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FISCAL IMPACT REPORT

ORIGINAL DATE 2/2/07
 LAST UPDATED 2/3/07 HB _____

SPONSOR Carraro

SHORT TITLE Military Pension Income Tax Exemption SB 493

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
(\$5,910.0)	(\$23,640.0)	(\$19,700.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files
 Military.com

Responses Received From
 Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate bill 493 exempts the retirement income or pension from the personal income tax for any person or spouse of a person honorably discharged from the armed forces and served in the armed forces on active duty continuously for 90 days.

The effective date is January 1, 2007.

FISCAL IMPLICATIONS

The annual impact for exempting the retirement income of retired members of the armed forces is expected to reduce personal income tax revenues by \$19.7 million. Due to the timing of the effective date, 30 percent of the reduction in tax year 2007 accrues to FY07, or \$5.9 million. The other 70 percent plus 50 percent of tax year 2008 accrues to FY08 which totals \$23.6 million. In future years, the tax year impact is distributed evenly between the fiscal years.

The fiscal impact is based on 22,000 retired armed forces in New Mexico with a total of \$460 million in pension income. The assumed effective income tax rate is 4.3 percent based on TRD analysis.

SIGNIFICANT ISSUES

The language in the bill refers to the spouse but not to a surviving spouse which may have been the intent. A surviving spouse may be implicitly included because that would be one way for a spouse to receive military pension income but the language could be more precise.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

The following table shows all of the bills currently under consideration:

207 H Cote	ARMED FORCES INCOME TAX EXEMPTION
368 H Sandoval	ARMED SERVICE RETIREE INCOME TAX EXEMPTION
497 H Foley	MILITARY RETIREMENT PAY TAX EXEMPTION
541 H Anderson	ARMED FORCES INCOME TAX EXEMPTION
43 S Robinson	MILITARY PENSION INCOME TAX EXEMPTION
492 S Carraro	ARMED SERVICES INCOME TAX EXEMPTION
493 S Carraro	MILITARY PENSION INCOME TAX EXEMPTION

OTHER SUBSTANTIVE ISSUES

TRD:

The measure would encourage military retirees to move to New Mexico. It is possible that this group of individuals possesses substantial work skills that would benefit New Mexico economic development efforts. It is sometimes argued that this group places relatively modest demands on infrastructure (education, law enforcement, etc.) than other segments of the population.

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 on the “military.com” website (<http://usmilitary.about.com/>), military retirement pay can be over \$9,000 monthly for high-ranking officers retiring in 2004.

The fiscal impact shown above does not reflect estimates of the potential “feedback” effects of the proposals on the size of the New Mexico economy. Such effects might arise, for example, if tax reductions increase investment or attract new workers to the state. At present, the department does not have reliable means of estimating the magnitude of these effects and their potential impact on state revenues.

By reducing state tax obligations, the proposed measure would tend to increase federal tax liability because state tax obligations are deductible against federal liability. Hence the net taxpayer benefit would be less than the \$880 per claimant mentioned above. The \$600 in state tax savings would, for example, be reduced to \$704 ($\$880 \times .8$) for a taxpayer in the 20% federal tax bracket.