

LFC Requester:

Brendon Gray

AGENCY BILL ANALYSIS - 2026 REGULAR SESSION

WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO

[AgencyAnalysis.nmlegis.gov](https://www.legis.nm.gov/AgencyAnalysis) and email to billanalysis@dfa.nm.gov*(Analysis must be uploaded as a PDF)***SECTION I: GENERAL INFORMATION***{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}*Date Prepared: 2/2/2026

Check all that apply:

Bill Number: HB221Original Correction Amendment Substitute

Representatives
Block/Lord/Martinez/Henry &
Sponsor: Mason
Short Armed Forces Retirement Pay
Title: Tax Exemption

**Agency Name
and Code**Department of Military Affairs
70500**Number:****Person Writing**Monica F. Maestas**Phone:** (505) 616-6768**Email** Monica.Maestas@dma.nm.gov**SECTION II: FISCAL IMPACT****APPROPRIATION (dollars in thousands)**

Appropriation		Recurring or Nonrecurring	Fund Affected
FY26	FY27		
0	0	NA	NA

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY26	FY27	FY28		
0	0	0	NA	NA

(Parenthesis () indicate revenue decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY26	FY27	FY28	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	0	0	0	0	NA	NA

(Parenthesis () Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to:

Duplicates/Relates to Appropriation in the General Appropriation Act

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis: An Act relating to income tax; removing the limit on the amount of income tax exemption for uniformed services retirement pay.

FISCAL IMPLICATIONS - No Fiscal Impact (NFI).

SIGNIFICANT ISSUES - None noted.

PERFORMANCE IMPLICATIONS – None noted.

ADMINISTRATIVE IMPLICATIONS - None noted.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP - None noted.

TECHNICAL ISSUES - None noted.

OTHER SUBSTANTIVE ISSUES –

New Mexico has an opportunity to enhance its economic competitiveness and honor its veterans by fully exempting military retirement pay from state income tax. While the current \$30,000 exemption is a positive step, a full exemption would align New Mexico with the 38 other states that do not tax military retirement income at all, making it a more attractive state for highly skilled and financially stable military retirees.

Economic and Fiscal Benefits

A common concern with offering tax exemptions is the potential loss of state revenue. However, in the case of military retirees, a full exemption is likely to result in a net economic gain for New Mexico for several key reasons:

- **Second Careers and Income Tax Revenue:** Many military retirees are still in their prime working years and embark on second careers. The income from these new jobs would be subject to New Mexico's state income tax, thus contributing to the state's revenue.
- **Tax Generation:** New Mexico's tax structure is unique in its reliance on a Gross Receipts Tax (GRT) rather than a traditional sales tax.

- This is a critical point. Every dollar a retiree spends in the state on goods and services— from housing and vehicles to groceries and entertainment—is subject to GRT. This continuous spending provides a consistent and significant stream of revenue for both the state and local governments.

- **Economic Stability and Growth:** Military retirees receive a steady and reliable source of income, which they inject into the local economy through their daily expenditures. This spending supports local businesses, creates jobs, and contributes to overall economic stability. Attracting and retaining these individuals strengthens the state's economic foundation.

Retaining and Attracting Talent

The decision of where to live after retiring from the military is often influenced by a state's tax policies. By not fully exempting military retirement pay, New Mexico is at a competitive disadvantage compared to many other states. A full exemption would send a clear message that New Mexico values its veterans and wants them to remain in or relocate to the state. This would help to:

- **Retain a Skilled Workforce:** Military retirees possess a unique and valuable skill set, including leadership, discipline, and technical expertise. Retaining them in the state enriches the workforce and provides a pool of experienced individuals for New Mexico's industries.
- **Strengthen Communities:** Veterans are active and engaged members of their communities, often volunteering and taking on leadership roles in local organizations.

The Path Forward

New Mexico has already recognized the value of its military retirees with the existing partial exemption. The next logical step is to join the 38 other states that offer full exemption.

Enacting this change would not only be a fitting way to honor the service of our military members but would also be a strategic investment in New Mexico's economic future.

ALTERNATIVES - None noted.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL - Status quo remains.

AMENDMENTS – None noted.