function; routine service improvements should preserve rights and appeals.

16. Texas Comptroller, 2025 Small Business Report, "Small Business Tax Obligations"; income-tax research subject. Texas has no personal income tax; other taxes apply.

17. IRS, Topic 503: deductible taxes, and California Franchise Tax Board, other state tax credit. Examples of potentially relevant offsets, not a universal household result.

18. LFC, April 2026 Post-Session Review, Appendix G, printed page 69. Identified source of the earlier revenue vintage. The revenue baseline in this proposal uses August CREG.

19. TRD, Social Security exemption, and 2026 HB221 agency analysis, for current retirement-tax context. Existing exemptions must be netted out of a separately specified fallback; neither source scores the full fallback objective.

20. LFC, September 14, 2026 revenue forecast presentation, PDF pages 3 and 5; executive presentation. These continue the August 2026 forecast rather than replacing it.

21. Enacted 2024 HB252, Section 32, PDF pages 101-102, amending §7-2-5.13. The continuing $30,000 military-retirement exemption supersedes the earlier sunset description.

22. Governor's partial-veto message for 2024 HB252, March 6, 2024. The veto concerned Sections 16-22, not Section 32.

23. TRD, individual credits and rebates and business-credit overview. Different forms and refundable, nonrefundable, transferable and carryforward provisions require a provision-by-provision transition review.

24. Enacted 2023 HB368, Section 3, pages 12-15, amending §7-3A-10: entity election and owner credit/refund coordination.

25. IRS, S corporation compensation: federal reasonable-compensation rules; these do not themselves establish a New Mexico owner-labor exclusion.

26. IRS, partners and employment status: partners are generally self-employed, not employees of the partnership.

27. IRS Publication 334, Employees' Pay: a sole proprietor cannot deduct their own salary for federal Schedule C purposes.

28. LFC, Balancing Mid- to Long-Term Revenues and Expenditures, September 23, 2026. PDF pages 6 and 13: linked retiree-healthcare distributions and spending/liability scenario. This is staff planning analysis, not a fiscal score of this proposal. See the source reconciliation in this appendix.

29. SIC overview. The page identifies October 2025 Investment Holdings Report values. The more-than-$68-billion asset observation is a dated snapshot, not an October 2026 valuation, available cash or fiscal capacity.

30. Introduced 2025 HB275. Zero PIT rate and optional filing beginning in TY2026; reviewed alongside the bill record and separate TRD/LFC analyses in source 8.