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## FISCAL IMPACT REPORT

SPONSOR Romero DATE TYPED 1/30/2004 HB \_\_\_\_\_

SHORT TITLE Military Retirement Pay Income Tax Deduction SB 159

ANALYST Taylor

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY04	FY05			
(500.0)	(2,000.0)	(2,000.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department

### SUMMARY

Senate Bill 159 exempts U.S. military retirement pay of up to \$3 thousand from New Mexico income taxes. The exemption is also provided to surviving spouses.

The bill is applicable beginning January 1, 2004.

### FISCAL IMPLICATIONS

TRD estimates this would decrease General Fund revenues by about \$2 million on a full year basis. The estimate assumes 21 thousand military retirees with an average military retirement of \$17 thousand. It also assumes the average effective income tax rate is 3.2 percent. Multiplying 21 thousand benefiting taxpayers by \$3 thousand by 3.2 percent yields an impact of just over \$2 million. (TRD's analysis included tables reporting the number of military retirees and average retirement pay by state. These are attached at the end of the FIR.)

The FY04 impact reflects payments for the first half of the year, which is 25 percent of the full year impact.

## ADMINISTRATIVE IMPLICATIONS

TRD reports modest administrative impacts that can be handled with existing resources.

## OTHER SUBSTANTIVE ISSUES

TRD submitted the following issues:

1. Individuals with incomes and other circumstances similar to people receiving the proposed exemption are likely to view it as unfair, especially when they compete with the retirees for jobs, and when the retirees are individuals with relatively high incomes. According to information the "military com" website (<http://usmilitary.about.com/>) military retirement pay can be over \$9,000 monthly for high-ranking officers retiring in 2004.
2. By limiting the exemption to New Mexico residents, it is possible that the statute could be seen as discriminatory to non-resident veterans who are required to file New Mexico return, e.g., veterans with rental income in the state. Currently, all non-residents are entitled to allocate their retirement income to their state of residence; see, 4 USCA Section 114. Exempting a portion of the resident's retirement income, however may provide a slight tax advantage over a non-resident who is required to allocate, because the exemption may result in a lower effective tax rate under New Mexico's graduated tax system.

BT/dm:yr

**Illustration: Number of Retirees and Total Military Pay by State****Retirees By State\***

State	Army	Navy	Marine Corps	Air Force	Total DoD
Alabama	25,033	6,691	1,623	15,371	48,718
Alaska	2,761	652	133	4,302	7,848
Arizona	13,828	7,888	3,008	23,480	48,204
Arkansas	8,108	4,644	969	10,722	24,443
California	34,713	83,245	18,396	61,339	197,693
Colorado	16,586	5,299	1,299	21,640	44,824
Connecticut	3,006	4,986	584	2,166	10,742
Delaware	1,592	897	207	4,052	6,748
Dist. of Columbia	1,756	627	139	1,033	3,555
Florida	44,392	58,862	7,851	67,465	178,570
Georgia	40,385	11,109	3,421	21,094	76,009
Guam, MI	614	783	76	482	1,955
Hawaii	5,558	3,965	979	3,654	14,156
Idaho	2,554	2,511	480	4,802	10,347
Illinois	10,283	8,012	1,848	12,079	32,222
Indiana	8,947	4,421	1,377	6,396	21,141
Iowa	3,736	2,528	584	3,026	9,874
Kansas	9,014	2,943	788	6,446	19,191
Kentucky	14,033	3,442	944	4,959	23,378
Louisiana	9,531	4,921	1,337	11,159	26,948
Maine	2,898	4,004	511	3,681	11,094
Maryland	16,835	12,810	2,063	12,322	44,030
Massachusetts	7,406	5,798	1,314	6,412	20,930
Michigan	9,336	6,266	1,562	8,077	25,241
Minnesota	5,515	3,907	832	4,854	15,108
Mississippi	7,344	5,708	921	10,227	24,200
Missouri	13,078	6,850	2,078	11,222	33,228
Montana	1,911	1,516	360	3,223	7,010
Nebraska	2,336	1,798	340	7,886	12,360
Nevada	4,808	5,669	1,449	12,816	24,742
New Hampshire	2,828	2,087	436	4,037	9,388
New Jersey	10,028	5,386	1,226	5,423	22,063
<b>New Mexico</b>	<b>5,516</b>	<b>2,928</b>	<b>723</b>	<b>11,144</b>	<b>20,311</b>
New York	14,443	8,307	2,319	10,536	35,605
North Carolina	30,979	11,599	10,214	17,671	70,463
North Dakota	960	436	66	2,239	3,701
Ohio	12,226	8,036	2,348	17,921	40,531
Oklahoma	13,229	4,494	1,134	14,149	33,006
Oregon	5,883	6,759	1,358	6,689	20,689
Pennsylvania	18,018	11,686	3,251	12,148	45,103
Puerto Rico	7,539	415	131	942	9,027
Rhode Island	1,406	3,177	246	932	5,761
South Carolina	17,707	12,548	2,858	16,248	49,361
South Dakota	1,513	792	132	2,978	5,415
Tennessee	18,744	9,979	2,374	12,254	43,351
Texas	65,305	23,760	6,258	77,830	173,153
Utah	3,321	1,805	431	5,875	11,432
Vermont	1,424	679	142	1,027	3,272
Virginia	39,097	47,543	7,841	25,641	120,122
Virgin Islands	183	49	6	44	282
Washington	22,706	21,840	2,252	20,481	67,279
West Virginia	3,889	2,208	684	2,889	9,670
Wisconsin	6,580	4,025	963	4,906	16,474
Wyoming	985	715	135	2,309	4,144
Other	10,486	5,553	883	8,707	25,629
<b>Total</b>	<b>642,892</b>	<b>469,558</b>	<b>105,884</b>	<b>651,407</b>	<b>1,869,741</b>

\*As of September 30, 1999

**Retired Military Monthly Pay\*\* By State (In Thousands)**

State	Army	Navy	Marine Corps	Air Force	Total DoD
Alabama	35,542	8,086	2,075	22,048	64,752
Alaska	3,088	765	122	5,273	9,248
Arizona	19,140	10,203	4,226	35,871	69,441
Arkansas	9,159	5,575	1,147	14,220	30,101
California	43,382	113,119	27,044	93,177	276,722
Colorado	23,403	7,167	1,715	37,311	69,596
Connecticut	3,136	6,609	517	2,680	12,941
Delaware	1,839	1,037	232	5,403	8,513
Dist. of Columbia	2,100	899	138	1,220	4,357
Florida	44,392	58,862	7,851	67,465	263,126
Georgia	40,385	11,109	3,421	21,094	101,102
Guam, MI	614	783	76	482	2,329
Hawaii	5,558	3,965	979	3,654	20,332
Idaho	2,554	2,511	480	4,802	13,541
Illinois	10,283	8,012	1,848	12,079	39,076
Indiana	8,947	4,421	1,377	6,396	23,671
Iowa	3,736	2,528	584	3,026	10,393
Kansas	9,014	2,943	788	6,446	25,013
Kentucky	14,033	3,442	944	4,959	27,745
Louisiana	9,531	4,921	1,337	11,159	33,481
Maine	2,898	4,004	511	3,681	13,360
Maryland	16,835	12,810	2,063	12,322	64,021
Massachusetts	7,406	5,798	1,314	6,412	22,815
Michigan	9,336	6,266	1,562	8,077	26,787
Minnesota	5,515	3,907	832	4,854	16,238
Mississippi	7,344	5,708	921	10,227	29,469
Missouri	13,078	6,850	2,078	11,222	40,180
Montana	1,911	1,516	360	3,223	8,759
Nebraska	2,336	1,798	340	7,886	16,926
Nevada	4,808	5,669	1,449	12,816	35,100
New Hampshire	2,828	2,087	436	4,037	12,786
New Jersey	10,028	5,386	1,226	5,423	24,918
<b>New Mexico</b>	<b>5,516</b>	<b>2,928</b>	<b>723</b>	<b>11,144</b>	<b>29,861</b>
New York	14,443	8,307	2,319	10,536	35,069
North Carolina	30,979	11,599	10,214	17,671	94,212
North Dakota	960	436	66	2,239	4,127
Ohio	12,226	8,036	2,348	17,921	47,831
Oklahoma	13,229	4,494	1,134	14,149	40,263
Oregon	5,883	6,759	1,358	6,689	25,538
Pennsylvania	18,018	11,686	3,251	12,148	52,869
Puerto Rico	7,539	415	131	942	6,544
Rhode Island	1,406	3,177	246	932	7,477
South Carolina	17,707	12,548	2,858	16,248	66,821
South Dakota	1,513	792	132	2,978	6,571
Tennessee	18,744	9,979	2,374	12,254	54,733
Texas	65,305	23,760	6,258	77,830	249,520
Utah	3,321	1,805	431	5,875	15,588
Vermont	1,424	679	142	1,027	3,784
Virginia	39,097	47,543	7,841	25,641	215,527
Virgin Islands	183	49	6	44	372
Washington	22,706	21,840	2,252	20,481	92,777
West Virginia	3,889	2,208	684	2,889	10,379
Wisconsin	6,580	4,025	963	4,906	17,141
Wyoming	985	715	135	2,309	5,283
Other	10,486	5,553	883	8,707	36,194
<b>Total</b>	<b>642,892</b>	<b>469,558</b>	<b>105,884</b>	<b>651,407</b>	<b>2,535,320</b>

Source: [http://www.military.com/Resources/ResourceFileView?file=retirees\\_stats.htm#Monthly](http://www.military.com/Resources/ResourceFileView?file=retirees_stats.htm#Monthly)

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