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FISCAL IMPACT REPORT

BILL NUMBER: Senate Bill 117

SHORT TITLE: Uniformed Svc. Salary Tax Exemption

SPONSOR: Block/Thornton

LAST UPDATE: 2/6/2026 **ORIGINAL DATE:** 1/28/2026 **ANALYST:** Francis

REVENUE* (dollars in thousands)

Type	FY26	FY27	FY28	FY29	FY30	Recurring or Nonrecurring	Fund Affected
PIT		(\$2,459.0)	(\$1,796.0)	(\$1,850.0)	(\$1,908.0)	Recurring	General Fund

Parentheses indicate revenue decreases.

*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT* (dollars in thousands)

Agency/Program	FY26	FY27	FY28	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
TRD		15.2		15.2	Nonrecurring	General Fund
Total						

Parentheses () indicate expenditure decreases.

*Amounts reflect most recent analysis of this legislation.

Relates to Senate Bill 116

Sources of Information

LFC Files

Agency or Agencies Providing Analysis

Taxation and Revenue Department

Department of Veterans' Services

Attorney General

Department of Military Affairs

SUMMARY

Synopsis of Senate Bill 117

Senate Bill 117 (SB117) expands the personal income tax exemption for uniform service, including more agencies and adds reservists and National Guard. SB117 defines uniformed service as active and reserve components of Army, Navy, Air Force, Space Force, Marine Corps or Coast Guard; U.S. Merchant Marine; Commissioned Corps of the U.S. Public Health Service;

Commissioned Corps of the U.S. National Oceanic and Atmospheric Administration; or the National Guard of a state. The exemption would be reported with the taxpayer's return based on forms and instructions prepared by Taxation and Revenue Department (TRD) and would be included in annual tax expenditure reports produced by TRD.

The bill would apply to tax years beginning after January 1, 2026.

FISCAL IMPLICATIONS

Using data from Military.com and MilitaryOneSource.mil, SB117 would have reduced personal income tax collections by an estimated \$570.1 thousand in tax year 2023, the year of the data. The LFC estimates tax liability for 4,374 national guard and reservists and 50 commissioned corps of the Public Health Service (PHS) and National Oceanic and Atmospheric Administration (NOAA). Average pay for active duty enlisted, officers, and warrants was used for average monthly pay. An average of 3.2 months of pay was used to estimate guard and reserve pay, and the overall average was used to estimate NOAA/PHS/Merchant Marine. The analysis does not include civilian employees of the uniformed services or National Guard from other states, which would increase the cost.

Using the December 2025 Consensus Revenue Estimating Group forecast for total New Mexico wages and salaries, the exemption would cost \$1.7 million in tax year 2026. Using an estimate of 85 percent withholding and 15 percent non-withholding for the timing of collections, the impact for FY27, which includes a half year of withholding for tax year 2027, is \$2.5 million, and the impact for FY28 is \$1.8 million.

TRD estimates the impact of the exemption to be \$8 million in FY 2027. The difference between the estimates is LFC staff assumed only 3.2 months for guard and reservists while TRD assumed a full year. Using the TRD methodology and accounting for 3.2 months would reduce the TRD estimate to approximately \$2.1 million.

SIGNIFICANT ISSUES

The Office of the Attorney General reports only active duty military personnel are exempt from New Mexico's state income tax and quotes Section 7-2-5.11 NMSA 1987: "A salary paid by the United States for active duty service in the armed forces is exempt from state income taxation." The department notes *Hammack v. N.M. Taxation and Revenue Department* held that a commissioned servicemember in PHS was not in the "armed forces" within the meaning of Section 7-2-5.11.

The U.S. Public Health Service Commissioned Corps "advance our nation's public health, serving agencies across the government as physicians, nurses, dentists, veterinarians, scientists, engineers and other professions."¹ The agency has 23 positions across the state, made up of engineers, physicians, pharmacists, dentists, and other health service workers.

The National Oceanic and Atmospheric Administration (NOAA) Commissioned Corps are composed of scientists and engineers that track weather and atmospheric conditions.

¹ [About Us | Commissioned Corps of the U.S. Public Health Service](#)

The current exemption for active duty service members, according to the *2025 New Mexico Tax Expenditure Report*, is \$18.6 million for 14,725 taxpayers or about \$1,300 per taxpayer.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is met because the taxpayer will be required to report the exemption in a manner determined by TRD, and as a result, TRD will have the necessary data to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the exemption and other information to determine whether the exemption is meeting its purpose.

ADMINISTRATIVE IMPLICATIONS

TRD reports budget requirements of \$15.2 thousand for additional programming to implement SB 117.

TRD is concerned the data for verification is not readily available:

Because TRD does not receive upfront federal data identifying all categories of uniformed services salary, real time verification of exemption eligibility is not possible. The exemption would therefore rely primarily on self-reported information supported by federal W-2s, with eligibility confirmed only through post filing audit or documentation requests. Overall, the exemption is administrable, but it is important to note that verification cannot be automated or performed at the time of filing.

Department of Veterans' Services reports it will incur costs that can be absorbed to provide education and outreach to military members.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB117 relates to SB116, which increases the personal income tax exemption for uniformed services retirees and their surviving spouses.

TECHNICAL ISSUES

SB117 allows an exemption for salaries paid by the United States to a taxpayer *for service* in the uniformed services. It is not clear whether this could be interpreted to include civilian employees of the uniformed services.

The Department of Military Affairs recommends adding language in Section A line 20 that reads:

A salary paid by the United States or the State of New Mexico to a taxpayer for service in the uniformed services of the United States or New Mexico State Active Duty is exempt from state income taxation. "Salary" includes all military federal pay for training, education, mobilization, and bonuses and state pay when called to support an emergency on state active duty.

LFC staff is concerned adopting this recommendation may increase the cost of the exemption.

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
Vetted: 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.	✗	
Targeted: 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	✗	
Transparent: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies	✓	Required to be included in tax expenditure budget
Accountable: 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.		Exemption will be separately reported
Public analysis	✓	
Expiration date	✗	No sunset date
Effective: 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.		
Fulfils stated purpose	✗	
Passes “but for” test	✗	
Efficient: The tax expenditure is the most cost-effective way to achieve the desired results.	✗	
Key: ✓ Met ✗ Not Met ? Unclear		