

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (legis.state.nm.us). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

ORIGINAL DATE 1/23/09

SPONSOR Cote LAST UPDATED _____ HB 241

SHORT TITLE Child Daycare Gross Receipts Deduction SB _____

ANALYST Gutierrez

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
	(2,896)	(2,983)	Recurring	Local Governments
	(3,318)	(3,417)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files
Taxation and Revenue Department (TRD)

Responses Received From
Children, Youth and Families Department (CYFD)

SUMMARY

Synopsis of Bill

House Bill 241 creates a new gross receipts tax deduction on all taxable gross receipts of child daycare providers licensed by Children, Youth and Families Department (CYFD).

The provisions of the bill will be effective on July 1, 2009.

FISCAL IMPLICATIONS

CYFD estimates that there will be \$85.3 million in receipts from daycare services pursuant to their contracts in FY2009. This estimate assumes an average gross receipts tax rate of 7.07 percent and an annual growth rate of 3 percent.

SIGNIFICANT ISSUES

Currently, CYFD Child Care Assistance policy, 8.15.2 NMAC, allows licensed child care providers to pass on the gross receipt tax burden to low-income families receiving Child Care

Assistance from CYFD. This bill would therefore reduce the out-of-pocket cost of childcare for these families.

This bill does not include CYFD Child Care Assistance families who have chosen to use a registered home. Currently, CYFD serves approximately 3,500 families who would therefore not benefit from this bill in its current form.

LFC notes that while individual credits, deductions and exemptions from the gross receipts tax may have small fiscal impacts, their cumulative effect significantly narrows the gross receipts tax base. Narrowing the gross receipts tax base increases revenue volatility and requires a higher tax rate to generate the same amount of revenue.

ADMINISTRATIVE IMPLICATIONS

This bill would cause minimal impact to the Taxation and Revenue Department.

The bill does not contain a sunset date and there is no provision for reporting on this deduction. It is important for policy makers to have regular information and an opportunity to review the effectiveness of the deduction.

OTHER SUBSTANTIVE ISSUES

TRD notes that Section 7-9-54 NMSA 1978 states that services to governmental entities are taxable. This bill would give a special allowance for this governmental entity which would likely lead to requests from other governmental entities in the future.

BLG/mt

The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:

- 1. Adequacy:*** revenue should be adequate to fund government services.
- 2. Efficiency:*** tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.
- 3. Equity:*** taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.
- 4. Simplicity:*** taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.
- 5. Accountability/Transparency:*** Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.

More information about the LFC tax policy principles will soon be available on the LFC website at www.nmlegis.gov/lcs/lfc