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

SPONSOR Burt/Adkins
ORIGINAL DATE 01/28/16
LAST UPDATED
HB

SHORT TITLE Uniformed Service Retiree Tax Credit
SB 16

ANALYST Alejandro

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY16	**FY17**	**FY18**	**FY19**	**FY20**		
($0.0)	($0.0)	($4,270.0)	($9,608.0)	($14,946.0)	Recurring	General Fund

Parenthesis ( ) indicate revenue decreases

SOURCES OF INFORMATION

LFC Files

Responses Received From
Tax and Revenue Department (TRD)
Department of Veterans' Services (DVS)

SUMMARY

Senate Bill 16 seeks to implement an income tax deduction for uniformed services retirees or their surviving spouses in the following increments:

- for a taxable year beginning on or after January 1, 2017 and prior to January 1, 2018, 25 percent, not to exceed $6,250;
- for a taxable year beginning on or after January 1, 2018 and prior to January 1, 2019, 50 percent, not to exceed $12,500;
- for a taxable year beginning on or after January 1, 2019 and prior to January 1, 2020, 75 percent, not to exceed $18,750; and
- for a taxable year beginning on or after January 1, 2020, 100 percent, not to exceed $25,000.

The purpose of the bill is to encourage uniformed services retirees to reside in New Mexico and to apply their expertise to the work force and business community.

There is no effective date of this bill. It is assumed that the new effective date is 90 days after this session ends (May 18, 2016).

FISCAL IMPLICATIONS

TRD calculated the fiscal impact of the bill using baseline data obtained from the FY13 Department of Defense (DoD) Statistical Report on the Military Retirement System. Initial values utilized included: total number of retired personnel, number of retired personnel paid by DoD, and monthly payments by DoD. Cost of living escalation rate and average personal income tax rate were estimated using historical data.

In general, military retirement pay and pensions are subject to federal income tax. This bill creates an incentive to establish residency in New Mexico similar to tax deductions that some neighboring states already offer. According to DVS, sixteen states currently provide a 100 percent income tax exemption to military retirees.

While the net revenue loss would likely compound over time, it is expected to be offset by contributions to gross receipts tax as well as taxes levied on wages from post-retirement employment and spousal wages.

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.

Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for tax expenditure may be ambiguous, further complicating the initial cost estimate of the expenditure's fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures.

SIGNIFICANT ISSUES

DVS indicates that each year approximately 50,000 United States service members leaving the military forces will qualify for retired pay, in addition to thousands of surviving spouses entitled to survivor benefits. These professionals possess skills honed over a 20+ year career in medical, engineering, information technology, and other fields. Further, 1 in 10 small businesses in the United States is veteran owned, as retired service members are 45 percent more likely than those without any active duty military experience to be self-employed, according to US Small Business Administration.

DVS also offers that New Mexico's current 20,000 military retirees are responsible for approximately $1.6 billion flowing into the state's economy - derived from retired pay, second career jobs, social security, property and gross receipt taxes, and health benefits. The proposed legislation would keep military retirees and surviving spouses in New Mexico.

ADMINISTRATIVE IMPLICATIONS

According to TRD, the bill would have minimal administrative impact, though the following would be required:

- IT systems would need to be programmed to include tax credit rates and caps for the various date ranges - implementation will require less than 200 hours and can be completed in tandem with new year changes;
- PIT forms will need to be amended for this deduction, and a corresponding field added to appropriate data base so that accurate reports can be generated. Personal Income Tax (PIT-ADJ) schedule will need to be amended to support the deduction as well as the reporting requirement;
- documentation requirements to determine eligibility would need to be established. Eligibility is based upon an affirmative qualifying application. The least cost approach is to require documentation as a submittal with the return; and
- an annual report to the legislative committee would need to be developed.

TECHNICAL ISSUES

TRD indicates that "Uniformed Services Retiree," as defined by the bill, requires separation from military service. This could exclude retirees of National Oceanic and Atmospheric Administration Commissioned Officer Corps, and it will exclude retirees of the Public Health Service Commissioned Corps.

The term "military retirement income" as used at line 22 of the bill may be too narrowly defined, pursuant to the intent of the bill. This term, as defined, might preclude the credit from Armed Forces retirees receiving service-related disability pensions funded by the Department of Veterans Affairs. The "Armed Forces" are a subset of U.S. Uniformed Services and includes non-civilian members of the Army, Navy, Air Force, Marine Corps, and Coast Guard.

LA/al