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## FISCAL IMPACT REPORT

ORIGINAL DATE 2/6/08

SPONSOR Carraro LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Military Pension Income Tax Exemption SB 504

ANALYST Francis

### REVENUE (dollars in thousands)

| Estimated Revenue |      |              | Recurring<br>or Non-Rec | Fund<br>Affected |
|-------------------|------|--------------|-------------------------|------------------|
| FY08              | FY09 | FY10         |                         |                  |
|                   |      | (\$30,100.0) | Recurring               | General Fund     |

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Taxation and Revenue Department (TRD)

Department of Veterans' Services (DVS)

### SUMMARY

#### Synopsis of Bill

Senate Bill 504 exempts from the personal income tax the pensions of those taxpayers who either have been honorably discharged from the armed forces of the United States and who served at least 90 days on active duty or the spouse of such a member of the armed forces.

The exemption would apply for tax years beginning on or after January 1, 2009.

### 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. Since the bill begins for tax year 2009, the fiscal year impacts shown above assume that the full impact of tax year 2009 will occur in FY2010. The fiscal impact is based on 22,000 retired armed forces in New Mexico with a total of \$464 million in pension income. The assumed effective income tax rate is 4.3 percent based on TRD analysis.

## **SIGNIFICANT ISSUES**

DVS:

DVS does feel that this exemption would attract many more military retirees and these retirees would benefit the local economies around the state. Most of these retirees are in their 40's and thus not only bring in the federal retirement dollars but would also bring expertise to the local workforce. Many of these retirees start small businesses and create jobs in the local area. These retirees also bring in their own insurance and financial benefits to the area and thus reduce the strain on the local economic infrastructure. Many states now offer some type of tax relief to military retirees and New Mexico has fallen behind in attracting these very valuable assets.

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.

## **OTHER SUBSTANTIVE ISSUES**

TRD:

Individuals with incomes and other circumstances similar to individuals receiving the proposed exemption are likely to view it as unfair, especially when they compete with the retirees for jobs and when the retirees have relatively high incomes. According to information on the "military.com" website, military retirement pay can be over \$9,000 monthly for high-ranking officers retiring in 2004.

The measure may encourage military retirees to move to New Mexico. These individuals may possess substantial work skills that could benefit New Mexico economic development efforts. It is sometimes argued that such individuals place lower demands on public spending (education, law enforcement, etc.) than other segments of the population.

NF/jp