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FISCAL IMPACT REPORT



SPONSOR: Russell DATE TYPED: 1-27-02 HB 223

SHORT TITLE: Annuity & Pension Income Tax Exemption SB _____

ANALYST: Neel

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY02	FY03			
	\$ (18,540.0)	\$ (20,600.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC files

No response received from the Taxation and Revenue Department (TRD).

SUMMARY

This personal income tax bill authorizes an exemption of up to \$3,000 for annuity and pension income. Pension and annuity income is defined as:

- pension or annuity income required by federal law or regulation to be reported on federal form 1099-R or related to report distributions from pensions, annuities, retirement or profit-sharing plans, individual retirement accounts, insurance contracts and similar income...under a qualified plan, annuity or simplified employee pension plan pursuant to Sections 401 through 404, 408 or 457 of the Internal Revenue Code of 1986 and
- includes any inside buildup of interest distributed in conjunction with any of the listed distributions.

The exemption is authorized beginning tax year 2002

FISCAL IMPLICATIONS

Based on TRD's analysis for the exact piece of legislation in 2001, HB 223 would reduce general fund revenue on a recurring basis by \$18,000.0 and \$20,000.0 in FY02 and FY03, respectively. In order to update the analysis a growth rate of three percent has been applied to derive an updated im-

pact to state revenues. TRD's original estimate relies on: taxable IRA distributions, pensions and annuities and self-employment retirement plans as reported for New Mexico by the Internal Revenue Service Statistics of Income. Social security benefits are not included under the provisions of this bill. Another key input in this analysis is the number of tax returns reporting pension and IRA income.

According to the 2001 TRD analysis, each pension recipient with taxable income would realize state tax savings of \$50 to \$246, with a probable average savings of about \$100 to \$135 in annual state income taxes. The average benefit at the median adjusted gross income level for pensioners would be about \$100 per return. A significant portion, possibly 70 percent, results from tax decreases for taxpayers under age 65. Recall that state income taxes are deductible for federal tax purposes.

TECHNICAL ISSUES

TRD notes they will be unable to differentiate between particular types of 1099-R income during tax return processing, and unable to determine the taxable portions of 1099-R income included in federal adjusted gross income in some cases. Therefore, portions of income already exempt from tax could be deducted a second time, and additional income, not intended to be exempt, may possibly be excluded from state income taxation. Verification would be manual.

SN/njw