

**LEGISLATIVE EDUCATION STUDY COMMITTEE  
BILL ANALYSIS**

**Bill Number:** SB 217

**50th Legislature, 1st Session, 2011**

**Tracking Number:** .183858.1

**Short Title:** Military Retirement Pay Tax Exemption

**Sponsor(s):** Senator William Sharer

**Analyst:** Eilani Gerstner

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**Bill Summary:**

SB 217 adds a new section of the *Income Tax Act* to provide military retirees or their surviving spouses an exemption of 100 percent of retirement or retainer pay that would be includable in net income for purposes of calculating personal income tax liability.

The exemption would be effective for tax year 2012 and beyond.

**Fiscal Impact:**

The Taxation and Revenue Department (TRD) estimates the following fiscal impact to the General Fund through FY 15:

<b>Estimated Revenue Impact</b> (dollars in thousands)					<b>Fund Affected</b>
<b>FY 11</b>	<b>FY 12</b>	<b>FY 13</b>	<b>FY 14</b>	<b>FY 15</b>	
\$0	(\$11,710)	(\$23,880)	(\$24,840)	(\$25,840)	General Fund

**Fiscal Issues:**

- The TRD analysis notes that, in 2007, the average New Mexico household income of retired military service personnel was approximately \$86,000.
- The Legislative Finance Committee (LFC) Fiscal Impact Report (FIR) notes that the exemption may require other taxpayers to pay higher taxes to offset the reduction in the tax base, unless comparable spending cuts are made.
- Measures that have a negative effect on General Fund revenue may affect available funding for public schools.

**Substantive Issues:**

The Economic Development Department analysis of SB 217 indicates that:

- Approximately 180,000 veterans live in New Mexico and over 130,000 are wartime veterans.

- The estimated economic impact to the state from their benefits and salaries is over \$1.0 billion per year.
- Retired military personnel make up a large part of this economic impact.
- As more military members retire each year from Department of Defense installations in New Mexico, this legislation would give these retirees incentive to remain in the state.
- Their resulting disposable income, human capital, and potential entrepreneurship would greatly enhance the New Mexico economy.

The LFC FIR notes that the Albuquerque chapter of Military Officers Association of America (MOAA) presented its own analysis of the benefits of exempting retirement pay. In its analysis the group reported that:

- it was in the best interests of the state to attract retirees, because they would bring with them federal benefits such as Tri-Care health coverage and retirement income;
- military retirees can provide New Mexico with increased human capital assets, and additional revenue through a multiplier effect, with little or no impact to social services; and
- the report also emphasizes the benefit to the New Mexico labor force of military retirees in education, medical services, and business.

Finally, TRD noted in its analysis that:

- individuals with incomes and other circumstances similar to individuals receiving the proposed exemption are likely to view the exemption as unfair, especially if they have to compete with retirees for jobs;
- since retirees have relatively large incomes, some may consider the additional benefit as unnecessary, and thus unfair; however,
- the proposed exemption might encourage military retirees to move to New Mexico, and these retirees may possess substantial work skills that could benefit New Mexican economic development efforts.

**Related Bills:**

HB 265 *Military Retirement Income Tax Exemption* (Identical)