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FISCAL IMPACT REPORT

ORIGINAL DATE 1/30/2014
 SPONSOR Burt LAST UPDATED 2/11/2014 HB _____
 SHORT TITLE Uniformed Service Retiree Tax Deduction SB 246/aSCORC
 ANALYST Dorbecker

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY14	FY15	FY16	FY17	FY18		
	(\$3,000.0)	(\$9,100.0)	(\$15,500.0)	(\$22,200.0)	Recurring	General Fund

Parenthesis () indicate revenue decreases

SOURCES OF INFORMATION

LFC Files

Responses Received From

Department of Military Affairs (DMA)

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of SCORC Amendment

The Senate Corporations and Transportation Committee amendment adds two new subsections to the bill:

- New subsection “B” requires the taxpayer to report the amount of the deduction in the manner indicated by TRD; and
- New subsection “C” includes a reporting requirement provision involving the compilation of an annual report by TRD. The report on the deduction will include the number of taxpayers claiming the deduction, the aggregate amount of deductions claimed, and any other relevant information. The bill requires the appropriate legislative committees to review the effectiveness and cost of the deduction every five years, beginning in 2019.

Synopsis of Original Bill

Senate Bill 246 creates a new section of the Income Tax Act to create a deduction for the retirement or retainer pay of a uniformed services retiree or a surviving spouse. The net income deduction is phased-in as follows:

- 25 percent beginning January 1, 2015;

- 50 percent beginning January 1, 2016;
- 75 percent beginning January 1, 2017; and
- 100 percent beginning January 1, 2018.

There is no effective date of this bill. It is assumed that the new effective date is 90 days after this session ends. The bill applies to taxable years beginning on or after January 1, 2014.

FISCAL IMPLICATIONS

TRD used information from the Statistical Report on the Military Retirement System published by the Department of Defense to estimate the fiscal impact. Approximately 20,200 armed forces retirees and 2,200 surviving spouses are expected to qualify for this credit. The average historical growth rates for armed forces retirees and surviving spouses were applied to these populations. These populations were multiplied by the average annual retiree payment or the average annual surviving spouse payment using the data from the Department of Defense. The average annual retiree payment and the average annual surviving spouse payment were adjusted for inflation by using the most recent five-year average inflation rate of 2.0 percent. According to TRD, federal fiscal year numbers were then converted to match New Mexico fiscal years and an average personal income tax rate of 4 percent was used assuming taxpayer estimated payments will be adjusted beginning in tax year 2015.

SIGNIFICANT ISSUES

According to DMA, the decrease in tax revenue caused by the bill could be made up by gross receipt tax revenue generated by the arrival of new military retirees and their families drawn to the state by the exemption and by those who stay for the same reason. Legislative Finance Committee (LFC) staff state the bill offers the possibility of a positive dynamic effect in terms of increase in gross receipts tax revenue based on higher disposable income of qualifying taxpayers.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is not met since TRD is not required in the bill to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the deduction and other information to determine whether the deduction is meeting its purpose.

ADMINISTRATIVE IMPLICATIONS

TRD estimates a minimal administrative impact. Revise forms, instructions and publications for personal income tax. GenTax and all web applications will need to be revised. All changes can be made at minimal cost during the annual re-write of the personal income tax program.

TECHNICAL ISSUES

This bill does not contain a sunset date. The LFC recommends adding a sunset date.

OTHER SUBSTANTIVE ISSUES

According to TRD, the definition of “uniformed services retiree” may need to be revised to

differentiate them from “uniformed service members.” Regulations may be needed to clarify this issue.

TRD also notes the differences between tax expenditures as they relate to the tax programs against which they are taken from. For instance, income tax expenditures are already reported separately on various personal income tax (PIT) forms (PIT-ADJ, PIT-RC & PIT-CR), including exemptions and deductions. This is information that TRD already routinely collects on income tax returns.

Does the bill meet the Legislative Finance Committee tax policy principles?

1. **Adequacy:** Revenue should be adequate to fund needed government services.
2. **Efficiency:** Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity:** Different taxpayers should be treated fairly.
4. **Simplicity:** Collection should be simple and easily understood.
5. **Accountability:** Preferences should be easy to monitor and evaluate

HD/ds