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

SPONSOR: Vanderstar Russell DATE TYPED: 02/07/01 HB 382

SHORT TITLE: Annuity & Pension Income Tax Exemption SB

ANALYST: Williams

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY01	**FY02**			
	$ (18,000.0)	$ (20,000.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files
Taxation and Revenue Department

SUMMARY

Synopsis of Bill

This personal income tax bill authorizes an exemption of up to $3,000 for annuity and pension income. Pension and annuity income is defined as:

- pension or annuity income required by federal law or regulation to be reported on federal form 1099-R or related to report distributions from pensions, annuities, retirement or profit-sharing plans, individual retirement accounts, insurance contracts and similar income...under a qualified plan, annuity or simplified employee pension plan pursuant to Sections 401 through 404, 408 or 457 of the Internal Revenue Code of 1986 and
- includes any inside buildup of interest distributed in conjunction with any of the listed distributions.

The exemption is authorized beginning tax year 2001.

FISCAL IMPLICATIONS

The legislation would reduce general fund revenue on a recurring basis by $18,100.0 and $20,000.0 in FY02 and FY03, respectively, according to the Taxation and Revenue Department. This estimate relies on the components: taxable IRA distributions, pensions and annuities and self-employment retirement plans as reported for New Mexico by the Internal Revenue Service Statistics of Income.

Social security benefits are not included under the provisions of this bill. Another key input in this analysis is the number of tax returns reporting pension and IRA income.
According to TRD, each pension recipient with taxable income would realize state tax savings of from $50 to $246, with a probable average savings of about $100 to $135 in annual state income taxes. The average benefit at the median adjusted gross income level for pensioners would be about $100 per return. A significant portion, possibly 70 percent, results from tax decreases for taxpayers under age 65. Recall that state income taxes are deductible for federal tax purposes.

ADMINISTRATIVE IMPLICATIONS

TRD predicts a substantial administrative impact on the department of $40.0 to $60.0. TRD has considerable discussion on this point.

TECHNICAL ISSUES

TRD notes they will be unable to differentiate between particular types of 1099-R income during tax return processing, and unable to determine the taxable portions of 1099-R income included in federal adjusted gross income in some cases. Therefore, portions of income already exempt from tax could be deducted a second time, and additional income, not intended to be exempt, may possibly be excluded from state income taxation. Verification would be manual.

POSSIBLE QUESTIONS

1. Could the bill be means tested to target pensioners at lower levels of income?

AW/jsp