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## FISCAL IMPACT REPORT

**BILL NUMBER:** Senate Bill 116

**SHORT TITLE:** Uniformed Svc. Retirement Pay Tax Exemption

**SPONSOR:** Block/Thornton

**LAST** **ORIGINAL**  
**UPDATE:** 2/3/2026 **DATE:** 1/28/2026 **ANALYST:** Gray

### REVENUE\* (dollars in thousands)

Type	FY26	FY27	FY28	FY29	FY30	Recurring or Nonrecurring	Fund Affected
PIT	\$0.0	(\$5,100.0)	(\$10,300.0)	(\$10,500.0)	(\$10,700.0)	Recurring	General Fund

Parentheses indicate revenue decreases.

\*Amounts reflect most recent analysis of this legislation.

### Sources of Information

LFC Files

Agency Analysis Received From  
Department of Veterans' Services  
Department of Military Affairs  
Aging and Long-Term Services Department  
Taxation and Revenue Department

## SUMMARY

### Synopsis of Senate Bill 116

Senate Bill 116 (SB116) increases the personal income tax exemption for uniformed services retirees and surviving spouses of uniformed services retirees from \$30 thousand per year to the entirety of the taxpayer's income. Uniformed services refers to active and reserve components of the Army, Navy, Air Force, Space Force, Marine Corps, Coast Guard, Merchant Marine, Commissioned Corps of the Public Health Service and the National Oceanic And Atmospheric Administration of the United States, and the National Guard.

The provisions of this bill apply to tax years beginning 2027.

## FISCAL IMPLICATIONS

SB116 is expected to reduce recurring general fund revenue by \$5.1 million in FY27 and \$10.3 million in FY28.

LFC has serious concerns about the substantial risk to state revenues from tax expenditures and the increase in revenue volatility from erosion of the revenue base. The committee recommends

the bill adhere to the LFC tax expenditure policy principles for vetting, targeting, and reporting or action be postponed until the implications can be more fully studied.

To estimate the impact, the Taxation and Revenue Department (TRD) used the *Statistical Report on the Military Retirement System* from FFY2022, which provides the number of retirees in New Mexico and the average amount of retiree income for military retirees and survivors as of September 2022. The agency continues:

As of September 30, 2022, the most recently available report, New Mexico had 20,257 reported retirees and 2,703 survivor beneficiaries. Aggregate annual distribution of military retirement benefits for retirees and surviving spouses was approximately \$635 million. This analysis assumes all retirees were qualified by years of service or disability to receive lifetime benefits.

Tax & Rev used a Monte Carlo simulation to estimate the fiscal impact for officers and enlisted retirees and surviving spouses with armed forces retirement income over \$30,000. Officer retiree income constitutes the majority of the fiscal impact as the monthly average armed force retiree income is approximately \$4,280, for approximately \$51,400 in annual retirement income. In contrast, for enlisted retirees, the average monthly armed forces income is \$2,110 and \$1,326 for surviving spouses, for annual amounts of \$25,300 and \$16,000 - below the current \$30,000 limitation. Tax & Rev calculated the aggregate fiscal impact by multiplying the aggregate income over \$30,000 by an effective PIT rate of 2.8%. Tax & Rev then inflated the annual impact by the Congressional Budget Office's inflation forecast to account for cost-of-living adjustments for military retirees.

The bill also expands the definition of qualified military retirees to include retired members of the New Mexico Army National Guard, New Mexico Air National Guard, military reserves, and commissioned corps of the United States public health service. TRD estimated that there are 5.6 thousand additional taxpayers who would qualify under this bill, and the agency assumed that average retirement income is 75 percent of the current income for working individuals.

TRD used an effective tax rate of 2.8 percent and inflated the annual impact by the Congressional Budget Office's inflation forecast to account for cost-of-living adjustments for military retirees. For FY27, TRD assumes taxpayers will adjust their withholding or estimated payments beginning January 1, 2027.

TRD estimated the cost of expanding the exemption to armed forces retirees regardless of income and the cost of adding uniformed service members to the exemption.

Type	FY27	FY28	FY29	FY30	Recurring or Nonrecurring	Fund Affected
Armed forces retirees' income - extension	(\$2,550.0)	(\$5,100.0)	(\$5,200.0)	(\$5,300.0)	Recurring	General Fund
Uniformed services retirees - new addition	(\$2,550.0)	(\$5,200.0)	(\$5,300.0)	(\$5,400.0)	Recurring	General Fund

## SIGNIFICANT ISSUES

Horizontal equity is a core tenet of tax policy that holds that taxpayers with similar income and circumstances should be treated similarly under the tax code. This provision erodes that principle by favoring some taxpayers with the same income because the source of their income is from military retirement benefits. Policymakers may tolerate or approve of such a horizontal disparity if they believe the benefits of providing a tax benefit for military retirees outweigh the costs of a less horizontally equitable overall tax code.

There is no cliff effect for military retirees in the current tax code because all beneficiaries with military retiree income can currently claim an exemption. The amount of military retirement income above \$30 thousand is subject to state income tax at the state marginal rate. The benefit contemplated by SB116 would only benefit retirees with income above \$30 thousand per year, typically officers who serve for longer periods. According to the *Statistical Report on the Military Retirement System*, in New Mexico retired officers receive \$51 thousand annually in retirement benefits, on average, while retired enlisted members receive \$25 thousand annually in retirement benefits, on average.

Policymakers may consider many factors when deciding whether to exempt all military retirement income, including providing financial relief for that population, recognizing taxpayers' military service, and trying to attract military retirees to the state. The provisions of SB116 may have a limited impact on attracting military 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.

## 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
<b>Vetted:</b> 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 has not been vetted by an interim tax committee.
<b>Targeted:</b> 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	✖	This bill does not have a clearly stated purpose, long-term goals, or measurable annual targets

<b>Transparent:</b> The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies	✖	This bill does not require annual reporting.
<b>Accountable:</b> 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	✖	This bill does not have an expiration date.
<b>Effective:</b> 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	?	It is unclear whether this bill is effective and efficient, in part because the bill lacks targets.
<b>Efficient:</b> The tax expenditure is the most cost-effective way to achieve the desired results.	?	
Key: ✔ Met ✖ Not Met ? Unclear		

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