INFORMATION PROVIDED TO THE REVENUE STABILIZATION COMMITTEE
For Consideration in Conjunction with Their Study of Pension Taxation Pursuant to

SENATE MEMORIAL 105
OF THE 40TH LEGISLATURE
STATE OF NEW MEXICO
FIRST SESSION, 1991

Prepared by the
New Mexico Taxation and Revenue Department
Tax Research and Statistics Office

Presented to the
Interim Committee on Revenue Stabilization and Tax Policy
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Note: any opinions, discussion or recommendations in this document do not necessarily represent an official position of the Governor or the Taxation and Revenue Department.

INTRODUCTION

Senate Memorial 105 (SM105), passed during New Mexico's first legislative session of 1991, was "A memorial requesting the appropriate legislative interim committee to study the feasibility of exempting all retirees residing in New Mexico from state income tax." SM105 directs "the interim committee on revenue stabilization and tax policy or other appropriate interim legislative committee study the feasibility of providing a full exemption from state income taxes for pensioners residing in New Mexico". The full text of the memorial is shown on the following page.

The memorial itself sets out the policy considerations most frequently cited in support of permitting favorable tax treatment for the income of retirees. There are other policy considerations, either neutral or negative, that are underlined in this paper. Further, of course, there are budgetary concerns posed by any plan having substantial fiscal impact. Notwithstanding the policy and budgetary considerations, however, it is worth noting that a number of states have some tax preference for retirement income, and groups of retirees assert that these preferences are important considerations in the selection of retirement location by these people.

The memorial appears to propose studying impacts of exempting all New Mexico resident pensioners from *any* state income tax. Quite simply and directly, such a proposal is not feasible. A direct and immediate state general fund revenue loss in excess of $100 million to $125 million per year would result, depending on the definition of "pensioner" adopted. Class action litigation would almost surely be filed, demanding similar treatment for all taxpayers. This might result in elimination of all state personal income tax revenue (estimated at almost $450 million in state general fund revenue for the current (80th) fiscal year), effectively invalidating the entire state personal income tax.

An alternative interpretation of the intent of SM105 is to study feasibility of allowing full or partial deductibility of "pension income" for state income tax purposes. The department has assumed this to be the intent for purposes of this response. The following pages discuss general policy considerations associated with the issue, present an aggregated statistical profile of New Mexico's pension and annuity recipients, and exhibit a number of alternative deduction schemes with their associated fiscal impact estimates.

TEXT OF SENATE MEMORIAL 105

A MEMORIAL
REQUESTING THE APPROPRIATE LEGISLATIVE INTERIM COMMITTEE TO STUDY THE FEASIBILITY OF EXEMPTING ALL RETIREES RESIDING IN NEW MEXICO FROM STATE INCOME TAX.

WHEREAS, New Mexico has always had the benefit of a large number of retired persons who have a wealth of knowledge in high technology fields, and their years of government service and administrative experience are a valuable asset to New Mexico's economy; and

WHEREAS, these valuable citizens have formed attachments to our state through the service of all these retirees, and the state of New Mexico has placed a high priority on high technology transfer from the public sector to the private sector; and

WHEREAS, the land of enchantment provides a natural environment of health and beauty for all retirees; and

WHEREAS, retirees have excellent health plans which will provide a stable base for New Mexico's public and private health care service, and their pension plans will support continued growth of New Mexico's housing, service and banking industries; and

WHEREAS, New Mexico's economy could benefit greatly from a large number of retirees attracted to New Mexico and an attractive tax benefit to retirees would be a positive step for economic development; tax exemption benefits from retiree pensions would include attraction of stable, highly qualified retirees back to New Mexico to work in our high technology industries;

NOW, THEREFORE, BE IT RESOLVED BY THE SENATE OF THE STATE OF NEW MEXICO that the interim committee on revenue stabilization and tax policy or other appropriate interim legislative committee study the feasibility of providing a full exemption from state income taxes for pensioners residing in New Mexico; and

BE IT FURTHER RESOLVED that a copy of this memorial shall be transmitted to the legislative council for consideration in the workplan of the appropriate interim committee during the 1991 interim.

DEFINITION OF PENSION INCOME

In reviewing feasibility of a special exemption or deduction for pension income, one of the first questions that comes to mind is: what exactly is, or should be considered as, "pension income"? For many pensioners who've retired from employment with government agencies or many private firms, this is not a difficult question. Pensions and annuities are recognized by the Internal Revenue Service as a classification of income reportable on forms W-2P and 1099-R, and on line 17 of Form 1040 (1990 tax year). Most of these pensions and annuities are taxable income for federal and state income tax purposes, but portions may not be taxable. Railroad Retirement Act annuities and benefits, for example, are only partially taxable at the federal level and are not taxable by the states according to federal law. Thus, any legislative proposal should consider allowing the exemption/deduction only for the *state taxable portions* of pension or annuity income.

Pensions and annuities, however, by no means encompass the full concept of *retirement* income, and this will become an on-going problem of definition -- both politically and administratively. The main text of the memorial discusses valuable experience, contributions, and desirability of *retirees*, implying that the aim of the study ought to be treatment of retirement income in a way which attracts retirees to the state (the assumed policy goal). Further implication is made that *public sector retirees* are the population segment most directly intended for recruitment.

A state statute exempting, or allowing a deduction for, certain sources of income could probably be crafted in a constitutionally valid way. A state statute might even be constructed to go so far as to exempt only governmental retiree pensions (see Arkansas Supreme Court decision in *Streight v. Ragland*, 655 S.W.2d 459 (1988)); but this is probably not something that should be considered. If we learned anything from the *Davis v. Michigan* and *Burns v. New Mexico* cases it should be that, in general, taxpayers in similar circumstances should be taxed similarly. Differing treatment of public-sector and private-sector retiree income probably should not be considered appropriate policy.

Social Security benefits, considered by most people to be retirement income, are not technically considered pension income. Individual Retirement Account (IRA), Keogh plan and Self-Employed Plan (SEP) interest earnings or withdrawals represent retirement income in most people's thinking, but may not technically qualify as pension or annuity income under federal rules. Moreover, these tax-advantaged savings programs are not the only form of retirement savings; earnings from virtually any savings, investments, or sale of property by a person of retirement age might be considered retirement income.

The proposition that taxpayers in similar circumstances should be treated in a similar manner for tax purposes implies that all forms of retirement income, not just pension and annuity income, should be considered for exemption or deduction. Additional questions of potential litigation (risk to the state and uncertainty for the taxpayer), and political palatability argue that any exemption or deduction should be available to a wide range of retiree circumstances. Department staff have discussed the question of defining retirement income without satisfactory result; substantial administrative problems are foreseen with any attempt to fairly and accurately define retirement income.

POLICY DISCUSSION

TAX EXPENDITURES

Governments allocate resources for public purposes through a number of methods. The most common procedure consists of appropriating tax and other revenues for direct expenditures. Additional allocation methods include loans, loan guarantees, regulatory procedures, and special tax benefits known as tax expenditures. Tax expenditures are special tax provisions (deductions, exemptions, rebates and exclusions) which decrease public revenues, and direct resources toward specific activities, presumably to achieve or enhance some public policy goal. Two conditions must be present for a tax provision to be defined as a tax expenditure. First, a tax provision must apply to a narrow class of taxpaying entities. Secondly, a general tax provision must exist for which the special tax provision is a clear exception.

A personal income tax exemption or deduction for retirees or for pension income appears to be a sufficiently narrowly-targeted provision to qualify as a tax expenditure. As with most types of expenditure questions, tax expenditures should be evaluated in terms of their cost-to-benefit ratios and their "opportunity costs"; and, as with most types of tax policy questions, tax expenditures should be evaluated in terms of adequacy, economic efficiency, equity among taxpayers, administrability, certainty, and accountability.

Benefit/cost ratios compare both direct and indirect benefits of the proposal with direct and indirect costs. Opportunity cost considerations focus on the question of what other appropriations, tax expenditures, and worthy endeavors must be foregone to accomplish the specific objective. Determination of short-term direct costs and benefits of a personal income tax exemption for retiree or pension income is not difficult. Various schemes are presented later in this paper which quantify the immediate and direct cost to the state general fund and benefit to New Mexico resident retirees. The more difficult questions of prioritization of public policy goals, evaluation (or speculative approximation) of indirect costs and benefits, changes in behavior resulting from the provision, and relative comparisons of the long-run efficiency of competing proposals, are virtually impossible to reliably quantify. Additional evaluation of a retiree income tax exemption or deduction using the criteria established for tax policy questions, is presented toward the end of the policy discussions.

Two particular aspects in which tax expenditures tend to differ from direct appropriations are the degree of on-going critical review each receives, and the accuracy with which they may be targeted. Appropriated expenditures tend to be reviewed each year, receiving repetitive scrutiny of their effectiveness relative to the desired policy objective, as well as comparative effectiveness relative to other expenditure possibilities. Appropriated expenditures tend to be directed toward very specific objectives, and thus are quite easily "targeted". Tax expenditures, on the other hand, tend not to be scrutinized on a regular basis, and are notoriously difficult to accurately "target" toward a specific objective. These two factors tend to make tax expenditures inherently less efficient than directly appropriated expenditures.

POLICY ISSUES RAISED IN THE MEMORIAL

The reasons for directing resources toward specific activities to achieve some public policy gaol are addressed in the text of the memorial itself. Generally, SM105 proposes that recruitment of resident pensioners or retirees is a policy goal in itself, and associates this particular population group with economic development goals.

I) RETIREE SKILLS:

> "WHEREAS, New Mexico has always had the benefit of a large number of retired persons who have a wealth of knowledge in high technology fields, and their years of government service and administrative experience are a valuable asset to New Mexico's economy;"

The availability and quality of a region's labor force has long been recognized as a prime consideration in issues of economic development. Any particular skills and experience available in the work force may be especially suitable for, or attractive to, particular industries. Dependence of New Mexico's economy on government spending -- particularly federal government defense-related research and development activity -- is well known and has resulted in a migration of well-educated, technologically-oriented people into the state which might not otherwise have occurred. Whether this pool of qualified people attracts new technologically-oriented industry is unclear, however. Questions associated with labor's ability to attract industry include the industry's awareness of the pool of expertise, the number of people actually seeking work, the wage levels these people demand relative to industry constraints, and the degree of industry need for loyal, long-term commitments from workers. The value of working retirees' contribution to the New Mexico economy is not in doubt; but the question of whether we really need to try to *attract* a larger number of retirees may be. Some may possess technological skills, while others may not. Some may be willing to make long-term commitments to work, but others may not. If "New Mexico has (always had) the benefit of a large number of retired persons who have a wealth of knowledge in high technology fields," then ... 'is it broke, and does it need fixing?'

II) RETIREE ATTACHMENTS TO NEW MEXICO:

> "WHEREAS, these valuable citizens have formed attachments to our state through service of all these retirees, and the state of New Mexico has placed a high priority on high technology transfer from the public sector to the private sector;"

If these citizens have formed attachments to the state, then attempts to attract them may be unnecessary. These technologically-astute people may indeed aid the transfer of familiar technology from the public to private sector, particularly through the role of consultant to private industry. Nonetheless, market factors which are largely outside the control of government determine whether private industry employs particular technology. The availability of consultants does not create the need for a technologies, but rather the reverse.

Not all retirees possess the technological skills discussed, yet any tax exemption or deduction would be available to all retirees. This presents one of the inherent problems associated with many tax incentives and tax expenditures -- it is difficult to limit benefits to precisely those individuals who will contribute to the policy goals. In this respect, tax incentives are particularly inefficient policy tools.

III) NATURALLY ATTRACTIVE ENVIRONMENT FOR RETIREES:

> "WHEREAS, the land of enchantment provides a natural environment of health and beauty for all retirees;"

New Mexico's natural and cultural diversity do indeed provide an attractive environment, making the state a very desirable choice for residency. In terms of economic development, this attractive environment could be thought of as a sort of "aesthetic infrastructure" which cannot help but contribute to attracting new residents from less desirable environments. Perhaps some of the "cost" of this infrastructure has been borne by past and long-term residents who accepted the limitations of a less-than-fully-developed economy, since some aspects of New Mexico's natural beauty result from lack of full development. Now, and increasingly in the future, environmental health and beauty will be strong drawing cards attracting industry and residents. With these significant attractive features already in place, it is unclear how this theme argues in favor of the need for additional tax incentives to attract residents.

IV) RETIREE HEALTH CARE AND INCOME RESOURCES:

> "WHEREAS, retirees have excellent health plans which will provide a stable base for New Mexico's public and private health care service, and their pension plans will support continued growth of New Mexico's housing, service, and banking industries;"

Pension income, in general, does provide a significant source of spending "injected" into the New Mexico economy. Probably a relatively small share of pension income is actually created out of the New Mexico economy, with the costs borne by New Mexico capital. Most pension income flows from the federal government (civil service and military retirement, and Social Security) and provides a certain amount of fiscal stimulation to the regional economy. Whether this income is sufficient to "support continued growth" is merely a question of locution -- a significant contribution to economic activity is obvious. Retirees and tourists are traditionally seen by many as our major clean industries.

Retirees will, of course, make use of medical and other health care facilities. Whether additional demands for medical and health care services are necessary to provide a stable base for the industry might be questioned. While medical and health care services in particular locations around the state may need additional privately-funded demand for services, it is somewhat unlikely that only those locations will be the ones chosen for residence by retirees.

Increases in the aged population within the state, even those with excellent health plans, will not be without some public cost. Many generally excellent medical and health care plans do not cover needs for extended institutionalized care outside of hospital, and even with minimal co-payment insurance the ~~cost of certain~~ advanced procedures may leave even the best-insured individuals medically indigent. Increased pressure on regional hospital indigent care funds and state administered medicaid is likely to result from increased populations of elderly, even though they may indeed have excellent medical plans.

A large population of retirees will tend to demand certain types of narrowly-targeted services such as nursing homes and golf courses, and will tend not to utilize or support other types of services such as public schools. Any policy recruiting a particular age group will have an effect on the demand for particular services, and since the cost of government-provided services are borne by the population as a whole, the recruitment policy will affect the non-retiree population in terms of services received and the burden of providing those services.

V) ECONOMIC DEVELOPMENT CONSIDERATIONS:

> "WHEREAS, New Mexico's economy could benefit greatly from a large number of retirees attracted to New Mexico and an attractive tax benefit to retirees would be a positive step for economic development; tax exemption benefits from retiree pensions would include attraction of stable, highly qualified retirees back to New Mexico to work in our high technology industries;"

A large number of retirees newly locating in New Mexico would provide some fiscal stimulus to the economy through imported pension income. As mentioned earlier, however, tax incentives are notoriously difficult to accurately target, and not all retirees attracted will necessarily be "... stable, highly qualified retirees ... to work in our high technology industries." Assuming these retirees are interested in employment, one might question the desirability of retirees taking the high technology jobs, for those jobs might otherwise be offered to the brighter young workers of our state. Increased job, training, and experience opportunities for New Mexico's young people in the high-technology sector might provide greater long term economic and human development potential then similar opportunities provided to an older population.

An increased number of retirees would mean increased retiree spending, but the particular spending patterns of retirees may have little impact on economic development. A considerable share of retiree spending may go toward recreational, household and food services; elderly people may be more likely to consider mail-order retail purchases than local shopping. Other than for medical services, exactly what kind of additional service jobs will be created by elderly demand, and are these the kinds of jobs we want to most actively promote? Significant levels of savings and investment may be associated with retiree spending patterns, with a probable focus toward safe, reliable and established investment programs. These will tend toward out-of-state institutional investment and certainly will not generate significant amounts of venture capital for New Mexico business.

Finally, the statement "... an attractive tax benefit to retirees would be a positive step for economic development ..." may in some sense be true as an isolated proposition; just as one might say that any substantial tax benefit for anyone or anything would tend to create a relatively increased incentive to locate for purposes of tax benefits. Yet the general question of how welfare of New Mexicans may be enhanced through various efforts to stimulate economic development is a much broader and more complex issue than the simple proposition that retiree tax breaks constitute economic development. Population increases and tax incentives do not necessarily act to enhance economic development, and such a presumption should not be considered in isolation from broader issues associated with economic development concerns.

ADDITIONAL POLICY CONSIDERATIONS

New Mexico has, in the past, made efforts to reduce state income tax burden on elderly residents through the state income tax deduction for persons who are blind or age 65 and older. In tax year 1987 there was substantially no tax liability (taxable income) for over one-half of tax returns showing a person age 65 or older. Part of this affect results from a large number of elderly persons with very low incomes; but the special deduction for taxpayers age 65 and older contributes very significantly to the low level of state *taxable* income. Other additional refundable tax credit programs for lower income taxpayers (the Low Income Comprehensive Tax Rebate, the Low Income Food and Medical Rebate, and the Property Tax Rebate for Persons Age 65 and Older) further reduce any potential state income tax burden on many of the elderly.

Generally, the policy objectives proposed in the memorial are not intended to address taxpayers age 65 and older, but rather to address taxation of the working-age retiree population. While the Department does not have estimates of the age distribution of private sector retirees, or state or federal civil service retirees, a fairly reliable estimate for military retirees is that approximately one-third are under age 55, approximately one-third are age 55 to 64, and approximately one-third are age 65 and over. As discussed in the following section, retirees tend to have multiple sources of income and tend to enjoy generally higher levels of income than that of the population as a whole. On a grossly simplified level, a tax incentive for retirees is not significantly different from a tax incentive for higher-income individuals -- both may tend to enjoy higher income levels, higher skill levels, and often have multiple sources of income, some of which originate outside the New Mexico economy.

The Department subscribes to the concept that taxpayers in similar circumstances should be treated in similar ways for state tax purposes. The intended premise being it is the *level* of one's income that is generally important from a personal income tax policy perspective, not the *source* of one's income. For retirees and older resident taxpayers, however, an additional question of "similar circumstance" may arise in regard to extraordinary medical and health care expenditures.

The well-known rising cost of health and medical care has created a certain urgency in the funding of both private and public expenditures for health care. The old Food & Medical Rebate, and the later Low Income Food and Medical Rebate is a conceptual refund of *gross receipts taxes* paid on food and medical expenditures, but no particular tax consideration is allowed for a person's level of medical expenditures. The tax system should not provide an incentive to consume medical services, but perhaps the "similar circumstances" proposition for policy-making should renew consideration of the overall burden on those who are required to make substantial medical expenditures. Relaxation of qualifying criteria for the Low Income Food and Medical Rebate might be considered; an entire new catastrophic medical expense deduction might be considered; and, a revision to the age criteria for the special deduction for taxpayers age 65 and older might be considered.

One point should be made quite clear in any discussion of the memorial's proposal -- this tax expenditure is not directed toward, nor intended for, the elderly over age 65 or those with significant medical expenditures or those with severely limited incomes.

EVALUATION UNDER TAX EXPENDITURE CRITERIA

One criterion for evaluation of tax policy questions is *adequacy*: the degree to which the tax provision provides sufficient and responsive revenue changes with the level of expenditure needs. The revenue effect of a tax generally tends to be somewhat the reverse of the effect of a tax expenditure, but the criterion can be used nevertheless. Over time, any pension deduction proposal will tend to become less adequate and less responsive to needs. As more pensioners are recruited, the amount of the tax expenditure (foregone income tax revenue) grows. At the same time, general public service needs increase and the relative gains associated with each additional pensioner decreases. State tax information for tax years 1984 through 1988 indicate growth of about 6.3 percent per year in the number of tax returns claiming deductions for federal civil service pensions. This compares to about 1.7 percent growth in state population as a whole. Even at the outset, the proposal is somewhat less than adequate in regard to the theme of our need for technologically-sophisticated workers, since not all pensioners will seek employment or be technologically qualified.

The criterion of economic *efficiency*, or neutrality, generally views incentives created by a tax system as distorting private decision-making and lessening the efficiency of a market economy. An exception to this occurs when "externalities" exist and some distortion is desirable. Generally, this criterion does not apply directly to the pension income question since retirees have been predetermined to be beneficial and some distortion of existing market forces deemed to be desirable. An increase in the demand for goods and services demanded by older persons may also be one of the policy goals.

From the standpoint of *administrability*, the proposal presents a problem in regard to the definition of retirement income, but otherwise would not be particularly difficult or expensive to administer. Depending on the definition of pension/annuity income adopted, verification of pension deduction amounts might be easy or completely impossible to administer. Generally, administration of a deduction in the personal income tax system is fairly inexpensive.

Under the criterion of *certainty*, the proposal may show some weakness. Any special deductions given may tend to stand-out in the tax statutes, and could always be taken back when revenue needs become critical. If the deduction were to succeed in recruiting retirees, the need for further recruitment would decrease. If the deduction does not succeed in recruiting retirees, repeal of the deduction would be likely.

Under the criterion of *accountability*, the proposal probably does not improve the overall structure of the provision of public services. In a tax context, this criterion generally proposes that the jurisdiction responsible for spending tax funds should also be responsible for imposing any tax, and in the case of the state personal income tax no particular distortions arise. When applied to the expenditure side, however, the criterion could be reinterpreted to propose that those who receive public services should pay an appropriate share of the cost of those services. The retiree population would tend to require fewer public education services than average, and would tend to be law-abiding citizens, thus not individually imposing the need for increased corrections services. Retirees would, however, demand public safety and corrections services, recreational and health services, and adequate public infrastructure. Overall, a retiree income tax deduction results in additional imbalances between levels of state-provided services received and state taxes paid.

The criterion of *equity*, or fairness, is probably not furthered by the proposal. Under all objective standards of viewing the question of equity -- vertical equity at differing income levels, horizontal equity among similar income levels, and intergenerational equity for differing age groups -- a proposed deduction for pension income creates unequal treatment. The cost of taxes not paid by pensioners would have to be borne by non-pension taxpayers in the form of higher state tax rates or decreased service levels.

PROFILE OF PENSION AND ANNUITY RECIPIENTS

The following income profile of pension recipients is based on federal income tax information for tax year 1988 and includes tax returns processed through August, 1989. Tax year 1988 has been used rather than tax year 1989 due to an apparent delay in filing tax year 1989 returns among the pension recipient population, possibly the result of confusion stemming from the *Burns v. State of New Mexico* decision. Complete information for tax year 1989 is not currently available. All comparisons are based on the population of New Mexico residents filing federal tax returns, and therefore do not include nonresident taxpayers nor a substantial number of low-income filers. Since nonresidents and these low-income filers have generally no New Mexico tax liability associated with pension or annuity income, this limitation in the sample data is not particularly important.

ALL PENSION RECIPIENTS

Approximately 14.2% of New Mexico residents' tax returns reported pension and annuity income. Those returns accounted for about 20.8% of adjusted gross income and about 22.7% of federal taxable income in the state. Pension recipients have a median adjusted gross income of approximately $22,500 to $25,000, as compared to a median of roughly $14,000 to $16,000 for all state residents. It should be noted that adjusted gross income excludes most social security benefits. As a group, pension and annuity recipients receive more income from wages and salaries each year than they receive from pensions. Major components of pensioners' income are: 1) wages and salaries (38.8%); 2) pensions and annuities (35.4%); 3) federally-taxable interest income (9.4%); 4) social security benefits (7.7%); 5) net capital gains and losses (3.8%); 6) dividend income (3.4%); and, 7) business income (1.5%).

Pension recipients account for 12.2% of all wages and salaries, 38.7% of all federally-taxable interest income, 61.2% of all Social Security benefits, 30.5% of all net capital gains, 39.7% of all dividend income, and 16.5% of all net business income in the state.

PENSION RECIPIENTS UNDER AGE 65

Somewhat unexpectedly, there are more New Mexico pension recipients under age 65 (55.8%) than there are age 65 and older (44.2%). Approximately 7.9% of New Mexico tax returns are filed by pensioners under age 65. Those returns account for about 13.5% of adjusted gross income and about 15% of federal taxable income in the state. Pension recipients under age 65 show a median adjusted gross income of slightly more than $30,000.

Pension recipients under age 65 account for 11.2% of all wages and salaries, 45.4% of all pension and annuity income, 11.1% of all federally-taxable interest income, 9.4% of all social security benefits, 14.4% of all net capital gains, 12.6% of all dividend income, and 13.6% of all net business income in the state.

Typically, pensioners under age 65 have substantial wage and salary income averaging about $28,800 (80% of returns and 60% of income), small amounts of investment income, and pension income averaging about $9,800 (27% of income).

PENSION RECIPIENTS AGE 65 AND OLDER

Approximately 6.3% of New Mexico tax returns are filed by pensioners age 65 and older. Those returns accounted for about 7.3% of adjusted gross income and about 7.7% of federal taxable income in the state. Operation of New Mexico's tax deduction for taxpayers age 65 and older results in a significantly lower contribution to New Mexico taxable income than indicated by the share of federal taxable income.

Pension recipients age 65 and older, representing about 43% of all tax returns with an individual age 65 or older, exhibit a median adjusted gross income of about $16,000 to $18,000 -- only slightly higher than the median income of $14,000 to $16,000 for all tax returns in the federal sample. The median income level for the remaining 57% of age 65 and older tax returns with no pension or annuity income was not calculated, but the New Mexico Personal Income Tax Statistics for all taxpayers age 65 and older (a different data source and population sample from the pensioner sample) indicate a median adjusted gross income of about $8,000 in 1987 and 1988.

Pension recipients age 65 and older account for 0.9% of all wages and salaries, 54.6% of all pension and annuity income, 27.6% of all federally-taxable interest income, 51.8% of all social security benefits, 16.1% of all net capital gains, 27.2% of all dividend income, and 2.9% of all net business income in the state.

Typically, pensioners age 65 and older have substantial investment income (28% of income), social security benefits averaging $8,500 (63% of returns and 16% of income), and pension income averaging about $10,600 (48% of income). Those who have wage and salary income (22% of returns) have wage income averaging about $7,000.

SUMMARY OF PENSION RECIPIENT PROFILE

Pensioners enjoy above-average income when compared to state residents in general, and pensioners age 65 and older are considerably better situated than their non-pension contemporaries. 80 percent of pensioners under age 65 have wage and salary income, and wages and salaries represent the largest component of pensioner income. Under the policy criterion of equity, or fairness, in the tax system, it is difficult to justify any pension income deduction. Pensioners account for a relatively large portion of income in the state, and the over $1.1 billion of pension income would represent a very significant revenue loss if it were removed from the tax base.

Major Components of Pensioner Income
Tax Year 1988 (as of Aug. 1989)

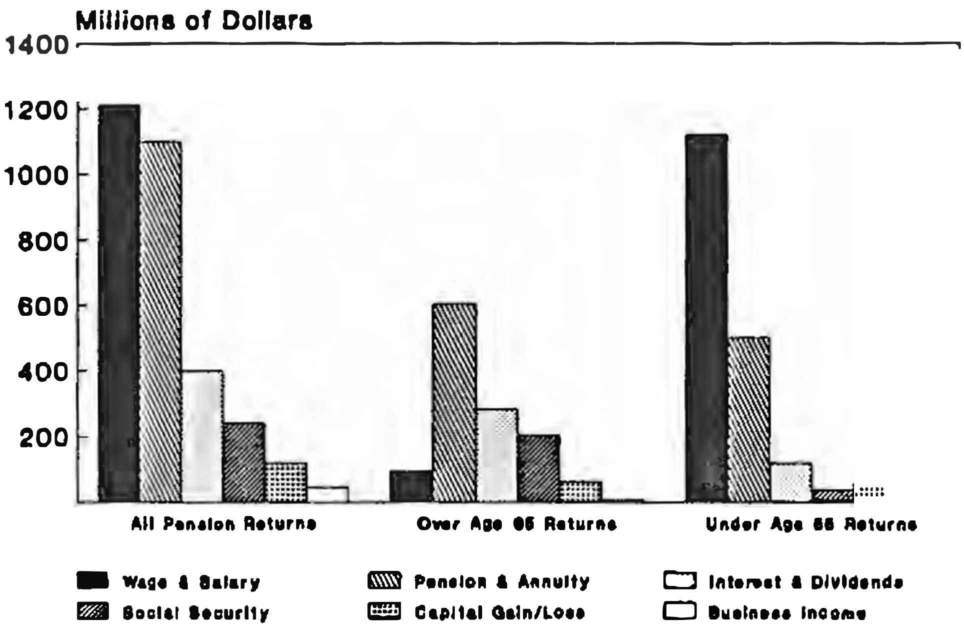


TABLE 1: Percent of Pensioners' Total Income by Type of Income

	All Pension Returns	Age 65 & Older Pension Returns	Under Age 65 Pension Returns
Wages & Salaries	38.8%	7.4%	59.8%
Pension & Annuity	35.4%	48.1%	26.9%
Taxable Interest Income	9.4%	16.7%	4.5%
Social Security Benefits	7.7%	16.2%	2.0%
Capital Gains	3.8%	5.1%	3.0%
Dividend Income	3.4%	5.8%	1.8%
Business Income	1.5%	0.6%	2.0%
Federal Taxable Income(1)	66.2%	47.8%	62.5%
Taxable Social Security	1.5%	2.9%	0.3%

(1) For Age 65 and Older returns the percentage of income subject to taxation in New Mexico is considerably less than indicated by Federal Taxable income.

TABLE 2: Percent of Pensioner Returns Reporting Various Types of Income

	All Pension Returns	Age 65 & Older Pension Returns	Under Age 65 Pension Returns
Taxable Interest Income	87.0%	93.4%	82.0%
Wages & Salaries	54.1%	21.8%	79.7%
Dividend Income	38.2%	43.0%	34.5%
Social Security Benefits	34.4%	62.7%	12.1%
Capital Gains	24.6%	28.1%	21.9%
Business Income	14.5%	9.5%	18.4%
Federal Taxable Income(1)	87.4%	83.4%	90.5%
Taxable Social Security	14.5%	27.1%	4.5%

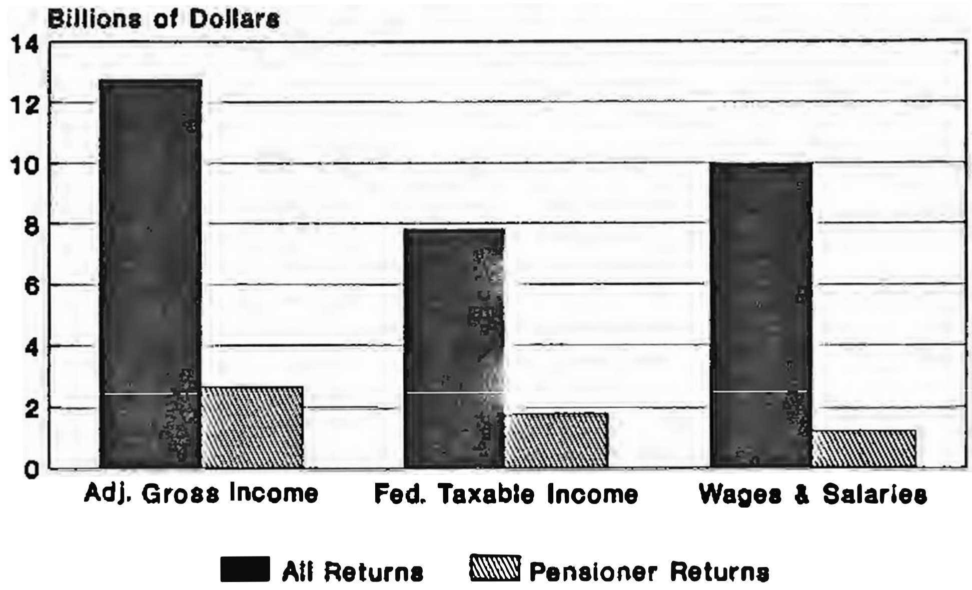
(1) The number of Age 65 and Older returns with New Mexico taxable income is considerably less than the number with Federal Taxable income.

TABLE 3: Adjusted Gross Income Quintiles for All Returns and All Pensioner Returns

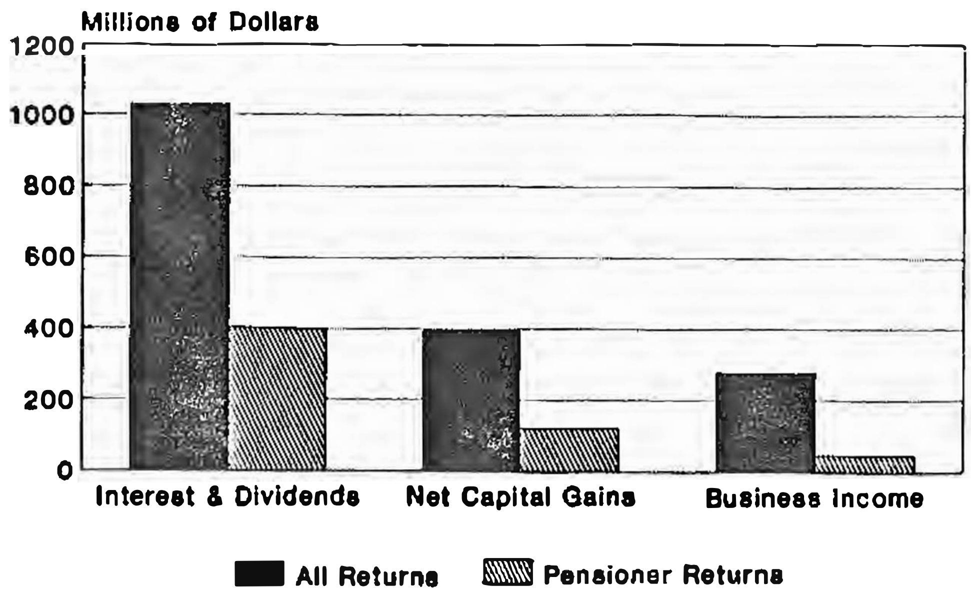
	All N. M. Returns Adjusted Gross Income	All Pension Returns Adjusted Gross Income
Lowest Fifth	Under $3,000	Under $11,000
Second Fifth	$3,000 to $10,000	$11,000 to $19,000
Middle Fifth	$10,000 to $19,000	$19,000 to $30,000
Fourth Fifth	$19,000 to $35,000	$30,000 to $45,000
Highest Fifth	$35,000 and Over	$45,000 and Over
Median Income	$14,000 to $16,000	$22,500 to $25,000

Note: Approximately one-third of pensioner returns show social security income which is generally not included in adjusted gross income. Probably only about 10% to 12% of all N.M. returns would show social security income if complete data were available. Thus the income range of each quintile is somewhat higher than indicated by adjusted gross income, and the discrepancy between all returns and pensioner returns is somewhat understated.

All Residents and Resident Pensioners Filing 1988 Federal Tax Returns



All Residents and Resident Pensioners Filing 1988 Federal Tax Returns



SUMMARY OF FISCAL IMPACT ESTIMATES:

I)	Full Deduction for all pension, annuity and taxable social security income for all ages:	$ 43.1 million
II-A)	$3,000 pension deduction for all ages:	$ 8.5 million
II-B)	$3,000 pension deduction for under age 65 only:	$ 5.9 million
III-A)	$6,000 pension deduction for all ages:	$ 14.9 million
III-B)	$6,000 pension deduction for under age 65 only:	$ 10.1 million
IV-A)	Refundable Tax Credit of 2.4% of pension and taxable social security for all ages:	$ 32 million
IV-B)	Refundable Tax Credit of 2.4% of pension and taxable social security for under age 65 only:	$ 15 million
V-A)	Nonrefundable Tax Credit of 2.4% of pension and taxable social security for all ages:	$ 20.7 million
V-B)	Nonrefundable Tax Credit of 2.4% of pension and taxable social security for under age 65 only:	$ 12.4 million
VI-A)	Nonrefundable Tax Credit of 2.4% of up to $8,000 of pension and taxable social security for all ages:	$ 9.8 million
VI-B)	Nonrefundable Tax Credit of 2.4% of up to $8,000 of pension and taxable social security for under age 65 only:	$ 6.3 million
VII-A)	Nonrefundable Tax Credit of 2.4% of limited pension and taxable social security for all ages (Limited amount phased by adjusted gross income table similar to existing table for age 65 deduction amount):	$ 4.5 million
VII-B)	Nonrefundable Tax Credit of 2.4% of limited pension and taxable social security for under age 65 only: (Limited amount phased by adjusted gross income table similar to existing table for age 65 deduction amount):	$ 3.2 million
VIII-A)	$3,000 pension deduction for age 62 and over:	$ 5.3 million
VIII-B)	$3,000 pension deduction for age 62 and over with adjusted gross income under $30,000:	$ 1.1 million

I) Incorporate a full deduction for all pension and annuity income and taxable social security income of all residents.

Fiscal Impact [(1)]: For tax year 1991, state general fund impact would be a loss of about $43.1 million. The loss would increase by about $2.2 to $3.1 million per tax year. There would be substantial negative impact on the Retiree Health Care Fund (over $1 million per year, included in general fund revenue impact number).

Approximate components:	Federal Civil Retirees:	$ 10.3 million
	Military Retirees:	$ 9.2 million
	State Retirees:	$ 7.2 million
	Private Retirees:	$ 16.4 million

Taxpayer Impact: The median adjusted gross income of statutorily-affected taxpayers is about $27,500 to $30,000. The median adjusted gross income of taxpayers with taxable income actually realizing a tax impact is about $35,000 to $40,000. 70,760 of 97,350 returns with taxable income in 1991 would see a decrease in tax due of about $610 each. Approximately 19,747 returns now paying some tax would pay zero tax. This large number of taxpayers becoming "zero tax" taxpayers represent more affluent members of the age 65 and older group.

(1) **Fiscal Impacts:** The fiscal impact estimate, based on tax year 1988 federal data, is considered to be the minimum impact since both the population growth and income growth rates used for the estimate are considered conservative. "Approximate components" for retiree types are only rough approximations based on average pension amounts and estimated number of retirees; actual component shares would vary depending on the particular proposal and whether taxable social security was included in the proposal.

II-A) Incorporate a $3,000 per return deduction against pension income -- available to all pensioners regardless of age. "Pension income" as defined for purposes of federal form 1040 (generally reported on form W-2P) does not include social security benefits and usually does not include lump sum distributions.

Fiscal Impact (1): For tax year 1991, state general fund impact would be a loss of about $8.4 to $8.6 million. The loss would increase by about $400 to $600 thousand per tax year. There would be some negative impact on the Retiree Health Care Fund (about $1.1 million, already included in the general fund revenue impact).

Approximate components:	Federal Civil Retirees:	$ 2.3 million
	Military Retirees:	$ 2.1 million
	State Retirees:	$ 1.1 million
	Private Retirees:	$ 3.0 million

Taxpayer Impact: 63,000 to 65,000 returns with pension income in 1991 would see a decrease in tax due of about $133 on average. At least 4,500 returns now paying some tax would pay zero tax.

II-B) Incorporate a $3,000 per return deduction against pension income -- available only to pensioners under age 65. "Pension income" as defined for purposes of federal form 1040 (generally reported on form W-2P) does not include social security benefits and usually does not include lump sum distributions.

Fiscal Impact (1): For tax year 1991, state general fund impact would be a loss of about $5.8 to $6.0 million. The loss would increase by about $300 to $400 thousand per tax year. There would be some negative impact on the Retiree Health Care Fund (about $800 thousand, already included in the general fund revenue impact).

Approximate components:	Federal Civil Retirees:	$ 1.6 million
	Military Retirees:	$ 1.5 million
	State Retirees:	$ 0.8 million
	Private Retirees:	$ 2.0 million

Taxpayer Impact: 44,000 to 46,000 returns with pension income in 1991 would see a decrease in tax due of about $130 on average. At least 2,000 returns now paying some tax would pay zero tax.

Comments: A $3,000 pension deduction available only to taxpayers under age 65 creates a situation where higher income taxpayers would face a tax increase upon attaining age 65, due to the phase-down of the age 65 and over credit with higher incomes. Pensioners who are married filing jointly with adjusted gross incomes over $45,000 and single taxpayers with adjusted gross incomes over $25,500 would see a tax increase as a result of reaching age 65.

(1) Fiscal Impacts: The fiscal impact estimate, based on tax year 1988 federal data, is considered to be the minimum impact since both the population growth and income growth rates used for the estimate are considered conservative. Actual legislation would probably provide a deduction for each pensioner rather than for each return, thus increasing the fiscal impact loss. "Approximate components" for retiree types are only rough approximations based on average pension amounts and estimated number of retirees; actual component shares would vary depending on the particular proposal and those shares have not been reallocated for each specific proposal.

III-A) Incorporate a **$6,000 per return** deduction against pension income -- available to all pensioners regardless of age. "Pension income" as defined for purposes of federal form 1040 (generally reported on form W-2P) does not include social security benefits and usually does not include lump sum distributions.

Fiscal Impact [1]: For tax year 1991, state general fund impact would be a loss of about $14.7 to 15.1 million. The loss would increase by about $800 to $1,200 thousand per tax year. There would be some negative impact on the Retiree Health Care Fund (about $1.9 million, already included in the general fund revenue impact).

Approximate components:	Federal Civil Retirees:	$ 4.0 million
	Military Retirees:	$ 3.6 million
	State Retirees:	$ 1.9 million
	Private Retirees:	$ 5.3 million

Taxpayer Impact: 63,000 to 65,000 returns with pension income in 1991 would see a decrease in tax due of about $233 on average. At least 7,300 returns now paying some tax would pay zero tax.

Incorporate a **$6,000** ~~per return~~ deduction against pension income -- available only to pensioners under age 65. "Pension income" as defined for purposes of federal form 1040 (generally reported on form W-2P) does not include social security benefits and usually does not include lump sum distributions.

Fiscal Impact [1]: For tax year 1991, state general fund impact would be a loss of about $9.9 to 10.3 million. The loss would increase by about $550 to $800 thousand per tax year. There would be some negative impact on the Retiree Health Care Fund (about $1.3 million, already included in the general fund revenue impact).

Approximate components:	Federal Civil Retirees:	$ 2.7 million
	Military Retirees:	$ 2.5 million
	State Retirees:	$ 1.3 million
	Private Retirees:	$ 3.6 million

Taxpayer Impact: 44,000 to 46,000 returns with pension income in 1991 would see a decrease in tax due of about $225 on average. At least 3,500 returns now paying some tax would pay zero tax.

Comments: A $6,000 pension deduction available only to taxpayers under age 65 creates a situation where higher income taxpayers would face a tax increase upon attaining age 65, due to the phase-down of the age 65 and over credit with higher incomes. Pensioners who are married filing jointly with adjusted gross incomes over $36,000 and single taxpayers with adjusted gross incomes over $21,000 would see a tax increase as a result of reaching age 65.

(1) Fiscal Impacts: The fiscal impact estimate, based on tax year 1988 federal data, is considered to be the minimum impact since both the population growth and income growth rates used for the estimate are considered conservative. Actual legislation would probably provide a deduction for each pensioner rather than for each return, thus increasing the fiscal impact loss. "Approximate components" for retiree types are only rough approximations based on average pension amounts and estimated number of retirees; actual component shares would vary depending on the particular proposal and those shares have not been reallocated for each specific proposal.

IV-A) Incorporate a **Refundable Tax Credit of 2.4% on all pension and taxable social security income** -- available to **all pensioners** regardless of **age**. "Pension income" as defined for purposes of federal form 1040 (generally reported on form W-2P) does not usually include lump sum distributions.

Fiscal Impact [(1)]: For tax year 1991, state general fund impact would be a loss of about $30 to $35 million. The loss would increase by about $1.5 to $2.0 million per tax year. There would be a very significant negative impact on the Retiree Health Care Fund (already included in the general fund revenue impact).

Taxpayer Impact: Almost 100,000 returns with pension income in 1991 would see a decrease in tax due. About 55,000 would pay decreased taxes, about 16,000 returns now paying some tax would pay zero tax, and an additional 27,000 with no current tax liability would be refunded the entire amount of their tax credit.

Comments: The credit amount of 2.4 percent was chosen to align with the lowest marginal tax rate for married filing joint returns. This provides equal proportional treatment of all pensions regardless of other income which would influence the actual marginal tax rate for different taxpayers.

The refundable nature of the credit in this proposal accounts for about one-third of the fiscal impact. Many pensioners over age 65 with no current tax liability would receive additional refund amounts, however, taxpayers over age 65 with no pension would not benefit.

IV-B) Incorporate a **Refundable Tax Credit of 2.4% on all pension and taxable social security income** -- available only to pensioners **under age 65**. "Pension income" as defined for purposes of federal form 1040 (generally reported on form W-2P) does not usually include lump sum distributions.

Fiscal Impact [(1)]: For tax year 1991, state general fund impact would be a loss of about $15 million. The loss would increase by about $800 thousand per tax year. There would be a very significant negative impact on the Retiree Health Care Fund (already included in the general fund revenue impact).

Taxpayer Impact: Over 50,000 returns with pension income in 1991 would see a decrease in tax due. Almost 40,000 would pay decreased taxes, about 8,000 returns now paying some tax would pay zero tax, and an additional 5,000 with no current tax liability would be refunded the entire amount of their tax credit.

Comments: The credit amount of 2.4 percent was chosen to align with the lowest marginal tax rate for married filing joint returns. This provides equal proportional treatment of all pensions regardless of other income which would influence the actual marginal tax rate for different taxpayers.

The refundable nature of the credit in this proposal accounts for about one-quarter of the fiscal impact. Some pensioners with no current tax liability would receive a new refund amount, however, lower income taxpayers with no pension would not benefit.

Most pensioners would face a tax increase upon attaining age 65.

(1) Fiscal Impacts: The fiscal impact estimate, based on tax year 1988 federal data, is considered to be the minimum impact since both the population growth and income growth rates used for the estimate are considered conservative. Actual legislation would probably provide a deduction for each pensioner rather than for each return, thus increasing the fiscal impact loss.

V-A) Incorporate a **Non-refundable Tax Credit of 2.4% on all pension and taxable social security income** -- available to all pensioners regardless of age. "Pension income" as defined for purposes of federal form 1040 (generally reported on form W-2P) does not usually include lump sum distributions.

Fiscal Impact (1): For tax year 1991, state general fund impact would be a loss of about $20.5 to $20.9 million. The loss would increase by about $1.1 to $1.6 million per tax year. There would be some negative impact on the Retiree Health Care Fund (about $2.6 million, already included in the general fund revenue impact).

Approximate components:	Federal Civil Retirees:	$ 5.6 million
	Military Retirees:	$ 5.0 million
	State Retirees:	$ 2.6 million
	Private Retirees:	$ 7.4 million

Taxpayer Impact: 70,000 to 73,000 returns with pension income in 1991 would see a decrease in tax due of about $290 on average. At least 15,000 returns now paying some tax would pay zero tax.

Comments: The credit amount of 2.4 percent was chosen to align with the lowest marginal tax rate for married filing joint returns. This provides equal proportional treatment of all pensions regardless of other income which would influence the actual marginal tax rate for different taxpayers.

V-B) Incorporate a **Non-refundable Tax Credit of 2.4% on all pension and taxable social security income** -- available only to pensioners under age 65. "Pension income" as defined for purposes of federal form 1040 (generally reported on form W-2P) does not usually include lump sum distributions.

Fiscal Impact (1): For tax year 1991, state general fund impact would be a loss of about $12.2 to $12.6 million. The loss would increase by about $0.7 to $1.0 million per tax year. There would be some negative impact on the Retiree Health Care Fund (about $1.6 million, already included in the general fund revenue impact).

Approximate components:	Federal Civil Retirees:	$ 3.3 million
	Military Retirees:	$ 3.0 million
	State Retirees:	$ 1.6 million
	Private Retirees:	$ 4.4 million

Taxpayer Impact: 46,000 to 48,000 returns with pension income in 1991 would see a decrease in tax due of about $260 on average. At least 8,000 returns now paying some tax would pay zero tax.

Comments: The credit amount of 2.4 percent was chosen to align with the lowest marginal tax rate for married filing joint returns. This provides equal proportional treatment of all pensions regardless of other income which would influence the actual marginal tax rate for different taxpayers.

Some pensioners would face a tax increase upon attaining age 65.

(1) Fiscal Impacts: The fiscal impact estimate, based on tax year 1988 federal data, is considered to be the minimum impact since both the population growth and income growth rates used for the estimate are considered conservative. Actual legislation would probably provide a deduction for each pensioner rather than for each return, thus increasing the fiscal impact loss. "Approximate components" for retiree types are only rough approximations based on average pension amounts and estimated number of retirees; actual component shares would vary depending on the particular proposal and those shares have not been reallocated for each specific proposal.

VI-A) Incorporate a **Non-refundable Tax Credit of 2.4% of up to $8,000 of pension and taxable social security income** -- available to **all pensioners** regardless of **age**. "Pension income" as defined for purposes of federal form 1040 (generally reported on form W-2P) does not usually include lump sum distributions.

Fiscal Impact [1]: For tax year 1991, state general fund impact would be a loss of about $9.5 to $10.0 million. The loss would increase by about $500 to $800 thousand per tax year. There would be some negative impact on the Retiree Health Care Fund (about $1.2 million, already included in the general fund revenue impact).

Approximate components:	Federal Civil Retirees:	$ 2.6 million
	Military Retirees:	$ 2.4 million
	State Retirees:	$ 1.2 million
	Private Retirees:	$ 3.4 million

Taxpayer Impact: 68,000 to 70,000 returns with pension income in 1991 would see a decrease in tax due of about $140 on average. At least 10,000 returns now paying some tax would pay zero tax.

Comments: The credit amount of 2.4 percent was chosen to align with the lowest marginal tax rate for married filing joint returns. This provides equal proportional treatment of all pensions up to $8,000 regardless of other income which would influence the actual marginal tax rate for different taxpayers. The maximum benefit would be $192 per pensioner.

VI-B) Incorporate a **Non-refundable Tax Credit of 2.4% of up to $8,000 of pension and taxable social security income** -- available only to pensioners **under age 65**. "Pension income" as defined for purposes of federal form 1040 (generally reported on form W-2P) does not usually include lump sum distributions.

Fiscal Impact [1]: For tax year 1991, state general fund impact would be a loss of about $6.1 to $6.4 million. The loss would increase by about $300 to $500 thousand per tax year. There would be some negative impact on the Retiree Health Care Fund (about $800 thousand, already included in the general fund revenue impact).

Approximate components:	Federal Civil Retirees:	$ 1.7 million
	Military Retirees:	$ 1.5 million
	State Retirees:	$ 0.8 million
	Private Retirees:	$ 2.2 million

Taxpayer Impact: 46,000 to 48,000 returns with pension income in 1991 would see a decrease in tax due of about $135 on average. At least 5,000 returns now paying some tax would pay zero tax.

Comments: The credit amount of 2.4 percent was chosen to align with the lowest marginal tax rate for married filing joint returns. This provides equal proportional treatment of all pensions up to $8,000 regardless of other income which would influence the actual marginal tax rate for different taxpayers. The maximum benefit would be $192 per pensioner.

Some pensioners would face a tax increase upon attaining age 65.

(1) **Fiscal Impacts:** The fiscal impact estimate, based on tax year 1988 federal data, is considered to be the **minimum** impact since both the population growth and income growth rates used for the estimate are considered conservative. Actual legislation would probably provide a deduction for each pensioner rather than for each return, thus increasing the fiscal impact loss. "Approximate components" for retiree types are only rough approximations based on average pension amounts and estimated number of retirees; actual component shares would vary depending on the particular proposal and those shares have not been reallocated for each specific proposal.

VII-A) Incorporate a **Non-refundable Tax Credit of 2.4% on variable levels of pension and taxable social security income -- available to all pensioners regardless of age.** Variable levels of income subject to the tax credit defined by Adjusted Gross Income level, similar to the current deduction for taxpayers age 65 and over. "Pension income" as defined for purposes of federal form 1040 (generally reported on form W-2P) does not usually include lump sum distributions.

Fiscal Impact [(1)]: For tax year 1991, state general fund impact would be a loss of about $4.4 to $4.6 million. The loss would increase by about $250 to $350 thousand per tax year. There would be some negative impact on the Retiree Health Care Fund (about $600 thousand, already included in the general fund revenue impact).

Approximate components:	Federal Civil Retirees:	$ 1.2 million
	Military Retirees:	$ 1.1 million
	State Retirees:	$ 0.6 million
	Private Retirees:	$ 1.6 million

Taxpayer Impact: 47,000 to 49,000 returns with pension income in 1991 would see a decrease in tax due of about $95 on average. At least 10,000 returns now paying some tax would pay zero tax.

Comments: The credit amount of 2.4 percent was chosen to align with the lowest marginal tax rate for married filing joint returns. This provides equal proportional treatment of pensions within certain categories of adjusted gross income. The range of tax credit benefit would be $24 to $192 per pensioner.

VII-B) Incorporate a **Non-refundable Tax Credit of 2.4% on variable levels of pension and taxable social security income -- available only to pensioners under age 65.** Variable levels of income subject to the tax credit defined by Adjusted Gross Income level, similar to the current deduction for taxpayers age 65 and over. "Pension income" as defined for purposes of federal form 1040 (generally reported on form W-2P) does not usually include lump sum distributions.

Fiscal Impact [(1)]: For tax year 1991, state general fund impact would be a loss of about $3.1 to $3.4 million. The loss would increase by about $200 to $300 thousand per tax year. There would be some negative impact on the Retiree Health Care Fund (about $400 thousand, already included in the general fund revenue impact).

Approximate components:	Federal Civil Retirees:	$ 0.9 million
	Military Retirees:	$ 0.8 million
	State Retirees:	$ 0.4 million
	Private Retirees:	$ 1.2 million

Taxpayer Impact: 33,000 to 35,000 returns with pension income in 1991 would see a decrease in tax due of about $95 on average. At least 5,000 returns now paying some tax would pay zero tax.

Comments: The credit amount of 2.4 percent was chosen to align with the lowest marginal tax rate for married filing joint returns. This provides equal proportional treatment of pensions within certain categories of adjusted gross income. The range of tax credit benefit would be $24 to $192 per pensioner.

A few single filing status pensioners would see minor tax increases ($30 or less) upon attaining age 65.

(1) Fiscal Impacts: The fiscal impact estimate, based on tax year 1988 federal data, is considered to be the minimum impact since both the population growth and income growth rates used for the estimate are considered conservative. Actual legislation would probably provide a deduction for each pensioner rather than for each return, thus increasing the fiscal impact loss. "Approximate components" for retiree types are only rough approximations based on average pension amounts and estimated number of retirees; actual component shares would vary depending on the particular proposal and those shares have not been reallocated for each specific proposal.

VIII-A) Incorporate a **$3,000 per return** deduction against pension income -- available to pensioners age 62 and over. "Pension income" as defined for purposes of federal form 1040 (generally reported on form W-2P) does not include social security benefits and usually does not include lump sum distributions.

Fiscal Impact [1]: For tax year 1991, state general fund impact would be a loss of about $5.3 million. The loss would increase by about $400 thousand per tax year. There would be some negative impact on the Retiree Health Care Fund (already included in the general fund revenue impact).

Taxpayer Impact: Roughly 40,000 returns with pension income in 1991 would see a decrease in tax due of about $130 on average. At least 4,600 returns now paying some tax would pay zero tax.

VIII-B) Incorporate a **$3,000 per return** deduction against pension income -- available to pensioners age 62 and over with adjusted gross income **under $30,000**. "Pension income" as defined for purposes of federal form 1040 (generally reported on form W-2P) does not include social security benefits and usually does not include lump sum distributions.

Fiscal Impact [1]: For tax year 1991, state general fund impact would be a loss of about $1.1 million. The loss would increase by about $60 to $80 thousand per tax year. There would be some negative impact on the Retiree Health Care Fund (already included in the general fund revenue impact).

Taxpayer Impact: Roughly 15,600 returns with pension income in 1991 would see a decrease in tax due of about $72 on average. About 3,700 returns now paying some tax would pay zero tax.

(1) Fiscal Impacts: The fiscal impact estimate, based on tax year 1988 federal data, is considered to be the minimum impact since both the population growth and income growth rates used for the estimate are considered conservative. Actual legislation would probably provide a deduction for each pensioner rather than for each return, thus increasing the fiscal impact loss.