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FISCAL IMPACT REPORT

SPONSOR: Garcia DATE TYPED: 2/11/03 HB 539

SHORT TITLE: Armed Forces Retiree Income Tax Exemption SB _____

ANALYST: Smith

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	FY04			
	(9,500.0)	(9,500.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

Responses Received From

TRD

SUMMARY

Synopsis of Bill

House Bill 539 would provide a \$10,000 personal income tax exemption for armed forces retirees. The proposal defines an armed forces retiree as a former member of the US armed forces who has qualified by years of service or disability to separate from military service with lifetime benefits.

FISCAL IMPLICATIONS

TRD notes that estimates of the total number U.S. retired military people range from about 1.7 to 1.9 million. New Mexico's population represents about .5 percent of the US total. Multiplying the 1.9 million figure by .5 percent suggests about 9,500 retired military currently live in New Mexico. However, the New Mexico figure listed on the "Military.com" website is 20,300 – about 1 percent of the national total.¹ The latter figure was employed in the estimate shown above. Since the statewide average effective rate on personal income taxes is approximately 4.7 percent, a \$10,000 deduction would reduce tax obligations by approximately \$470 per claimant. Multiplying the \$470 figure by 20,300 suggests approximately \$9.5 million in reduced personal in-

¹ http://www.military.com/Resources/ResourceFileView?file=retirees_stats.htm#Monthly

come tax obligations would result from the proposed measure. If only 9,500 retired military people lived in New Mexico, the reduction in personal income tax liability produced by the proposed deduction would total about \$4.5 million.

OTHER SUBSTANTIVE ISSUES

TRD notes that the proposed measure would provide tax benefits for, in many cases, wealthy taxpayers. Assuming the tax reduction caused by the proposal results in increases in other taxes or government services reductions, the result would be a transfer of wealth from low-income individuals to high-income taxpayers. This may be viewed as inequitable.

SS/yr