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FISCAL IMPACT REPORT

ORIGINAL DATE 2/23/17

SPONSOR Tallman LAST UPDATED _____ HB _____

SHORT TITLE Tax Incentives to Attract Retirees to NM SJM 26

ANALYST Martinez

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY17	FY18	FY19	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		\$37.0		\$37.0	Nonrecurring	TRD Operating
Total		\$25.0		\$25.0	Nonrecurring	EDD Operating

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)
Economic Development Department (EDD)

SUMMARY

Synopsis of Bill

This Joint Memorial will require the Economic Development Department (EDD) to work with the Taxation & Revenue Department (TRD) to study the costs and benefits of making changes to tax policy for the purpose of making New Mexico more attractive to retirees.

The joint memorial references that New Mexico has a large number of benefits that could attract retirees. New Mexico is in the small number of states that taxes pension benefits, and that retirees have higher concentrations of wealth, spend more money than other segments of the population, and are able to settle in places with scarce job opportunities.

EDD and TRD would be required to report to the appropriate legislative interim committee during the 2017 interim on the result of their study.

FISCAL IMPLICATIONS

The Economic Development Department stated that this legislation will require two researchers/writers to work with TRD to complete the study. A reasonable estimate of the value of the staff time devoted to the study is \$25 thousand of current operating budget.

The Taxation and Revenue Department stated that it would not be able to comprehensively comply with the requirement of this memorial without additional FTE and an extension of time. The cost to the TRD operating budget would be \$37 thousand.

SIGNIFICANT ISSUES

The following significant issues were provided by the Taxation and Revenue Department and the Economic Development Department.

This joint memorial requires that TRD and EDD report to an interim committee during the 2017 interim the results of a study of the costs and benefits of a possible tax incentive to attract retirees from other state. This is an extensive study to undertake in such a short amount of time. This bill will require additional FTE as the economists in TRD are already committed to other projects. This bill will require the full time attention of at least one additional economist from TRD.

There are several incentives that currently exist to attract retirees; including, excess of elderly taxpayers maximum property tax liability rebate from pit; persons sixty-five and older or blind exemption from personal income taxes (PIT) and a comprehensive tax rebate, unreimbursed or uncompensated medical care expenses credit and exemption from PIT, nonprofit elderly care facility exemption from Gross Receipts Tax, veteran employment credit against PIT and Corporate Income Tax, and certain disabled military veteran exemption from motor vehicle tax. Additionally, the net capital gains deduction from PIT also serves as an incentive for retirees that are living off of investments and trade in investments.

One option to explore is that seven states have no personal income taxes: Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming. Another option is that the following 13 states tax Social Security: New Mexico, West Virginia, Vermont, Utah, Rhode Island, North Dakota, Nebraska, Montana, Missouri, Minnesota, Kansas, Connecticut, and Colorado.

Additionally, some consideration should be given to whether New Mexico's current infrastructure can support an influx of retirees and what additional infrastructure would be necessary.

Retirees of a certain income level have been identified by the Legislative Jobs Council as having potential to increase the economic base of communities that choose to target them, particularly small, rural communities. Research shows retirees look for specific amenities when choosing a place to retire. These amenities include health care, cultural activities and ongoing education opportunities, as well as the tax climate of the state. New Mexico taxes military retirement income while some other states do not. New Mexico is also home to three air force bases and one army base, therefore, has the potential of attracting individuals who retire from the military while stationed in New Mexico.

PERFORMANCE IMPLICATIONS

As noted above in significant issues, this joint memorial requires that TRD and EDD report to an interim committee during the 2017 interim the results of a study of the costs and benefits of a possible tax incentive to attract retirees from other states. This is an extensive study to undertake in such a short amount of time. This bill will require additional FTE as the economists in TRD

are already committed to other projects. This bill will require the full time attention of at least one additional economist from TRD.

ADMINISTRATIVE IMPLICATIONS

TRD states that they will need to hire at least 1 temporary economist or analysts for 6 months to complete this study. The Economic Development Department would perform the study with staff already working for the department.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

A potential lost opportunity from making tax changes after the study has been completed, which could have a positive benefit on New Mexico communities.

ALTERNATIVES

The sponsor may want to expand the agencies participating. The Aging and Long-Term Services and Veteran Services Departments may be able to offer insights on attracting retirees to the state. The Higher Education Department could review educational opportunities that may be of interest of retiree similar to the UNM continuing education program. The Cultural Affairs and Energy, Minerals and Natural Resources Departments have insight into museums and parks that maybe of interest to attracting retirees.

JM/sb/al