F I S C A L   I M P A C T   R E P O R T

SPONSOR Anderson
ORIGINAL DATE 01/28/13
LAST UPDATED
HB 15

SHORT TITLE Armed Forces Retainer Pay Tax Credit
SB

ANALYST Walker-Moran

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY13	**FY14**	**FY15**	**FY16**	**FY17**		
$0.0	($2,905.0)	($8,941.0)	($15,448.0)	($20,382.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY13	**FY14**	**FY15**	**FY16**	**3 Year Total Cost**	**Recurring or Nonrecurring**	**Fund Affected**
Total	$0.0	$0.0	$10.0	$20.0	$30.0	Recurring	Taxation and Revenue Department

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
Veteran's Services Department (VSD)
Office of Military Base Planning and Support (OMBPS)

SUMMARY

Synopsis of Bill

House Bill 15 adds a new section of the income tax act for an armed forces retainer pay tax credit. A retiree from the armed forces may claim a credit against the tax liability imposed by the income tax act. The purpose of the credit is to encourage armed forces retirees to move to New Mexico and to utilize the expertise of armed forces retirees in New Mexico's work force.

The phased-in armed forces retainer pay tax credit can be deducted against a taxpayer's income tax liability. The credit shall not exceed $1,000. In taxable year 2014 the credit is 25 percent of the military retainer pay, 50 percent in taxable year 2015, 75 percent in taxable year 2016, and 100 percent thereafter.

The effective date of this bill is January 1, 2014. There is no sunset date. The LFC recommends adding a sunset date.

FISCAL IMPLICATIONS

This bill may be counter to the LFC tax policy principle of adequacy, efficiency and equity. Due to the increasing cost of tax expenditures revenues may be insufficient to cover growing recurring appropriations.

The TRD used information from the Statistical Report on the Military Retirement System published by the Department of Defense to estimate the fiscal impact. Approximately 21,000 armed forces retirees are expected to qualify for this credit. These populations were multiplied by the average annual retiree payment or the average annual surviving spouse payment using the data from the Department of Defense and the relevant percentages for the retirement or retainer pay credit mentioned above were applied. Federal fiscal year numbers were then converted to match NM fiscal years. A 4 percent average personal income tax rate was used to estimate the fiscal impact capped at $1,000. This estimate assumes taxpayer estimated payments will be adjusted in tax year beginning 2014.

SIGNIFICANT ISSUES

Last year's 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.

According to the TRD, the Albuquerque chapter of Military Officers Association of America (MOAA) 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. MOAA also suggests that 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. They also emphasized the benefit to the New Mexico labor force of military retirees in education, medical services and business.

Individuals with incomes and other circumstances similar to individuals receiving the proposed credit could view the credit as unfair, especially if they compete with retirees for jobs.

According to the Veteran's Service Department, each year nearly 200,000 service members leave the armed forces with about 50,000 qualifying for retiree pay, either through length of service or disability. According to Department of Defense figures, 72 percent of all retirees are from the enlisted corps and 28 percent are from the commissioned corps. According to DOD Department of Finance and Accounting Services, the retiree "bundle" is $50.0 billion per year in federal transfer funds (FTF). According to the US Small Business Administration, 10 percent of all small businesses are veteran owned. Also according to the USSBA, military retirees are 45 percent more likely to be self-employed (Factors Affecting Entrepreneurship among Veterans by John B. Hope, Brian Oh and Patrick C. Mackin, SAG Corporation, Annandale, VA 22003.)

According to the Office of Military Base Planning and Support, this Bill is a statement of New Mexico's support for the military retiree community. The states with the highest number of military retirees do not levy a state income tax on retired military pensions. Given New Mexico's role in national security, with four major DOD installations, in addition to supporting a large number of Army personnel at Ft. Bliss, many members of the Air Force and Army (and a few from the Navy) are assigned to New Mexico. This Bill would provide an incentive in encouraging them to remain in the State—or return to the State—after retirement.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is met with the bill's requirement to compile an annual report that includes the number of taxpayers approved by the department to receive an armed forces retainer pay tax credit. Starting in 2019, and every five years, an appropriate legislative committee shall review the effectiveness of the armed forces retainer pay tax credit.

ADMINISTRATIVE IMPLICATIONS

There is a moderate impact to TRD. Create two new forms with instructions and revise publications at a cost of $6,000. Rules and procedures need to be developed to approve retiree's application for credit eligibility. Coordination with the Department of Veterans Affairs and the Department of Defense will be needed to determine what documentation will be needed to verify that the employee qualifies. Tracking and reporting will be manual, and requires ¼ FTE to manage at a cost of about $20,000 per year.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB 96 offers an exemption as opposed to a credit and expands it to Uniformed Services that includes US Public Health Service and National Oceanic and Atmospheric Administration.

TECHNICAL ISSUES

This bill does not contain a sunset date. The LFC recommends adding a sunset date. Retainer pay is undefined.

Since the bill creates an income tax credit that would initially be applied in 2015 for tax year 2014 returns, it appears that Legislative review of the credit should begin every five years beginning in 2020. The bill's current language requires Legislative review every five years beginning in 2019.

OTHER SUBSTANTIVE ISSUES

There is the possibility that the employee can qualify for both this credit and the employer qualify for the Veterans Employment Tax Credit enacted last year (Section 7-2-18.28 NMSA 1978).

ALTERNATIVES

By only allowing for a credit on retainer pay, this may not apply to those who retire from the enlisted corps since retainer pay is only paid to those retiring from the officer corps. Changing the term "retainer pay" to "retired pay" would extend the credit to those retiring as from the enlisted corps.

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

EWM/svb/bm