

**Bill Analysis and Fiscal Impact Report  
Taxation and Revenue Department**

**February 1, 2026**

**Bill:**  
HB-221

**Sponsor:**  
Representatives John Block, Stefani Lord, Alan T. Martinez, Jonathan A. Henry, and Jimmy G. Mason

**Short Title:**  
Armed Forces Retirement Pay Tax Exemption

**Description:**  
This bill provides a 100% personal income tax (PIT) exemption for armed forces retirement pay. Currently, the exemption is limited to \$30,000. The exemption is also available for an unremarried surviving spouse of the military retiree.

**Effective Date, Applicability, and Contingency Language:**  
Not specified or 90 days following adjournment (May 20, 2026). Applicable to tax years on or after January 1, 2026.

**Taxation and Revenue Department Analyst:**  
Sara Grubbs

**Estimated Revenue Impact\***

<b>FY26</b>	<b>FY27</b>	<b>FY28</b>	<b>FY29</b>	<b>FY30</b>	<b>Recurring or Non-Recurring</b>	<b>Fund(s) Affected</b>
(\$2,450)	(\$5,000)	(\$5,100)	(\$5,200)	(\$5,300)	R	General Fund

\* In thousands of dollars. Parentheses ( ) indicate a revenue loss. \*\* Recurring (R) or Non-Recurring (NR).

**Methodology for Estimated Revenue Impact:**

The Taxation and Revenue Department (Tax & Rev) first estimated the impact of this bill on taxpayers who currently receive the \$30,000 military retirement pay exemption and would now be eligible to claim 100% of their retirement pay. The *Statistical Report on the Military Retirement System* provides an aggregate number of retirees (officers and enlisted) and survivor beneficiaries by state, and the aggregate amount of benefits distributed. As of September 30, 2022, the most recently available report, New Mexico had 20,257 reported retirees and 2,703 survivor beneficiaries. The aggregate annual distribution of military retirement benefits for retirees and surviving spouses was approximately \$635 million. This analysis assumes all retirees were qualified by years of service or disability to receive lifetime benefits.

Tax & Rev used a Monte Carlo statistical model to estimate the fiscal impact for officers and enlisted retirees and surviving spouses with armed forces retirement income over \$30,000. Officer retiree income constitutes the majority of the fiscal impact as the monthly average armed force retiree income is approximately \$4,280, which equals an average of \$51,400 in annual retirement income. In contrast, for enlisted retirees, the average monthly armed forces income is \$2,110 and \$1,326 for surviving spouses, for annual amounts of \$25,300 and \$16,000, which is below the current \$30,000 exemption limitation. Tax & Rev calculated the aggregate fiscal impact by multiplying the aggregate income over \$30,000 by an effective PIT rate of 2.8%. Tax & Rev then inflated the annual impact by the Congressional Budget Office's inflation forecast to account for cost-of-living adjustments for military retirees.

For FY2026, Tax & Rev also assumes that taxpayers will adjust their withholding or estimated payments for the additional income exemption beginning January 1, 2026.

**Policy Issues:**  
HB-221

PIT represents a consistent source of revenue for many states. For New Mexico, PIT is approximately 16% of the state's recurring General Fund revenue. While this revenue source is susceptible to economic downturns, it also positively responds to economic expansions. New Mexico is one of 41 states, along with the District of Columbia, that impose a broad-based PIT (New Hampshire and Washington do not tax wage and salary income). Like several states, New Mexico computes its income tax based on the federal definition of "adjusted gross income" (AGI) and ties to other statutes in the federal tax code. This is referred to as "conformity" to the federal tax code. The PIT is an important tax policy tool that has the potential to further both horizontal equity by ensuring the same statutes apply to all taxpayers, and vertical equity, by ensuring the tax burden is based on a taxpayers' ability to pay. By basing the credit on a profession or retirement status, taxpayers in similar economic circumstances are no longer treated equally.

There are many reasons why states may exempt income for retirees, such as lessening the economic burdens for individuals on fixed incomes and trying to attract retirees to the state. Consideration of the income exclusions and eroding horizontal equity must be placed in context of the federal and state tax structure in its entirety. This context is critical when encouraging military retirees to reside in New Mexico through an armed forces retirement exemption.

Exempting armed forces retirement from income taxation may not necessarily result in the goal of attracting more military retirees to the state. Nine states do not tax income, including Texas, Nevada and Wyoming. Twenty-six states provide a partial exemption for military retirement pay.<sup>1</sup> A military retiree's decision with respect to their place of residence cannot be evaluated in a vacuum. For example, Texas does not tax any income, social security or otherwise. Yet the state is considered one of the least tax friendly states for retirees in the country because of its high property and sales taxes.<sup>2</sup> Notably, New Mexico's property taxes are among the lowest in the nation. Consequently, it is necessary to take a holistic look at New Mexico's tax code, and attempts should be made to make the tax structure simpler, broad based, and equitable without favoring any one segment of the population.

Reducing a taxpayer's New Mexico taxable income will result in a lower marginal income tax bracket. As this bill also applies to high-income taxpayers, there may be a more pronounced reduction in overall aggregate personal income taxes. Also, New Mexico veterans' income is the second highest in the country, earning substantially more than non-veterans. Veterans in New Mexico have an average income 164% greater than non-veterans, or \$164 for every \$100 earned by non-veterans.<sup>3</sup>

**Technical Issues:**

None.

**Other Issues:**

None.

**Administrative & Compliance Impact:**

Tax & Rev will update forms, instructions and publications and make information system changes. Staff training to administer the credit will take place. This implementation will be included in the annual tax year changes.

For Tax & Rev's Information Technology Division (ITD), implementing this bill will have a low impact on ITD, requiring approximately 220 hours or about 1 ½ months and \$15,226 of staff workload costs.

**Estimated Additional Operating Budget Impact\***

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<sup>1</sup> <https://veteran.com/states-that-do-dont-tax-military-retirement-pay/>

<sup>2</sup> [https://www.kiplinger.com/kiplinger-tools/retirement/t055-s001-state-by-state-guide-to-taxes-on-retirees/index.php?state\\_id=44#](https://www.kiplinger.com/kiplinger-tools/retirement/t055-s001-state-by-state-guide-to-taxes-on-retirees/index.php?state_id=44#)

<sup>3</sup> University of New Mexico Bureau of Business and Economic Research, Economic Impact of Military Installations in New Mexico on the State, July 2022.

FY26	FY27	FY28	3 Year Total Cost	Recurring or Non-Recurring	Fund(s) or Agency Affected
--	\$15.2	--	\$15.2	NR	ITD – Staff workload

\* In thousands of dollars. Parentheses ( ) indicate a cost saving. \*\* Recurring (R) or Non-Recurring (NR).

**Related Bills:**

Similar to SB-497 (2025 session)