

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

**January 30, 2026**

**Bill:**

SB-116

**Sponsor:**

Senators Jay C. Block and Anthony L. Thorton

**Short Title:**

Uniformed SVC. Retirement Pay Tax Exemption

**Description:**

This bill amends the personal income tax (PIT) exemption for armed forces retirement pay by changing the title to uniformed services retirement pay, removes the \$30,000 cap on the exemption amount per taxpayer, and includes active and reserve, the United States (U.S) merchant marine, the commissioned corps of the U.S. Public Health Service and National Oceanic and Atmospheric Administration starting in taxable year 2027.

**Effective Date, Applicability, and Contingency Language:**

Not specified or 90 days following adjournment (May 20, 2026). Applicability to taxable years beginning on or after January 1, 2027.

**Taxation and Revenue Department Analyst:**

Sara Grubbs and Lucinda Sydow

**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>
--	(\$5,100)	(\$10,300)	(\$10,500)	(\$10,700)	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 this \$30,000 exemption and would no longer be subject to the \$30,000 limitation. The *Statistical Report on the Military Retirement System* provides an aggregate number of retirees (officers and enlisted) and survivor beneficiaries by state, and an 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. 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 simulation 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, for approximately \$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 - below the current \$30,000 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.

This bill also expands the definition of qualified military retirees. This includes retired members of the New Mexico Army National Guard, New Mexico Army National Guard, Air National Guard, military reserves, and commissioned corps of the United States public health service<sup>1</sup>. Tax & Rev has no straightforward way to estimate the number of these retirees. However, New Mexico currently provides PIT exemptions for armed forces salary and armed forces retirement pay. In the 2025 New Mexico Tax Expenditure Report<sup>2</sup>, the number of taxpayers claiming these two exemptions are approximately equal, a 1 to 1 ratio. Thus, Tax & Rev assumes the 1 to 1 ratio for the additional expansion of retirees, one retiree for every current working individual in the same fields. Tax & Rev estimates there would be approximately 5,666 additional taxpayers that would qualify under this bill. Tax & Rev assumed the average retirement income is 75% of the current income of working individuals as detailed in the table below.

Branch	Count <sup>3</sup>	Average Retiree Income <sup>4</sup>
Reserves (not incl. Air Force)	1074	\$33,171
Reserves (Air Force)	231	\$48,701
National Guard	4321	\$28,775
Commissioned Corps of the United States Public Health Service	40	\$61,877

Tax & Rev then calculated the tax liability using an effective PIT rate of 2.8%. Tax & Rev inflated the annual impact by the Congressional Budget Office’s inflation forecast to account for cost-of-living adjustments for military retirees.

For FY2027, Tax & Rev assumes that taxpayers will adjust their withholding or estimated payments for newly-exempted income beginning January 1, 2027.

**Policy Issues:**

Personal income tax (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 is also positively responsive 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 taxpayers’ ability to pay. By basing the credit on a profession or retirement status, taxpayers in similar economic circumstances are no longer treated equally.

<sup>1</sup> Data on Merchant Marines and commissioned corps of the National Oceanic and Atmospheric Administration of the United States were unavailable. Tax & Rev assumes this impact is negligible.

<sup>2</sup> See <https://www.tax.newmexico.gov/forms-publications/>

<sup>3</sup> <https://demographics.militaryonesource.mil/chapter-1-total-force-characteristics>  
<https://www.nmlegis.gov/handouts/MVAC%20061724%20Item%201%20New%20Mexico%20National%20Guard.pdf>

<sup>4</sup> <https://www.salary.com/research/salary/hiring/army-reserves-salary/santa-fe-nm>;  
<https://www.ziprecruiter.com/Salaries/Commissioned-Corps-Salary--in-New-Mexico>;  
<https://www.ziprecruiter.com/Salaries/Guards-Salary--in-New-Mexico>; <https://www.ziprecruiter.com/Salaries/Air-Force-Reserves-Salary--in-New-Mexico>.

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

As far as attracting more retirees to the state is concerned, exempting armed forces retirement from income taxation may not necessarily help in achieving that goal. Nine states currently do not tax income, including Texas, Nevada and Wyoming. Twenty-six states partially tax military retirement<sup>5</sup>. For retirees, the decision of a place of residence is not evaluated in a vacuum. For example, Texas does not tax any income, social security or otherwise, at all. Yet, the state features as one of the least tax friendly states for retirees in the country because of its high property and sales taxes<sup>6</sup>. Notably, New Mexico's property taxes are amongst the lowest in the nation. It is, therefore, necessary to take a holistic look at New Mexico's tax code, and attempts should be made to make the tax structure more simple, broad based, and equitable, without being punitive to any segment of the population.

New Mexico currently exempts some armed forces retirement income for eligible taxpayers (Section 7-2-5.13 NMSA 1978)<sup>7</sup>. For tax year 2023, up to \$20,000 is exempt and for tax years 2024 to 2026, up to \$30,000.

Reducing a taxpayer's New Mexico taxable income may result in a taxpayer's marginal income tax bracket falling. As this bill applies to higher-income taxpayers, there may be a secondary effect of more pronounced reduction in overall aggregate personal income taxes. Also, New Mexico veterans earn substantially more than non-veterans, the second highest in the country. Veterans in New Mexico have an average income 164% greater than non-veterans, or \$164 for every \$100 earned by non-veterans<sup>8</sup>.

#### **Technical Issues:**

**[Section 1]** Page 2, Line 3 - For clarity, the definition in B(1) should read 'active or reserve' rather than "and".

#### **Other Issues:**

The bill raises the issue of the verification of eligibility for the expanded uniformed services retirement-pay exemption. New Mexico does not receive a unified data feed from the Department of Defense, the Public Health Service, the National Oceanic and Atmospheric Association, or the Merchant Marines, so the exemption will rely primarily on self-reported information supported by federal Form 1099-R. The agency may need to clarify that documentation could be requested during audit to confirm retirement-pay status.

**[Section 2]** Page 2, lines 18-19, if this bill will be applicable to taxable years beginning on or after January 1, 2027, Tax & Rev would prefer that an effective date of January 1, 2027. If not, the statute will change but there will be nothing in statute indicating that it does not take effect on a tax return until the 2027 tax year. Tax year 2027 returns are not due to the department until April 15, 2028 - that is the timeframe the public would see the benefit of the expanded exemption.

#### **Administrative & Compliance Impact:**

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<sup>5</sup> <https://veteran.com/states-that-do-dont-tax-military-retirement-pay/>

<sup>6</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>7</sup> For more information, see the Tax Expenditure Report (<https://www.tax.newmexico.gov/forms-publications/>)

<sup>8</sup> University of New Mexico Bureau of Business and Economic Research, Economic Impact of Military Installations in New Mexico on the State, July 2022.

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\***

<b>FY26</b>	<b>FY27</b>	<b>FY28</b>	<b>3 Year Total Cost</b>	<b>Recurring or Non-Recurring</b>	<b>Fund(s) or Agency Affected</b>
--	\$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:**

Relates to SB-497 (2025 session), SB-117 (2026 session)