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## FISCAL IMPACT REPORT

**SPONSOR** Garcia, T. **ORIGINAL DATE** 01/31/12  
**LAST UPDATED** \_\_\_\_\_ **HB** 154  
**SHORT TITLE** Veteran Employment Tax Credit **SB** \_\_\_\_\_  
**ANALYST** Smith

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY12	FY13	FY14		
	(\$320.0)	(\$420.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Taxation and Revenue Department (TRD)

Veterans Affairs

### SUMMARY

#### Synopsis of Bill

This bill provides a business owner with a \$300 tax credit for wages paid to each qualified military veteran who is employed full time in New Mexico by the taxpayer. The taxpayer may not claim the credit for any individual qualified military veteran for more than two calendar years from the date of hire and the veteran must be employed for at least eight months during the taxable year.

The purpose of this credit is to encourage the full-time employment of qualified military veterans within the first year of discharge from the military.

This bill also amends the Corporate and Franchise Tax Act to provide a similar credit.

**Effective Date:** Applicable to taxable years beginning on or after January 1, 2012.

### FISCAL IMPLICATIONS

TRD reports that according to the National Center for Veterans Analysis and Statistics, an average of 2,300 New Mexico veterans separate from the military each year. According to the

Bureau of Labor Statistics, about 75% of Gulf era veterans are employed. However, about 55% of recently discharged veterans are expected to qualify for this credit, the remainder will become self-employed or employed by a non-profit organization or a federal, state or local entity and the employers will be ineligible to claim this credit.

## **SIGNIFICANT ISSUES**

TRD made the following arguments for HB10 and the thrust of this bill is identical.

TRD reports several potential concerns:

- The tax preference for hiring veterans places non-veteran job applicants at a disadvantage.
- Also, it could be argued that businesses hiring veterans are being given an advantage relative to other businesses.

Further, it seems unfair to disadvantage veterans who would not qualify under the window. There is no point of equity that would motivate the state to discriminate against one set of recently discharged veterans in favor of another.

TRD also reports that this bill may reduce the unemployment rate for returning veterans. However, a \$ 300 credit is relatively small, It is doubtful that a program costing less than \$500 thousand annually will have a significant effect on the welfare of the veteran population.

The latest BLS report highlights the following statistics:

- Young male veterans (those ages 18 to 24) who served during Gulf War era II had an unemployment rate of 21.9 percent in 2010, not statistically different from the jobless rate of young male nonveterans.
- Male Gulf War-era II veterans ages 18 to 24 were more likely to participate in the labor force in 2010 than were their nonveteran counterparts—74.0 percent versus 67.5 percent.
- Among all veterans, those with a service-connected disability had an unemployment rate of 9.1 percent in July 2010, about the same as the rate for veterans with no disability (8.7 percent).
- About one-third of employed veterans with a service-connected disability worked in the public sector in July 2010; 1 in 5 veterans with a disability were employed by the federal government.
- Gulf War-era II veterans who were current or past members of the Reserve or National Guard had an unemployment rate of 14.0 percent in July 2010, compared with a rate of 12.1 percent for those veterans who had not been members.
- Regardless of their period of service, unemployment rates in 2010 for veterans with higher levels of education were lower than for those with less education.

The federal government has just signed into law the VOW to Hire Heroes Act, which allows a tax incentive of up to \$2,400 to businesses that hire a veteran who has been unemployed for a period of four weeks, up to \$5,600 for hiring a veteran who has been unemployed for more than six months, and \$9,600 for hiring a veteran with a service-related disability that has been unemployed for more than six months. These provisions apply to individuals who are hired between November 22, 2011 and January 1, 2013.

In addition, under the Work Opportunity Tax Credit, employers who hire veterans receiving Supplemental Nutrition Assistance Program (SNAP) benefits are allowed a tax incentive of up to \$2,400, and those that hire veterans with service-related disabilities are allowed a tax credit of up to \$4,800.

Several states offer similar tax incentives, including Vermont, which allows a tax credit of \$2,000 for each veteran hired who has left active duty within the past 24 month, and Illinois, which allows a credit of \$1,200 per veteran hire. Alaska is considering similar legislation, which would provide a credit of \$2,000 for each veteran employed for 1,560 hours per year or roughly 30 hours per week.

### **ADMINISTRATIVE IMPLICATIONS**

The Department of Veterans' Service has many programs that require an application and certificate of eligibility, thus this program should not be overly burdensome. The Taxation and Revenue Department has auditors who are experienced in administering similar types of tax credits.

### **OTHER SUBSTANTIVE ISSUES**

Does the bill meet the Legislative Finance Committee tax policy principles?

- 1. Adequacy:** Revenue should be adequate to fund needed government services.
- 2. Efficiency:** Tax base should be as broad as possible and avoid excess reliance on one tax.
- 3. Equity:** Different taxpayers should be treated fairly.
- 4. Simplicity:** Collection should be simple and easily understood.
- 5. Accountability:** Preferences should be easy to monitor and evaluate

This bill may be counter to the LFC tax policy principle of adequacy. According to the LFC staff General Fund Recurring Appropriation Outlook for FY14 and FY15, December 2011 forecasted revenues will be insufficient to cover growing recurring appropriations

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