TAXATION & REVENUE
NEW MEXICO

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New top income tax rate to take effect for 2021 tax year

A new top state Personal Income Tax rate of 5.9% will be in effect for the 2021 tax year. The new rate applies to taxable income above $210,000 for single filers and above $315,000 for married couples filing jointly.

The previous top income tax rate was 4.9%. The new top bracket is still well below the 8.2% top rate in effect in New Mexico prior to 2003, and it is expected to affect the top 3% highest earning New Mexico tax payers.

"The new top rate restores some of the progressivity that was phased out of our tax code beginning in 2003. Overall, most taxpayers will receive a tax cut because of the tax changes enacted in 2019," said Taxation and Revenue Department Secretary Stephanie Schardin Clarke.

The 2019 legislation also increased the Working Families Tax Credit from 10% to 17% of the value of the federal Earned Income Tax Credit and created a new deduction for dependents designed to offset a negative effect of the 2017 federal Tax Cuts and Jobs Act.

The 5.9% top rate will apply to affected taxpayers when they file returns in early 2022 and will apply only to income above the threshold amounts. It will not be in effect for returns filed in early 2021, which will cover the 2020 tax year.

More detailed guidance on the new rate is available in Tax Bulletin300.20, which can be found at tax.newmexico.gov under Forms & Publications. To find the bulletin, open the Publications folder, then the Bulletins folder and then the 300-Series Income Taxes folder.

Under the 2019 legislation, the new bracket was to take effect if Fiscal Year 2020 recurring general fund revenue did not exceed the previous year's revenue by more than 5%. The FY2020 general fund audit released last week confirmed that FY 2020 recurring general fund revenue at $7.9 billion, 1.9% lower than the prior year.