

# **MILITARY RETIREMENT PAY TAX EXEMPTION**

**Supporting Data**

**14 Sep 2021**

**Military/Veterans Leadership Council**

## **BOTTOM LINE**

**MVLC wants to show the  
Administration and the Legislature  
that:**

**The Military Retirement Pay Tax  
Exemption Initiative  
Is NOT a give away to Military  
Retirees but an Economic  
Development Issue for New Mexico.**

# Background

- **The initiative to exempt some part of Military Retired Pay in NM has a long history. The initial initiative was during Gov Richardson's term.**
- A brief legislative history:
- HOUSE BILL 539: 46 TH LEGISLATURE - INTRODUCED BY Rep Miguel P. Garcia, FIRST SESSION ,2003 (Died without a hearing)
- HOUSE BILL 64: 46 TH LEGISLATURE - INTRODUCED BY Rep Ted Hobbs, SECOND SESSION, 2004 (Passed by Consumer and Public Affairs (HCPAC), Died in Tax & Revenue)
- So it went every year until 2008 when HOUSE MEMORIAL 17: 48 TH LEGISLATURE - INTRODUCED BY Rep Thomas A. Anderson, SECOND SESSION, 2008 (passed providing funding for Economic Impact Study by NMSU).
- The bill was reintroduced in 2009 as HOUSE BILL 276: 49 TH LEGISLATURE - INTRODUCED BY Rep Thomas A. Anderson FIRST SESSION, 2009 (Died in first committee HCPAC)
- Last year a number of pieces of legislation were introduced:
  - HOUSE BILL 295, 55 TH LEGISLATURE FIRST SESSION , 2021, INTRODUCED BY Luis M. Terrazas and Joshua N. Hernandez and Meredith Dixon and Rachel A. Black to provide funding for NMSU Study (Died no hearing)
  - SENATE BILL 277, 55 TH LEGISLATURE - FIRST SESSION , 2021, INTRODUCED BY Sen Harold Pope, Jr. (Died no hearing)
  - SENATE BILL 259, 55 TH LEGISLATURE - FIRST SESSION , 2021, INTRODUCED BY Sen William F. Burt (Died no hearing)
- **Bottom line - after 19 years we have made no progress on this initiative.**

# Why does it fail each year?

- Every year since 2003 this initiative has had bipartisan support in the House and Senate. However:
  - The Fiscal Impact Report (FIR) – each year the FIR is essentially the same – it only shows the cost to NM and no Benefit (that is why the NMSU update is so important, Slide 7 provides an estimate of the NM financial loss).
  - Limited or no support from House & Senate Leadership
  - Administration Support depends on the Governor.
  - Gov Richardson & Gov Martinez supported the legislation.
- Perception of limited support in Military/Veterans Community (before formation of MVLC)

# Data Sources

1. The Department of Defense maintains a website that provides information relating to military compensation and benefits. This information is available at <http://actuary.defense.gov>

2. Data on military retirees was sourced from the “ Statistical Report on the Military Retirement System” for the latest fiscal year ending 09/30/2019.

3. New Mexico military retiree information was sourced from the Congressional District reports as of 12/31/2020.

4. Median household income and per capita income for New Mexico was sourced from the U.S. Census Bureau as of 2019 in 2019 dollars. The 2019 Census Bureau data is based on information conducted annually by the U.S. Census Bureau from a sample of approximately 3.5 million housing units interviewed each year over a 12-month period.

5. Veterans Income and other Veterans data from: <http://www.va.gov>

6. Social Security by State

<https://finance.yahoo.com/news/heres-every-states-average-social-132355610.html>

# Military Retiree Population (2009 - 2020)

	<u>2009</u>	<u>2019</u>	<u>% Change</u>	<u>2020</u>	<u>% Change</u>	Proj Ret Pop @ Avg Rate	<u>Delta</u>
<b>NM</b>	<b>21385</b>	<b>20946</b>	<b>-2.05%</b>	<b>20781</b>	<b>-2.82%</b>	<b>24,467</b>	<b>-3,686</b>
<b>AZ</b>	54139	58062	7.25%	58645	8.32%		
<b>CO</b>	48672	54048	11.05%	54105	11.16%		
<b>KS</b>	20796	22509	8.24%	22527	8.32%		
<b>NE</b>	13865	14641	5.60%	14618	5.43%		
<b>TX</b>	187755	218279	16.26%	221378	17.91%		
<b>UT</b>	15095	17771	17.73%	17987	19.16%		
<b>WY</b>	5004	5760	15.11%	5831	16.53%		
<b>Average Gain Surrounding States</b>			<b>13.25%</b>		<b>14.41%</b>		
<b>FL</b>	185661	204864	10.34%	207830	11.94%		

Data Source: DoD Office of the Actuary

# Military Retiree Population & NM Financial Analysis

- Compared to neighboring states who had on average growth in Military Retiree Population of **+14.4%** (2009 - 2020) NM has experience a **-2.8%** decline (see previous slide).
- If NM had experienced the average growth rate we would now have an estimated **3,686** additional Tax Paying Military Retiree Families.
  - Median NM Household Income (all Households) = \$49,754 (Census Report)
  - VA estimate that Veterans earn \$10,000 more than Non-Veterans. This results in NM Veteran Household Income of \$59,754\*\* x 3,686 = \$220,252,244 in FY2020 @ 4.7% = \$10,352,902 in estimated PIT forgone.
- This does not consider the lost GRT, Property Taxes and other governmental Fees.
  - Assuming only ½ of the Household Income is used for purchases subject to GRT: \$220,252,244 x 50% X 7% GRT = \$7,708,828 in estimated lost GRT
  - Assuming only ¾ of the Households own Property and using a median property tax of \$880\*\*\* x 3686 X 75% = \$2,432,760 estimated Property Tax lost.
- **Estimated annual loss for NM: \$20,494,490 (NOTE: this is the loss for only one year, FY2020 - if past 12 years of loses were to be taken into account adds to well over \$100,000,000).**
- **To make an estimate of \$ gained for each Military Retiree that is retained or attracted to NM divide the \$20,494,490/3686 = \$5,560 per year in added PIT, GRT & Property Taxes.**
- **Total added to NM Economy of almost \$60,000 per Mil Retiree household.**

\*\* VA2017\_QuickFacts\_compare Vets to Non Vets: [Regardless of gender, full-time, year-round Veterans earned about \\$10,000 more than similar non-Veteran counterparts.](#)

\*\*\* The median property tax in New Mexico is \$880.00 per year, based on a median home value of \$160,900.00 and a median effective property tax rate of 0.55%. You can look up your recent appraisal by filling out the form below.(<https://www.propertytax101.org/newmexico/propertytax>)

# PIT Cost Analysis Methodology

- Total National Number Military Retirees-2019 is 2,002,671.
  - Only Summary Data is Available for NM (eg. Total number of Military Retirees 2020 – 20,946 and Total NM Payments to Retirees 2019 - \$578,172,000 ) so to determine estimated NM numbers of Retirees by Rank and Age it was necessary we use the ratio of NM to National Retirees = 1.0459% and apply it to each Rank to get an estimate count by Rank in NM.
- The Age breakout was used to determine the “In Workforce” vs “Not In Workforce” number by Rank. Any one 68 or younger was put in the “In Workforce” section and the Over 68 in the “Not In Workforce” section.
  - It was assumed that the over 68 would not have additional non-DoD income whereas the under 69 were assumed to have additional non-DoD income.
  - The “In Workforce” number turned out to be 12,640 (60.3%) and 8,306 (39.6%) “Not In Workforce”.
- The Surviving Spouse data was from the DoD Actuary Congressional District Report 31 Dec 2020 – Only total Surviving Spouse Numbers and Average Payment are available ( 2785, \$1,130 per month).



# PIT Cost Analysis Methodology

- The Federal Taxable income (subject to PIT) was determined by taking the Monthly Retirement Pay by Rank and Average Surviving Spouse payments x 12 to get Annual Pay.
  - Then add any non-DoD pay which was estimated to average \$9,241 (the difference between average DoD retirement pay in NM - \$29,790 - and the NM Veteran median income - \$39,031\*\*), but only for those “In Workforce”)
  - For “Out of Workforce” and Surviving Spouses the average SS payments of \$17,273 was used as added income.
  - Then subtract the Federal Head of Household Exemption (\$18,800 for 2020) for “In Workforce and “Out of Workforce”. For Surviving Spouses we used the Federal Single Deduction (\$12,550 for 2020)
  - This gave a total potential PIT receipts from Military Retirees of \$15,947,135
  - Applying the \$30,000 cap to Military Retirement Pay ONLY this reduces PIT on Military Retiree Income to \$3,471,007 a reduction of \$12,476,128

# Pay and Number by Rank

	<u>National</u>	<u>National</u>		% in NM
	<u>Average Mon</u>	<u>Average Annual</u>	<u>USA Total</u>	<u>NM Total</u>
<u>Category</u>	<u>Gross Retirement</u>	<u>Gross Retirement</u>	<u>Number</u>	<u>Number</u>
	<u>Income</u>	<u>Income</u>		(Estimate)
<u>PIT Exemp</u>	<b>\$30,000</b>			
			2002671	20947
O10	\$15,231	\$182,772	267	3
O9	\$12,962	\$155,544	942	10
O8	\$8,795	\$105,540	3,000	31
O7	\$6,751	\$81,012	3,305	35
O6	\$5,751	\$69,012	110,326	1154
O5	\$4,011	\$48,132	190,872	1996
O4	\$3,335	\$40,020	127,057	1329
O3	\$2,946	\$35,352	41,834	438
O2	\$2,038	\$24,456	3,372	35
O1	\$1,419	\$17,028	532	6
WO5	\$5,240	\$62,880	4791	50
WO4	\$3,482	\$41,784	25639	268
WO3	\$2,783	\$33,396	21,877	229
WO2	\$2,305	\$27,660	10,403	109
WO1	\$1,669	\$20,028	283	3
E9	\$3,559	\$42,708	106,180	111
E8	\$2,466	\$29,592	246,974	2583
E7	\$2,029	\$24,348	573,228	5995
E6	\$1,521	\$18,252	402,118	4206
E5	\$1,155	\$13,860	96,441	1009
E4	\$950	\$11,400	24,756	259
E3	\$745	\$8,940	6,151	64
E2	\$624	\$7,488	1,709	18
E1	\$662	\$7,944	614	6

# Cost Benefit Analysis

Applying the \$30,000 cap to Military Retirement Pay ONLY this reduces PIT on Military Retiree Income to \$3,471,007 a reduction of \$12,476,128 (based 20,946 Retirees and 2,785 Surviving Spouses) - this equates to an average PIT reduction of \$525 per Retiree.

- The reduction of \$12.5 Million in PIT to the General Fund is more than offset by attracting more Military Retirees to NM.
- This \$12.5 Million is not lost to NM but spent in NM growing the Economy.
- Each new Retiree that stays or retires in NM brings with them income over and above their retirement, income of the spouse, GRT purchases, Property taxes and governmental Fees (estimated at almost \$60K/yr/retiree).
- Had the NM Military Retiree population increased like the surrounding states NM would have experienced an estimated \$20M in additional PIT, GRT and Property Tax and an estimated additional \$220M in total Economic activity in 2020.

# Who benefits?

- **100%** of the Enlisted retirees do not exceed the \$30,000 cap and thus all enlisted have their entire Military Retirement exempt from PIT.
- **100%** of the Surviving Spouses do not exceed the \$30,000 cap and thus all enlisted have their entire Military Retirement exempt from PIT.
- Officers in the Rank of Major (Lt Cdr Navy) and below have their entire Military retirement exempt.
- Officers above the Rank of Major will pay PIT on the amounts over the Cap.
- **Bottom Line - NM Benefits Economically by attracting and retaining skilled Military Retirees in the State.**

# Summary

- New Mexico's Economy needs to grow
- For a modest reduction in total NM PIT collections the State could incentivize Military Retirees to stay in NM and also attract them from neighboring states.
- Attracting more Military Retirees has the added benefit of increasing PIT, GRT & Property Tax collections.

**Military Retirement Pay Tax Exemption Initiative Is NOT a give away to Military Retirees but an Economic Development Issue for New Mexico.**