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FISCAL IMPACT REPORT

ORIGINAL DATE 02/05/13
 SPONSOR Garcia, M.H. LAST UPDATED 03/13/13 HB 235/aHBIC/aSCORC
 SHORT TITLE Border Zone Company Gross Receipts SB _____
 ANALYST Smith

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY13	FY14	FY15	FY16	FY17		
	(\$600.0)	(\$600.0)	(\$600.0)	(\$600.0)	Recurring	General Fund
	(\$400.0)	(\$400.0)	(\$400.0)	(\$400.0)	Recurring	Local Governments
	(\$1000.0)	(\$1000.0)	(\$1000.0)	(\$1000.0)	Recurring	Total

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

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

SUMMARY

Synopsis of SCORC Amendment

The Senate Corporations and Transportation amendment to House Bill 235 strikes the HBIC amendment and then restates it with a requirement that taxpayers report the amount exempted to the Taxation and Revenue Department.

Synopsis of HBIC Amendment

The House Business and Industry Committee amendment to House Bill 235 adds an annual reporting requirement. The Legislative Finance Committee (LFC) tax policy of accountability is met with the amendment's requirement to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the deduction and other information to determine whether the deduction is meeting its purpose.

Synopsis of Original Bill

House Bill 235 extends the availability of the current gross receipts tax deduction for trade-support companies (Section 7-9-56.3 NMSA 1978) from July 1, 2013 until July 1, 2019.

Effective Date: Emergency clause; effective upon the Governor’s signature.

FISCAL IMPLICATIONS

The estimates in the revenue box are a place marker. The Taxation and Revenue Department (TRD) does not track what this deduction costs. More information needs to be collected about the cost of this deduction so that the Legislature may make an informed decision.

The TRD’s discussion of their fiscal impact is reprinted below.

The proposal is an extension of the current gross receipts tax deduction for trade support companies. The Economic Development Department (EDD) estimates that this deduction in combination with other trade positive legislation has helped to double New Mexico’s merchandise exports over the last two years, and has added significant jobs to the border areas of southern New Mexico.

This proposal should not have significant new revenue impact. It only extends the sunset it does not otherwise expand the deduction. As the trade support industry expands, extending this deduction does increase the amount of gross receipts that are deducted, but the EDD asserts that the deduction is critical to that growth. Without the extension, the growth may not be realized, and so the net effect is that there is no new impact from the extension.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is not met since the TRD is not required in the bill to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the deduction and other information to determine whether the deduction is meeting its purpose.

Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for tax expenditure may be ambiguous, further complicating the initial cost estimate of the expenditure’s fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures.

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| <p>Does the bill meet the Legislative Finance Committee tax policy principles?</p> <ol style="list-style-type: none">1. Adequacy: Revenue should be adequate to fund needed government services.2. Efficiency: Tax base should be as broad as possible and avoid excess reliance on one tax.3. Equity: Different taxpayers should be treated fairly.4. Simplicity: Collection should be simple and easily understood.5. Accountability: Preferences should be easy to monitor and evaluate |
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