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FISCAL IMPACT REPORT

ORIGINAL DATE 1/20/06

SPONSOR Robinson LAST UPDATED _____ HB _____

SHORT TITLE Military Retirement Pension Tax Exemptions SB 115

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
(6,700)	(13,400)	(13,400)	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

Relates to HB 44, SB 210

SOURCES OF INFORMATION

LFC Files
Taxation and Revenue Department (TRD)
New Mexico First

Responses Received From

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 115 exempts the military pension of any person retired from the US armed forces and who served at least 90 consecutive days on active duty. 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. Assuming tax years break evenly over fiscal years, the FY06 reduction in taxes is \$6.7 million and \$13.4 million in FY07 and subsequent years.

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 First 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

SB 115 is similar to SB 210 and HB 44 except that this bill does not include 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.

NF/yr