

FISCAL IMPLICATIONS

The fiscal impact of this bill depends on if and when the eligible municipalities choose to impose the environmental services gross receipts tax. To illustrate the potential fiscal impacts of the bill, the table below shows the amount of revenue that could be generated by each eligible municipality if the newly allowed 1/2 percent (0.5%) environmental services gross receipts tax is imposed in FY10. Eighty-three municipalities already impose the tax (at 1/16 percent) and this estimate assumes all eligible municipalities (Ruidoso and Ruidoso Downs) will impose another 1/2 percent increment of the tax. About \$1.7 million could be generated by eligible municipalities if all fully impose the tax in FY10.

The table below also indicates the potential general fund revenue loss that will occur if all eligible municipalities fully impose this tax in FY10. The food and medical gross receipts tax deductions enacted in 2004 include “hold harmless” provisions to protect local governments from associated revenue losses. In 2007, legislation froze the tax rate at which some local governments are held harmless from the food and medical deductions. However, in smaller cities, the general fund hold harmless distribution grows larger when higher local option taxes are imposed. The table below shows that the general fund revenue loss will be about \$57 thousand in FY10 if all eligible municipalities choose to impose the tax. Fiscal impacts are expected to grow by 2.5 percent in FY09, 0.9 percent in FY10 and 3.4 percent in FY11, which is the rate at which the February 2009 consensus revenue estimate expects gross receipts tax collections to grow.

**Illustration of Potential Revenue from Additional Municipal
Local Option Increments - Fiscal Year 2010**

Municipality	Potential Revenue: 1/2% Municipal Environment GRT Increment	Potential General Fund Loss Due to Hold Harmless Distribution: 1/2% Municipal Environment GRT Increment
Ruidoso	1,321,641	(57,240)
Ruidoso Downs	425,968	Hold Harmless Rate Frozen
TOTAL ALL MUNIS	\$1,747,609	(\$57,240)

Source: Taxation and Revenue Department, Reports 500 and Reports 80

SIGNIFICANT ISSUES

New Mexico’s municipalities and counties are authorized to impose over 4 percent of local option gross receipts taxes (that figure excludes several additional local option taxes that have been authorized for selected local governments). On average, a local option gross receipts tax of about 2.16 percent is actually imposed by local governments statewide. Combined with the state gross receipts tax of 5 percent, the statewide tax rate is therefore 7.16 percent.

Ruidoso’s current tax rate is 7.8125 percent and this bill could potentially bring that rate to as high as 8.3125 percent. Ruidoso Down’s current tax rate is 6.8125 percent and this bill could potentially bring that rate to as high as 7.3125 percent.

ADMINISTRATIVE IMPLICATIONS

The administrative impact on TRD will be minimal.

TECHNICAL ISSUES

TRD:

The existing one-sixteenth percent excise tax authorized in Section 7-19D-10 is referred to as the “municipal environmental services gross receipts tax.” It has certain referendum guidelines and limitations on the use of its revenue. The proposed excise tax is inserted into the same Section of statute but it would have no limitations on how municipalities use the revenue it generates, and it has no referendum guidelines. It is ambiguous if it could even be referred to with the same name.

The effective date should be July 1, or January 1, to be consistent with the effective dates for gross receipts tax rates.

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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