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## FISCAL IMPACT REPORT

ORIGINAL DATE 3/04/09

SPONSOR T Garcia LAST UPDATED \_\_\_\_\_ HB 888

SHORT TITLE Veterans' Employment Tax Credit SB \_\_\_\_\_

ANALYST Francis

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
	(\$426.0)	(\$426.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to HB276, HB277

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Workforce Solutions Department (WSD)  
 Veterans Services Department (VSD)  
 Department of Military Affairs (DMA)  
 Taxation and Revenue Department (TRD)

### SUMMARY

#### Synopsis of Bill

House Bill 888 creates an income tax credit for a taxpayer who owns a New Mexico business and employs a military veteran who has been honorably discharged within the year. A New Mexico business is defined as a business that carries on a trade or business in New Mexico. The credit is equal to \$300 for each qualified veteran employed and can only be used for two years for each hire. Credits are not refundable but can be carried forward for three consecutive taxable years. There is a personal income tax credit and a corporate income tax credit.

To claim the credit, the taxpayer will have to submit employment information and some type of verification that any eligible employees were not claimed by other businesses. There is no effective date so it is assumed the credit is available for those employed beginning on June 19, 2009.

## FISCAL IMPLICATIONS

According to TRD, There were 1,029 veterans honorably discharged from the military during federal fiscal year 2008 who now live in New Mexico; this number is assumed to hold constant over time. With the tax credit incentive in place, 55% of honorably discharged veterans are assumed to be hired within one year of discharge.

## SIGNIFICANT ISSUES

DMA reports that, while HB 888 seeks to encourage the hiring of honorably discharged veterans in New Mexico, in point in fact the definition of a “qualified military veteran” is narrowly defined to mean an individual who is hired within one year of receipt of an honorable discharge from a Branch of the United States Military.

DMA is concerned that National Guard personnel are excluded:

HB 888 would, by its nature and definition, exclude New Mexico National Guard personnel and other Reserve Component personnel from the “veteran” definition, because in most cases National Guard and Reserve Component personnel are not discharged when they complete an active duty tour.

WSD:

In addition to what is proposed in this Bill, there are many programs that provide incentives for employers to hire Veterans. Each of these programs mandates that both the employer and the veteran must meet eligibility requirements. Some of these programs include:

- Apprenticeship programs through the Workforce Investment Act provide priority of service to Veterans in career training opportunities (50 veteran participating from 7/1/08 – 2/23/09).
- The Work Opportunity Tax Credit (WOTC) is a federal tax credit that encourages employers to hire workers from nine target groups. The tax credit is designed to help job seekers gain on-the-job experience, move towards economic self-sufficiency and help reduce employer’s federal tax liability by up to \$9000.00. This year, Congress mandated that recently separated veterans be added to the nine target groups. Disabled Veterans and Veterans that have been on long term TANF/Welfare or long term unemployment are also eligible. (118 veterans participating from 7/1/08 – 2/23/09).

***The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:***

- 1. Adequacy:*** revenue should be adequate to fund government services.
- 2. Efficiency:*** tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.
- 3. Equity:*** taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.
- 4. Simplicity:*** taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.
- 5. Accountability/Transparency:*** Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.

***More information about the LFC tax policy principles will soon be available on the LFC website at [www.nmlegis.gov/lcs/lfc](http://www.nmlegis.gov/lcs/lfc)***

- Federal Bonding is a federally sponsored program available to any at-risk job applicant eligible for bonding services. At-risk individuals include all veterans who are not able to obtain suitable employment and include: ex-offenders, ex-addicts, welfare recipients, and persons having poor credit, & anyone who cannot secure employment without bonding. (0 veterans participating currently, requires employer initiation).
- Employment Services, funded under federal Wagner-Peyser Act. The Department provides all aspects of employment services under this program from initial assessments, job development, job referral, career counseling, testing to interview skills. (6,103 veterans participating from 7/1/08 – 2/23/09).

## **TECHNICAL ISSUES**

### **TRD:**

Section 1 (which creates a new section of the Income Tax Act, and therefore applies to personal income tax), page 2, line 24 stipulates that the credit must be deducted from the taxpayer's corporate income tax liability.

The definition of "qualified military veteran" does not take into account veterans who were injured and had to rehabilitate for a period longer than a year after discharge, making them ineligible. In addition, because there are no employment requirements, a taxpayer could potentially qualify for a credit if the veteran worked only for one day.

## **RELATIONSHIP**

HB276 and HB277 provide income tax exemptions for military retirement pay.

## **WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

According to DMA, New Mexico veterans could still be hired by public entities under "veteran's preference" laws, but there would be no favorable tax consequences from such "veteran" new hires by private employers.

NF/mt