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## FISCAL IMPACT REPORT

ORIGINAL DATE 1/20/06

SPONSOR Hobbs LAST UPDATED \_\_\_\_\_ HB 44

SHORT TITLE Military Retirement Pension Tax Exemption SB \_\_\_\_\_

ANALYST Francis

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
(8,000)	(16,000)	(16,000)	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates SB 210  
Relates to SB 115

### SOURCES OF INFORMATION

LFC Files  
Taxation and Revenue Department (TRD)

Responses Received From  
Taxation and Revenue Department (TRD)

### SUMMARY

#### Synopsis of Bill

House Bill 44 exempts the military pension of any person retired from the US armed forces and who served at least 90 consecutive days on active duty and their spouses. The exemption is for pension income received on or after January 1, 2006.

### FISCAL IMPLICATIONS

According to TRD (who uses data from Military.Com, a military service resources website), there are estimated to be 21,300 retirees in NM in 2006 receiving an average of \$21,000 per year in payments from their pension. The exemption for the retirees would reduce personal income tax collections by \$13.4 million. Including spouses and non-resident taxpayers, the total reduction to personal income tax collections is estimated to be \$16 million per tax year. Assuming tax years break evenly over fiscal years, the FY06 reduction in taxes is \$8 million and the reduction for FY07 and subsequent years is the full \$16 million.

## **SIGNIFICANT ISSUES**

There are also economic “feedback” impacts that are not captured in the fiscal impact analysis. Military personnel make a significant contribution to New Mexico’s economy while they are stationed here and encouraging them to retire in New Mexico is an important economic development goal. A 2005 New Mexico Townhall report (NM Townhall #33) indicated that 12 jobs are supported by every million dollars of federal retirement payments (both civilian and military) in New Mexico. That means that military retirement spending in New Mexico supports over 4,600 jobs in NM.

The amount that would be available due to the proposed exemption does not necessarily share the properties of retirement spending as a whole since the savings from the exemption would be considered marginal income. If it is more likely to be saved than spent, New Mexico would not enjoy any benefit from the current retirees. To the extent that more people retire in NM due to the exemption, NM will receive the benefit of all of their spending. It is uncertain whether the spending of the retirees (current and newly arrived) would offset the foregone expenditure of the state government due to the lower revenues.

TRD notes:

- Individuals with incomes and other circumstances similar the military retirees 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 the “military.com” website (<http://usmilitary.about.com/>) military retirement pay can be over \$9,000 monthly for high-ranking officers retiring in 2004.
- By reducing state tax obligations, the proposed measure would tend to increase federal tax liability because state tax obligations are deductible against federal liability for taxpayers who itemize. Hence the net taxpayer benefit would be less than the \$565 per claimant mentioned above. The \$565 in state tax savings would, for example, be reduced to \$452 ( $\$565 \times .8$ ) for a taxpayer in the 20% federal tax bracket.

## **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

HB 44 is similar to SB 115 except that HB 44 includes a provision for the spouses of retirees.

## **TECHNICAL ISSUES**

TRD reports:

Provisions of the proposed measure would impose relatively minor administrative impacts on the Taxation and Revenue Department. Provisions of the proposal could be administered with resources currently available to the Department.

## **ALTERNATIVES**

To address TRD’s note above regarding high ranking officers, the exemption could be written with a phase-out at higher income levels.

## **WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

Military retirees’ pensions will still be subject to NM personal income tax.