

NOTE: As provided in LFC policy, this report is intended for use by the standing finance committees of the legislature. The Legislative Finance Committee does not assume responsibility for the accuracy of the information in this report when used in any other situation.

Only the most recent FIR version, excluding attachments, is available on the Intranet. Previously issued FIRs and attachments may be obtained from the LFC office in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

SPONSOR:	Russell	DATE TYPED:	02/07/00	HB	325
SHORT TITLE:	Annuity & Pension Income Exemption			SB	
				ANALYST:	Williams

REVENUE

Estimated Revenue		Subsequent	Recurring	Fund
FY00	FY01	Years Impact	or Non-Rec	Affected
	\$ (17,200.0)	\$ (19,000.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

Duplicates/Conflicts with/Companion to/Relates to

SOURCES OF INFORMATION

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

The bill authorizes an exemption for state income taxes for annuity or pension income up to \$3,000. This includes distributions from pensions, annuities, retirement or profit-sharing plans, individual retirement accounts, insurance contracts and similar income. Provisions apply beginning tax year January 1, 2000.

Significant Issues

FISCAL IMPLICATIONS

TRD estimates potential revenue loss of \$17,200.0 in FY01 and \$19,000.0 for a full year. The estimate is based on 1992 pension income for New Mexico taxpayers updated with federal income data for 1992 to 1997. The impact on the general fund is expected to grow by approximately \$1.5 million per year, assuming conservative growth in pension amounts and the number of pensioners.

Because state income taxes are deductible for federal tax purposes, taxpayers who itemize deductions will receive a net benefit from this exemption of approximately 60 to 85 percent of the decrease in state tax. Federal tax for these taxpayers may increase by \$20 to \$195 per pensioner tax return.

ADMINISTRATIVE IMPLICATIONS

TRD estimates substantial administrative impact of \$40.0 to \$60.0 for additional temporary full time employees, revisions to tax forms and instructions and data processing systems.

DISTRIBUTIONAL ISSUES

The exemption is expected to affect about 140,000 tax returns with current liability for an average taxpayer

benefit of about \$135 per return. The average benefit at the median adjusted gross income level for pensioners of about \$100 per return. High income retirees would receive \$246 per pensioner and potentially \$492 on a married filing joint return.

TRD estimates about 70 percent of the impact results from tax decreases for taxpayers under 65, because those over age 65 already benefit from the existing deduction for taxpayers over 65.

AW/gm