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

		ORIGINAL DATE	01/30/12		
SPONSOR	SCORC	**LAST UPDATED**	02/15/12	**HB**	

SHORT TITLE	Armed Forces Retirement Tax Credit	**SB**	129/SCORCS

		ANALYST	Smith

REVENUE (dollars in thousands)

Estimated Revenue				Recurring or Nonrecurring	Fund Affected
FY13	**FY14**	**FY15**	**FY16**		
	($12,000.0)	($18,000.0)	($24,000.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates HB 162/HTRCS

SOURCES OF INFORMATION
LFC Files

No Response From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

The Senate Corporations and Transportation Committee Substitute for Senate Bill 129 enacts a credit for armed forces retirement or retainer pay. This credit is available to an armed forces retiree who files a New Mexico income tax return. The credit may be claimed against a taxpayer's tax liability for the taxable year and equal to twenty-five percent of military retirement or retainer pay beginning January 1, 2013, fifty percent beginning January 1, 2014, seventy-five percent beginning January 1, 2015, and one hundred percent beginning on or after January 1, 2016. Any portion of the credit which exceeds a taxpayer's income tax liability in a taxable year may not be carried forward, refunded or transferred.

Effective Date: January 1, 2013; Applicable to tax years beginning on or after January 1, 2013.

FISCAL IMPLICATIONS

Approximately 21,000 armed forces retirees are expected to qualify for this credit. This amount was multiplied by the annual average retiree payment amount and a 4% tax rate was used to calculate the amount of credit. LFC staff extrapolated from the original bill to arrive at the fiscal impact.

SIGNIFICANT ISSUES

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.

TECHNICAL ISSUES

The technical issues mentioned by TRD in the original bill seem to still apply:

Since the bill creates an income tax credit that would initially be claimed in 2014 for tax year 2013, returns, it appears that Legislative review of the credit should begin every five years beginning in 2019. The bill's current language requires Legislative review every five years beginning in 2018.

"Military retirement or retainer pay" is not defined. It is recommended that this term be defined to resolve any ambiguities regarding the types of income to which the proposed credit applies.

Subsections G and H attempt to create an exception to taxpayer confidentiality provisions of Section 7-1-8, but still could conflict with those provisions to the extent that they do not expressly permit specific persons to receive return information. As such, it is recommended that Subsection H include language indicating that notwithstanding the provisions of Section 7-1-8, acceptance by a taxpayer of an armed forces retirement or retainer pay tax credit is authorization for the department to reveal information to the Legislature necessary to analyze the effectiveness of the credit.

Although Subsection H provides for a taxpayer's authorization to reveal taxpayer information to the Legislature, it is unclear whether taxpayer information could be revealed to Legislative staff, individual legislators or legislative committees. Further clarification is recommended.

OTHER SUBSTANTIVE ISSUES

Does the bill meet the Legislative Finance Committee tax policy principles?
- **Adequacy**: Revenue should be adequate to fund needed government services.
- **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
- **Equity**: Different taxpayers should be treated fairly.
- **Simplicity**: Collection should be simple and easily understood.
- **Accountability**: Preferences should be easy to monitor and evaluate

This bill may violate the LFC tax policy principle of adequacy. According to the LFC General Fund Recurring Appropriation Outlook for FY14 and FY15 the December 2011 forecasted revenues will be insufficient to cover growing recurring appropriations. Since currently forecasted revenues in FY14 and FY15 may not be adequate to fund government services there is insufficient funds for additional tax cuts.

The sponsor might want to consider a "sunset clause" so that the efficacy of this amendment can be evaluated.

AMENDMENTS

The title of the bill should reflect the bill's intent to create an exception to Section 7-1-8. The title could include the following: "CREATING AN EXCEPTION TO TAXPAYER CONFIDENTIALITY."

SS/lj:svb