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

ORIGINAL DATE 05/25/17
SPONSOR Harper **LAST UPDATED** 06/09/17 **HB** 8

SHORT TITLE Tax Reform **SB**

ANALYST Clark/Iglesias

REVENUE (dollars in thousands)

Estimated Revenue*					Recurring or Nonrecurring	Fund Affected
FY17	**FY18**	**FY19**	**FY20**	**FY21**		
$0.0	($100,900.0)	($113,700.0 to $132,700.0)	($160,500.0 to $164,800.0)	($166,100.0 to $170,500.0)	Recurring	General Fund
$0.0	$40,920.0	$102,000.0	$106,000.0	$108,000.0	Recurring	Road Funds
$0.0	$57,400.0 to $70,900.0	$0.0	$0.0	$0.0	Nonrecurring	Tax Stabilization Reserve
$0.0	Indeterminate but Likely Negative	Indeterminate but Likely Negative	Indeterminate but Likely Negative	Indeterminate but Likely Negative	Recurring	Municipal Governments**
$0.0	Indeterminate but Likely Positive	Indeterminate but Likely Positive	Indeterminate but Likely Positive	Indeterminate but Likely Positive	Recurring	County Governments**

Parenthesis ( ) indicate revenue decreases
* The estimates reflect a technical error in the bill in that it does not repeal the nonprofit receipts exemption for nonprofit hospitals and nonprofit organizations. See Appendix B for general fund impacts if the technical error was corrected.
** See Fiscal Implications for a discussion on the potential impact to local governments.

TAX RATES

Tax Rates by Revenue Source				Rates Apply To:
Current – Statutory Rate	**Current – Effective Rate**	**Proposed – Effective Rate (02/01/18 – 12/31/18)**	**Proposed – Effective Rate (01/01/19 and later)**	
5.125%	4.16%	3.6%	TBD – rate recalculation to occur Oct 2018 by TRD***	GRT/sales tax and compensating/use tax (state rate)
n/a	2.77% (incl. 1.225% state distribution to munis)	2.51% (incl. 0.965% direct attribution to munis)		GRT/sales tax and compensating/use tax (local rate)
n/a	6.93%	6.11%		Combined tax rate (state plus local rate)

*** See Fiscal Implications for rate recalculation method and estimates

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

FY17	FY18	FY19	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
High Impact	High Impact	Moderate Impact	High Impact	Nonrecurring Costs (Short Term), Possible Recurring Savings (Long Term)	Taxation and Revenue Department

Parenthesis ( ) indicate expenditure decreases

SOURCES OF INFORMATION
LFC Files

Responses Received From
New Mexico Municipal League (NMML)
Office of Superintendent of Insurance (OSI)
Taxation and Revenue Department (TRD) – data, partial calculations, and discussions with LFC staff but no final agency analysis
Department of Finance and Administration (DFA) – data, partial calculations, and discussions with LFC staff but no final agency analysis

No Responses Received From
Human Services Department (HSD)
Department of Health (DOH)
Economic Development Department (EDD)

SUMMARY

Synopsis of Bill

House Bill 8 is a substantial tax reform package, and it contains significant differences from the House Bill 412 tax reform proposal of the 2017 regular legislative session. The bill is significantly longer at 430 pages compared with 333 pages for the HB412 House Floor Substitute, although much of the length is due to relatively minor language changes in statute, primarily changing the names of taxes. It makes major modifications to the gross receipts tax (GRT) and compensating tax, including renaming them as the sales and use taxes. It endeavors to lower GRT rates and remove tax pyramiding from certain professional services sold to businesses. To support the goals of rate reduction and anti-pyramiding, the bill eliminates a wide array of tax exemptions, deductions, and credits and increases other tax revenue sources.

Some of the changes in the bill were due to analysis during and after the session that indicated HB412 was not raising enough revenue through repeals of various tax expenditures to enact the broad new business-to-business anti-pyramiding provision and reduce the GRT rate.

To raise more revenue to allow sales tax rate reduction at the combined state and local level, this bill raises other tax rates and generally attempts to align various consumption tax rates. The effective sales tax rate initially declines by a little over half a percent from its current state-plus-local effective rate of about 7 percent. The motor vehicle excise tax rate increases from 3 percent to 6 percent; 1 percent of the increase is used to support GRT rate reduction by supplementing general fund revenues, and the other 2 percent is split between state and local road funds. The boat excise tax is also increased from 3 percent to 6 percent. To also help drive down the GRT rate, the health insurance premium surtax increases from 1 percent to 2 percent, resulting in a combined premium tax and surtax rate of 5.003 percent, which the Human Services Department previously reported translates into an effective rate for Medicaid managed care organizations (MCOs) just below the maximum allowed by the federal government. Finally, the compensating tax (or use tax) rate is set to equal the state GRT rate and allow for local revenue sharing by applying local sales tax rates to the use tax.

This bill creates a much narrower new anti-pyramiding provision than HB 412 to reduce the fiscal impact. However, the bill also simultaneously creates what can be argued is significant new pyramiding in the healthcare industry by subjecting healthcare providers to the full sales and use taxes (apart from a Medicare deduction for services) and raising the health insurance premium surtax 1 percent. Because healthcare costs directly relate to the costs borne by insurance companies, taxing the healthcare industry creates pyramiding where there was none before, and the premium surtax rate increase amplifies the impact.

Below are key actions of the bill.

Gross Receipts Tax (GRT)

- Re-brands GRT as "sales tax" but leaves legal incidence on the seller
- Broadens and narrows the base through different provisions, although estimates indicate the base broadening provisions have a greater impact
- Broadens the tax base by removing most exemptions, deductions, and credits not associated with defining the tax base or avoiding double taxation
    - Potentially improves revenue stability (see Fiscal Implications for uncertainty discussion) and restores healthcare revenue streams that grow faster than inflation
    - Mostly leaves three classes of exemptions, deductions and credits
        - Select anti-pyramiding provisions (while select others are repealed)
        - Select economic development incentives (while select others are repealed)
        - Federal preemption doctrine: the state is not allowed to impose a tax because federal law prohibits it
- Narrows the base by removing tax pyramiding for business-to-business professional services for select professions
    - Lawyers, investment managers, accountants and bookkeepers, engineers (not related to construction or drilling with the possible exception of fracking), IT services, human resources services, and temporary employment services
- Inadvertently creates tax pyramiding for the healthcare industry by taxing healthcare services and products (essentially the only external cost component of the health insurance industry) and raising the existing tax on health insurance premiums
- Simplifies compliance and improves administration by reducing number of non-taxable transaction certificates (NTTCs)
    - Provides for alternative evidence in the case of a missing NTTC during audit
- Levels the playing field for local brick and mortar businesses by taxing internet sales transactions on direct sales; however, it does not tax third-party platform sales, such as sales through Amazon.com by other sellers
- Taxes most nonprofits by repealing the sales to nonprofits deduction and changing the receipts of nonprofits exemption to a deduction for the first $250 thousand in a calendar

year (a notable technical issue remains as the bill inadvertently does not repeal the exemption on nonprofit receipts)

  - Increases uniformity in the tax code, including in the medical industry by treating nonprofit and for-profit facilities the same
  - Guards against revenue losses from potential future changes in the organizational structure of national laboratory prime contractors
  - Makes a significant policy choice by taxing charitable nonprofits and other nonprofits that do not compete with the private sector

- Sets an initial state rate on February 1, 2018 of 3.6 percent, down 0.56 percent from the current effective rate of 4.16 percent
- Attributes the 1.225 percent municipal share of the state tax to the municipalities' tax rates versus the current mechanism, which buries that municipal increment within the state tax rate
  - The bill also reduces the municipal share from 1.225 percent to an initial 0.965 percent on February 1, 2018, attempting to offset the aggregate benefit local governments could receive from the expanded tax base
- Requires the Taxation and Revenue Department (TRD) to recalculate GRT rates for the state and municipalities based on formulas provided in the bill and makes the new rates effective January 1, 2019
- Eliminates medical hold harmless payments to local governments due to bringing most of healthcare into the tax base (leaves food hold harmless payments in place)
- Caps general fund sales tax revenues for FY18 and FY19 and distributes any excess to the tax stabilization reserve

Compensating Tax

- Re-brands compensating tax as "use tax" but leaves legal incidence on the buyer
- Removes incentive to purchase out of state by aligning the rates with GRT (now sales tax) rates as opposed to lower rates, which is currently the case
- By setting the rate equal to the sales tax rate and allowing local sharing, this reduces general fund revenues while increasing local revenues and results in a higher overall combined rate

Motor Vehicle Excise Tax (MVX)

- Increases the tax rate from 3 percent to 6 percent
- Uses 1 percent to help reduce the sales tax rate
- Addresses significant statewide road infrastructure needs by using 1 percent for the state road fund and 1 percent for the local government road fund

Corporate Income Tax (CIT)

- Provides a measure of CIT reform by amending the Uniform Division of Income for Tax Purposes Act (UDITPA) to determine the sourcing of certain sales and services; it updates the tax code to assess the tax based on sourcing services and intangibles to New Mexico if delivered to a customer in the state or used in the state

- Current assessment method using "cost of performance" does not allow New Mexico to tax companies that incur the majority of costs of providing the service or intangible outside the state but which sell to customers inside the state

Insurance

- Increases the Health Insurance Premium Surtax tax rate from 1 percent to 2 percent
  - This tax rate is layered on top of existing, broader insurance premium tax rate of 3.003 percent for a total impact on health insurance premiums of 5.003 percent
- Amends the "preemption and in lieu provision" to narrow the exclusion from the sales tax for receipts of insurance companies; current statute creates a total exclusion, but the bill allows the exclusion only for receipts on which the premium tax is assessed or for eligible investments, leaving any other receipts subject to the sales tax
- Prevents a hospital (or any other type of business) from selling insurance policies or combining with an existing insurance company to remove all receipts from taxability under the sales tax

The effective date of the bill is February 1, 2018.

FISCAL IMPLICATIONS

It is impossible to score precisely the fiscal impact of this bill, or any tax reform bill of this magnitude, due to limitations in available data; however, significant improvements have been made in data and analysis since the close of the 2017 regular session and the special session. The modeling performed for this bill incorporated direct reporting, detailed analysis, assumptions from a variety of sources, and educated guesses where no data exists. Interactive effects in this bill and the tax expenditures being repealed could have unanticipated consequences that could lead to revenue shortfalls for the state and local governments or possibly unanticipated revenue windfalls. This uncertainty of the bill's impact comes at a time with historically low reserves.

The ranged fiscal impact estimates on page one are scored for the bill as introduced (which contains a technical error of not repealing the exemption on nonprofit receipts) and vary based on the minimum and maximum ranged estimates for the new anti-pyramiding deduction. Appendix A shows the full calculations for both minimum and maximum estimates on the bill as introduced, and Appendix B shows the minimum and maximum estimates for the bill without the nonprofit exemption technical error.

The bill's intent appears to be a revenue neutral impact on the state general fund for FY18 with limited (less than the consensus revenue forecast) growth in future years. If the technical and arithmetic errors and assumptions were remedied, the bill's score could be changed to be revenue neutral to the general fund for FY18, although actual revenues would come in higher or lower to some degree. These changes would also substantially reduce the large general fund losses in future fiscal years.

The table below considers estimated tax base changes, the repeal of medical hold harmless payments to local governments, the increase in the motor vehicle excise tax and the health insurance premium surtax, and the effects of sharing compensating (use) tax revenue with local governments as well as the reduction in the use tax rate. Taxable base estimates for FY18 include both base expansion from the repeal of tax expenditures and base contraction from the new anti-pyramiding deduction. Base estimates for FY19 and beyond are increased by the GRT growth rates estimated in the December 2016 consensus revenue estimate.

At the maximum end of the anti-pyramiding estimate (see *Anti-Pyramiding* subsection below), the total impact to the state general fund in FY18 is estimated at negative $100.9 million, with $57.4 million in revenues to the tax stabilization reserve, for a total general fund and reserve impact of negative $43.5 million. The estimated impact to the general fund in the following years averages about negative $150 million annually.

Table 1 - Estimated Impact of HB8 on State Revenues: Bill as Introduced, Max of Range

State Calculations (in $millions)	FY17	FY18	FY19	FY20	FY21
CREG GRT Revenue Estimate	$ 1,868.6	$ 2,007.9	$ 2,103.8	$ 2,209.2	$ 2,306.2
Base 1st Half Year*	$ 24,186.0	$ 30,333.3	$ 28,425.1	$ 29,846.3	$ 31,159.5
Base 2nd Half Year*	$ 24,186.0	$ 22,602.6	$ 28,425.1	$ 29,846.3	$ 31,159.5
Effective State Rate 1st Half Year	4.16%	4.16%	3.60%	3.51%	3.51%
Effective State Rate 2nd Half Year	4.16%	3.60%	3.51%	3.51%	3.51%
GRT (Sales Tax) Revenue Generated	$ 2,012.3	$ 2,075.6	$ 2,021.0	$ 2,095.2	$ 2,187.4
Less GRT (Sales Tax) Non-Base Impacts	$ (144)	$ (155.0)	$ (155.0)	$ (155.0)	$ (155.0)
Difference (HB8 Sales Tax Revenue - CREG)	$ -	$ (87.3)	$ (237.8)	$ (269.0)	$ (273.8)
HB8 Medical Hold Harmless Repeal		$ 11.9	$ 27.9	$ 27.3	$ 27.1
HB8 MVX (1% to General Fund)		$ 20.5	$ 51.0	$ 53.0	$ 54.0
HB8 Health Ins. Premium Tax (1% to GenFund)		$ 27.5	$ 68.8	$ 71.7	$ 74.7
Comp (Use) Tax Local Sharing & Rate Red.		$ (16.0)	$ (42.6)	$ (47.7)	$ (52.5)
Total Revenue Generated	**$ 1,868.6**	**$ 1,964.4**	**$ 1,971.1**	**$ 2,044.4**	**$ 2,135.7**
Total Revenue Surplus (Deficit)	$ -	$ (43.5)	$ (132.7)	$ (164.8)	$ (170.5)
GRT (Sales Tax) GenFund Rev (capped in FY18-19)	$ 1,868.6	$ 1,875.0	$ 1,893.9	$ 1,967.5	$ 2,059.5
HB8 General Fund Impact	**$ -**	**$ (100.9)**	**$ (132.7)**	**$ (164.8)**	**$ (170.5)**
HB8 Distribution to Reserves	$ -	$ 57.4	$ -	n/a	n/a

* FY18 base estimates are adjusted for the bill's effective date of February 1, 2018, assuming 7 months of revenues in the first half of the year at the current base and current GRT rate, and 5 months of revenue in the second half of the year with the new base and new rate. FY19-FY21 base estimates are adjusted for CREG growth rates for GRT, per the December 2016 consensus revenue estimate. All base estimates include the technical error of not repealing the nonprofit receipts exemption and assume the *maximum* estimate for the new anti-pyramiding deduction. Total revenue generated does not include road fund revenues shown on page one.

There are several key considerations driving the projected negative revenue estimates.

- There are incorrect assumptions underlying the general fund sales tax revenue cap that the bill sets for FY18 and FY19 (see *General Fund Sales Tax Revenue Cap & Impact of Effective Date* subsection below).
- The effective date of the bill (February 1, 2018) limits the amount of new revenue received in FY18 (see *General Fund Sales Tax Revenue Cap & Impact of Effective Date* subsection below).
- The assumptions underlying the bill's 3.6 percent state sales tax rate presume a greater tax revenue base than the bill actually creates, specifically assuming the Medicare deduction is repealed (which it is not) and not considering the effect of the $250 thousand deduction for nonprofit receipts (see *Initial State Sales Tax Rate* subsection below).

- The bill contains a key technical error in which the exemption for nonprofit receipts is not repealed, unintentionally narrowing the bill's taxable base by roughly $2 billion (see *Base Expansion* subsection below).
- The size of the new anti-pyramiding deduction is estimated to absorb between one-quarter and one-half of the base expansion from repealing tax expenditures (excluding nonprofit receipts), resulting in less net base expansion (see *Anti-Pyramiding* subsection below).
- The state historically does not receive GRT revenue equivalent to multiplying the base times the rate – various administrative fees, credits, distributions, and accounting differences result in lower GRT revenue actually received in the general fund, an effect that the Consensus Revenue Estimating Group (CREG) considers in the consensus revenue estimates and should be considered when estimating the impact of the bill. Not considering these differences in actual revenue received would artificially inflate the estimate of sales tax revenue generated (see *Rate Recalculation* subsection below).

General Fund Sales Tax Revenue Cap & Impact of Effective Date

Section 36 of the bill sets a cap in FY18 of $1,875 million in sales tax revenue that can flow to the general fund, sending any additional sales tax revenue to the tax stabilization reserve. Meetings leading up to the introduction of the bill discussed this revenue cap was based on three primary assumptions: (1) total FY18 GRT revenue target was $2 billion,[1] (2) total expected annual revenue from 1 percent of the increase in the motor vehicle excise tax (MVX) is about $50 million going to the general fund, and (3) total expected annual revenue from the 1 percent increase in the health insurance premium surtax is about $75 million. In order to use the new revenue from the two tax increases to help "buy down" the sales tax rate, the annual amounts expected from motor vehicles and the premium surtax increases were counted against the total expected sales tax revenue such that:

$2,000 million Sales Tax Revenue	–	$50 million MVX 1%	–	$75 million Premium Surtax 1%	=	$1,875 million FY18 GenFund Sales Tax Revenue Cap

The expectation was that, with rate reduction, the bill would still allow the state to generate at least $1,875 million in sales tax revenue in FY18, plus $50 million in additional MVX revenues, plus $75 million in additional health insurance premium surtax revenue, for a total of $2 billion in state revenue to the general fund – thereby ensuring relative general fund revenue neutrality.

However, several of the above assumptions are problematic. First, the bill is working from an old health insurance premium surtax estimate. LFC and other economists agreed the additional revenue from this increase would be up to $66 million, which is lower than the $75 million estimate used for the bill.

Secondly, and most importantly, the bill assumes the state would receive a full year of revenue from the MVX and premium surtax increases; however, the state would only receive five months of revenue from these sources, as the bill is not effective until February 2018. LFC estimates five months of revenue from the 1 percent MVX increase in FY18 is about $20.5 million, and five

[1] The December 2016 consensus revenue estimate for FY18 included $2,007.9 million for GRT. This was rounded to $2 billion as a revenue target for the bill to attempt relative neutrality for the general fund.

months of new revenue from the health insurance premium surtax is about $27.5 million. When including the revenue losses the state would experience from lowering the use tax rate and sharing use tax revenue with local governments, the total general fund revenue in FY18 would be as follows:

	$1,875.0	million	Sales Tax Revenue Cap
+	$ 20.5	million	MVX 1% (Feb – Jun)
+	$ 27.5	million	Health Insurance Premium Surtax (Feb – Jun)
-	$ 16.0	million	Use Local Sharing & Rate Reduction (Feb – Jun)
=	$1,907.0	million	FY18 General Fund Revenue

Thus, the maximum amount of revenue the general fund could receive from these sources in FY18 based on this bill would be $1,907 million, which is $101 million less than the FY18 CREG revenue estimate of $2,008 million for GRT and $93 million less than the bill's $2 billion general fund revenue target. Without considering the effects of changes to the use tax, the general fund impact would be $84.9 million less than the FY18 CREG revenue estimate.

Additionally, the February-thru-June estimates of MVX and the premium surtax assume revenues from these sources come in steadily over the fiscal year and make no assumptions for changes in taxpayer behavior. However, for example, it is possible car-buyers could purchase vehicles early in the year if they know a tax increase is impending in February, which would disproportionally skew car purchases to the first part of the year before the new tax rate is effective, resulting in less than the $20.5 million estimate above. Therefore, general fund revenue could be even less than the $1.9 billion estimate above.

It is important to note that any sales tax revenue generated above the $1,875 million cap would flow into the tax stabilization reserve, and therefore would still be received by the state. However, since FY18 budgets were set based on a budget forecast expecting $2 billion in GRT revenue, the $101 million general fund revenue gap would almost guarantee the Legislature would have to vote to extract funds from the tax stabilization reserve to shore up the budget, an action that would require an emergency declaration by the governor or a two-thirds vote by the House and Senate.

Initial State GRT Rate

Effective February 1, 2018, the bill sets the state sales tax rate at 3.6 percent, a 0.56 percent reduction in the current 4.16 percent effective state rate. Data provided by TRD details the primary assumptions driving the 3.6 percent rate, namely the sources of base expansion that are expected to generate enough revenue to allow the rate to come down. Included in that list of assumptions are the repeal of Section 7-9-77.1 NMSA 1978, which is the Medicare deduction, and repeal of Section 7-9-29, which is the exemption for nonprofit receipts. Repeal of the Medicare deduction was expected to generate approximately $44 million in state revenue, and full repeal of the exemption for nonprofit receipts was expected to generate approximately $110 million in state revenue. However, the bill does not repeal the Medicare deduction, and the bill attempts to create a deduction for the first $250 thousand of nonprofit receipts.

Thus, the 3.6 percent rate set in the bill was chosen under the assumption that the bill would generate more base expansion, and thereby more revenue, than would be possible without the full repeal of these two provisions. LFC staff estimate that, combined, these two assumptions overestimate the amount of revenue that would be generated with the new sales tax rate by about $80 million. This means the 3.6 percent rate is likely too low to ensure revenue neutrality for the state.

Rate Recalculation

The bill requires TRD to reset the sales tax rate for both the state and municipalities a little less than one year after the bill's enactment. This has raised some concerns it could violate the constitutional authority of the Legislature to set rates by delegating the responsibility to an executive agency. The bill attempts to minimize these concerns by setting precise calculations the agency would follow; however, some estimation would be required by TRD because audited numbers would not yet be available for use in the formula.

For the purpose of this fiscal impact report, LFC approximates the recalculated rate using the formula set in the bill, which is as follows:

$1,931.25 million Sales Tax Revenue Target ÷ (Feb–July 2018 Gross Receipts * 2.011)

The formula attempts to reset the rate based on a static revenue target and an estimate of the new base. The purpose of multiplying February through July gross receipts by 2.011 is to approximate the new, expanded gross receipts base for one year. The $1,931.25 million sales tax revenue target for the calculation was chosen by growing the bill's $1,875 million FY18 sales tax revenue target by 3 percent. Presumably, the recalculation is to allow the rate to come down if it inadvertently generates a revenue windfall, and conversely allow the rate to go up if it inadvertently generates a revenue shortage.

To approximate the total gross receipts for February though July 2018, LFC adds five months of the FY18 base estimate and one month of the FY19 base estimate. The calculation then results in a rate of 3.46 percent to 3.51 percent, varying based on the minimum and maximum anti-pyramiding estimates (see *Anti-Pyramiding* subsection).

If the nonprofit receipts exemption were repealed as intended, the recalculated rate would be lower, as an expanded base with the same revenue target would drive the rate down. However, the revenue impact to the general fund would be about the same regardless of whether the base is expanded, since the formula sets a static revenue target. (See Appendix B for a summary of the estimates with the nonprofit exemption repealed and the $250 thousand deduction for nonprofit receipts in place.)

While the rate recalculation presumably intends to reset the rate downward or upward to ensure revenue neutrality, there are issues with using an FY19 revenue cap of $1,931.25 million for this purpose. First, the bill derives the figure by growing the FY18 adjusted sales tax revenue target by 3 percent; however, the CREG growth estimate for GRT in FY19 is 4.5 percent above FY18, and growth rates in the outer years are above 4 percent. Since LFC generally uses CREG estimates as a starting point to determine the impact of a tax bill, the revenue impact of the bill will be negative each year partially for that reason.

Secondly, setting the revenue cap of $1,931.25 million and dividing by the approximated new base assumes that the state actually receives revenue in the general fund equivalent to the base times the rate. However, various administrative fees, credits, distributions, and accounting differences result in lower GRT revenue actually received in the general fund during a fiscal year. For example, in FY17, with a starting point of about a $48 billion tax base and a state effective rate of 4.16 percent, the GRT base-times-rate revenue generated would be about $2,012.3 million; however, the consensus revenue estimate for GRT in FY17 is $1,868.6 million, a difference of about $144 million. CREG considers these other non-base impacts on GRT when estimating actual general fund revenue for the fiscal year. However, the formula does not make an adjustment for these differences, which results in a projected negative general fund impact even after rate recalculation occurs.

Additionally, with CREG revenue estimates as the baseline upon which the bill's impacts are determined, any future changes to the revenue estimates could potentially deepen (or narrow) the estimated general fund impact of the bill. If the economy improves and GRT revenue estimates for FY18 and beyond are revised upward, then the static revenue caps used in the bill would hold general fund revenues from the sales tax in place, resulting in a larger negative general fund impact. The converse would be true if CREG were to revise the GRT estimates downward.

Local Government Fiscal Impacts

The New Mexico Municipal League (NMML) did not estimate the overall revenue impact to municipal governments, but the organization supplied several key observations related to the bill's fiscal impact.

- The bill provides local governments with one opportunity, in January 2018, to change current local option tax rates before the bill takes effect.
- Setting the new municipal sales tax rates is a two-part issue. The first is converting the 1.225 percent municipal distribution to an increment of the municipal sales tax rate. The second is fitting the existing tax rate authorizations to the new tax base.
    - The municipal distribution can be expressed as either 1.225 percent of the taxable gross receipts reported from municipalities or, equivalently, as a rate of 0.965 percent of the total statewide taxable gross receipts (78.8 percent of taxable gross receipts reported in municipal areas x 1.225 percent rate = 0.965 percent). When the 0.965 percent is applied solely against the municipal tax base, however, it is clear that municipalities would lose 21.2 percent of the value of the Section 7-1-6.4 NMSA 1978 distribution. According to statute, the 1.225 percent applies to the municipal tax base. The 0.965 percent is incorrectly used because the 1.225 percent does not apply to the state tax base.
    - [LFC comment: Discussions LFC staff had leading up to the bill's introduction indicated the reason for reducing the municipal distribution was to reduce or eliminate the aggregate benefit municipal governments would receive from the expanded tax base. However, initial LFC analysis indicates the reduction to 0.965 percent, combined with repealing the medical hold harmless distributions, would likely have a negative fiscal impact on municipal governments. However, significant additional analysis would be required to determine an estimated dollar impact.]
    - [LFC comment: There is no similar 1.225 percent county distribution from the state in statute, and the bill makes no changes to county rates that may be imposed, so the only aggregate negative impact on county governments would be from the repeal of medical hold harmless distributions. Initial LFC analysis indicates this loss would likely be exceeded by the benefit of an expanded tax

base and sharing in use tax revenue, generating a likely positive fiscal impact on county governments. Again, significant additional analysis would be required to determine an estimated dollar impact.]

- In a manner similar to the adjustment made for the state sales tax rate, municipal sales tax rates are to be recalculated by TRD by October 2018, to be effective January 1, 2019. Given the structure of the adjustment language, it appears that the adjustments will be negative, imposing a second source of municipal revenue loss.

Health Insurance Premium Surtax

The bill increases the health insurance premium surtax 1 percent for a total of 2 percent. Combined with the broader insurance premium tax of 3.003 percent levied on virtually all premiums, this creates a total combined rate of 5.003 percent.

The estimates for the revenue generated by the surtax increase were determined by LFC staff in conjunction with other economists. The Office of Superintendent of Insurance (OSI) reported an assumption of higher growth rates in premiums, leading to higher revenue estimates than those shown in the table. The agency also noted any federal changes to the Affordable Care Act would substantially impact the revenue estimate. OSI was not able to analyze the impact to the state of the interactive effects between the surtax rate increase and the tax levied on the healthcare industry, and no other responding agency was able to analyze the complete impacts of either portion let alone the interactive effects. This is an area where the state would benefit from experts in healthcare taxation reviewing these effects and estimating the total revenue and cost impacts to the state, the industry, and patients and insureds.

Anti-Pyramiding

This bill creates a new deduction to reduce GRT pyramiding on specific professions, namely lawyers, investment managers, accountants and bookkeepers, engineers (not related to construction or drilling with the possible exception of fracking), IT services, human resources services, and temporary employment services. Many of these fields within the professional services sector were previously identified by the New Mexico Tax Research Institute and other entities as particularly affected by pyramiding within GRT and subject to the greatest effective tax rates. Additionally, many of these services are often performed in-house in larger organizations but contracted out in smaller businesses, creating a disadvantage for small businesses in New Mexico. The inclusion of financial management services appears somewhat out of place with the other services listed as it is less related to the cost of inputs of one business raising the cost of services sold by that company to other businesses and therefore less subject to the pyramiding effect.

Less uncertainty exists with the proposed anti-pyramiding provision in this bill than with the proposal in House Bill 412; it is much narrower and uses specific inclusions and exclusions to define the types of qualifying business activities. Unfortunately, while this specificity allows the use of data and good analysis for a starting point, educated guesswork must be layered on top of that in order to estimate the loss of revenue due to qualifying business-to-business sales of services.

Determining the cost of removing additional pyramiding is difficult because we do not have industry-specific sales data that apportions the sales between sales to other businesses versus sales to final consumers. National estimates are available, but New Mexico is not an average state in terms of its economic makeup, so applying national figures to state sales data would create significant anomalies. Finally, it is impossible to ascertain whether businesses with sales that currently would not qualify for the new anti-pyramiding provision would be able to restructure the business or their contracts to take advantage of the deduction.

RP-80 data for relevant professions, based on self-reported North American Industry Classification System (NAICS) codes, was provided by TRD to facilitate analysis of the fiscal impact of the deduction. The table below summarizes the estimated taxable gross receipts from the types of services that would be eligible for the new deduction, and the subsequent tax revenue currently generated from taxing these services. Assuming between 50 percent and 90 percent of these types of services are business-to-business, the estimated taxable base that would be lost to the new deduction ranges from $1 billion to $2 billion in gross receipts. The size of the anti-pyramiding base matters for both the total revenue generated by the bill and for the rate recalculation that the bill schedules to occur in October 2018 (see *Rate Recalculation* subsection above).

Table 2

Proposed Items for Anti-Pyramiding GRT Deduction
(Millions of Dollars)

	Est. TGR (Base)	Est. Total Gross Tax Revenue	Est. State GRT Revenue	Min. Base Est. - 50%	Max. Base Est. - 90%
Legal Services	$756	$55	$31	$378	$680
Accounting/Bookkeeping*	$144	$10	$6	$72	$130
IT Services	$184	$12	$8	$92	$165
HR Services (Inc. Payroll)**	$717	$48	$30	$358	$645
Engineering	$394	$27	$16	$197	$355
Temporary Services***	$46	$3	$2	$23	$42
Total	**$2,241**	**$155**	**$93**	**$1,121**	**$2,017**

Source: RP-80 4, 5, and 6-Digit NAICS for FY16 and FY15
Notes: Estimated total gross tax revenue includes both state and local
* Includes payroll services
** Excludes marketing services. Includes select group of NAICS 54 and 56 categories
*** Includes only NAICS 56 category - potentially underestimated

Amplifying the uncertainty is the possibility that some businesses may take some time to become aware of the new deduction or to file for it, leading to a potential situation where a few years from the time of enactment these taxpayers may submit amended returns, filing for the current year-to-date plus up to three years prior. This could result in early revenue tracking indicating the deduction is less expensive than initially estimated, leading to budgeting decisions based on these expectations. Subsequently, the state could face a rash of amended returns that could cost as much again or more as the prior annual cost. This issue would also affect local governments and could affect particular governments to a greater extent than the state if the amended returns were concentrated in a particular geographic area.

The possible delays in claims for the new anti-pyramiding deduction due to issues of awareness and timeliness could also result in taxable base numbers for February through July 2018 that initially are large enough to result in rates set by TRD that are unsustainable in the long term when claims are submitted on a more regular basis. This could compound the issue the state and local governments might face in covering the cost of amended returns after this period. One possible solution would be to change the rate recalculation section to force a delay in rate setting if the calculated rates would result in a reduction in the rate initially set by the bill. If the rate would be lowered, TRD could wait until it had data for a longer period and then lower the rates if the base justified it at that point. Alternatively, the bill could call for TRD to recommend a new rate to the Legislature, and the Legislature could consider the calculations in context with these issues.

Base Expansion

The fiscal impact calculations assume an annual sales tax base expansion of about $4.3 billion due to repeal of various tax expenditures (see Appendix D for a list of repealed and amended exemptions, deductions, and credits). This estimate does not include receipts from nonprofit hospitals or other nonprofit organizations (see *Nonprofit Organizations* subsection of Technical Issues), which would bring the expanded base estimate to about $6.1 billion. For FY18, the estimates only include five months of revenue from the new base and new rate, since the effective date of the bill is February 1, 2018. For the fiscal impact in FY19 – FY21, the annual amount is used and the figures are increased by the GRT growth rates in the December 2016 consensus revenue estimate.

The base expansion estimates are derived from the 2016 Tax Expenditure Report and additional data provided by TRD. Repealed tax expenditures for which the value is unknown are not included in the estimate, which would put upward pressure on the actual base expansion the bill may generate. However, it is important to note that estimates for various repealed and remaining exemptions, credits, and deductions may overlap, such that the state may not receive the full estimated value of all the repeals. Many of the estimates in the Tax Expenditure Report rely on national data extrapolated to New Mexico or on less reliable methods intended to approximate the general magnitude of a tax expenditure.[2] Meaning, when similar types of expenditures are repealed – for example, the GRT deductions for publication sales and for newspaper sales – the state may not receive the full estimated value of both. This would put downward pressure on any potential estimated base expansion. Thus, the base estimates included in the analysis represent an educated guess by TRD and LFC economists.

Additional considerations exist with respect to reporting, as the repeal of many tax expenditures will require some taxpayers who were previously untaxed, either overall or for specific types of transactions, to begin reporting and paying the sales tax. This could create misreporting in the first few years of implementation, whereby some taxpayers may inadvertently under- or overpay, which could skew the actual reported data and lead to later filings of amended returns. Such misreporting could be problematic for the rate recalculation, as discussed in the *Anti-Pyramiding* subsection above.

[2] TRD states in the 2016 Tax Expenditure Report that expenditure estimates rated a level 3 are estimated using national data a extrapolating to New Mexico; and those rated a level 4 are the "least reliable", where TRD does not have any direct data to estimate the expenditure, and the "estimates should be understood to represent the estimated general magnitude of the [expenditure]".

Compensating (Use) Tax

The bill creates local government sharing of use tax revenues by applying the local portion of the tax at each jurisdiction's sales tax rates. The bill also sets the state's portion equal to the state sales tax rate, which would be a substantial reduction from the current compensating tax rate. However, to avoid violation of federal law, the combined use tax rate cannot be higher than the sales tax rate in any tax jurisdiction, because it would unfairly penalize interstate commerce. Therefore, the state rate reduction is necessary to allow local sharing and may be necessary even absent local sharing due to the sales tax rate reductions in the bill. The reduction in general fund revenues shown in the tables appears to be very high compared with the consensus forecast for comp tax revenues. The reason for this is due to the substantial difference between gross comp tax revenues and the net general fund comp tax revenues. Any rate changes and local sharing would impact gross revenues, thus explaining the seemingly outsized impact on net general fund revenues.

SIGNIFICANT ISSUES

The policy implications of the bill are numerous and substantial, such that this fiscal impact report (FIR) is incapable of properly capturing all the issues or properly discussing them. Therefore, the FIR attempts to list all the significant changes in the bill summary section and leaves most policy discussions for external review and debate. The number of policy implications means it can be difficult for legislators and citizens to understand all of the issues related to the bill without thoroughly reading it and discussing implications with experts in the relevant fields.

A notable example of a previous time when the state enacted significant tax reform was in 1969, when Franklin Jones, revenue commissioner, succeeded in promoting major changes to the Gross Receipts and Compensating Tax Act. Since then, the tax code has generally become increasingly complex as more exemptions, deductions, and credits were added over the years. As a result of the revenue reductions caused by many of these tax deviations[3], GRT rates at the state and local levels increased, placing a greater tax burden on those taxpayers left without the protection of a tax deviation.

To maintain revenues in the wake of the Great Recession, the statewide GRT rate increased 1/8 percent to 5.125 percent. Combined with local options, the GRT rate is as high as 8.94 percent in some municipalities. Contributing to the increase in local rates was a 2013 amendment to the food and medical deductions law that allowed local governments to raise their GRT rates by 3/8 percent to compensate for the phase-out of "hold-harmless" payments the state initially made to local governments to compensate for the loss of GRT revenue.

For years, tax experts have advised state policymakers that New Mexico needs a tax structure overhaul built on a broad base and focused on adequacy, efficiency, and equity. The lack of a broad tax base less impacted by fluctuations in the extractions industry contributed to the fiscal distress of FY16 and FY17 and the downgrade of state bond ratings.

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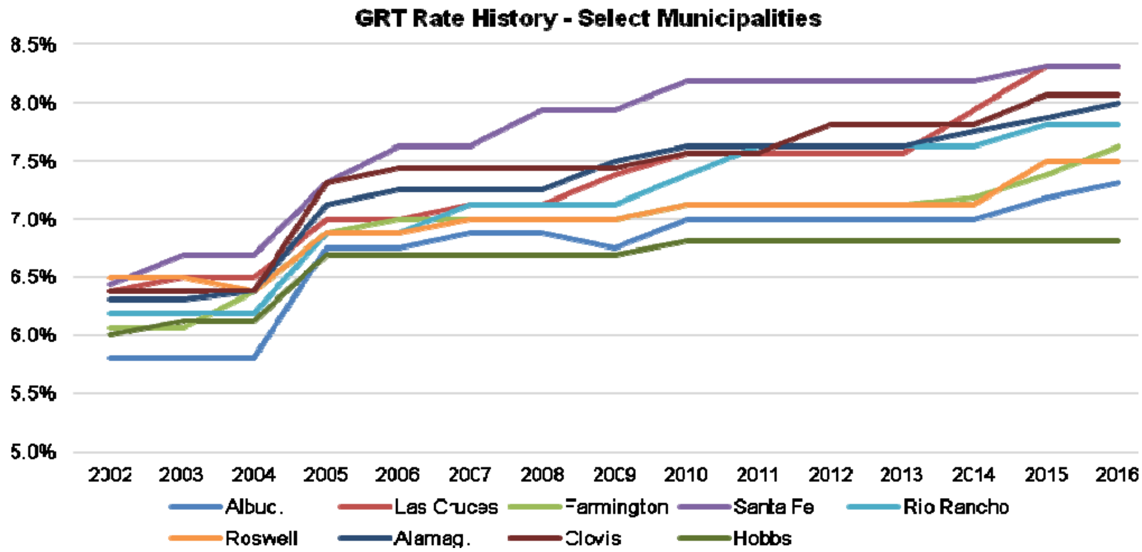
[3] "tax deviations" is used here to broadly describe any alteration to the tax code, which could be classified as a tax expenditure designed to give preferential tax treatment to a group of taxpayers for a specific purpose (stated, inferred, or unclear) or classified as language necessary to appropriately define the tax base



Tax Pyramiding, Tax Deviations, and Economic Development

The increase in GRT rates over the years has exacerbated the effect of tax pyramiding, still an issue in many industries despite multiple exemptions and deductions attempting to mitigate the impact. Lowering GRT rates would not change the mechanism of pyramiding, but it would provide some relief for the impact of pyramiding and reduce the effective rate.

Addressing GRT pyramiding is one of the most important components of HB8. Two of the bill's primary objectives appear to be improving the state's tax system by addressing pyramiding and lowering GRT rates. Such actions would reduce the burden of doing business in New Mexico with the goal of improving the state's economic conditions. Tax pyramiding can pose problems in pure gross receipts tax systems or in hybrids, as with New Mexico's system, where the state's GRT is neither a pure gross receipts tax nor a pure sales tax. Pyramiding occurs when the GRT is applied to business-to-business purchases of services, supplies, raw materials, and equipment, creating an extra layer of taxation at each stage of production.

New Mexico taxes a much broader spectrum of services than most states; for example, there are few deductions for sales to businesses. While there is an existing deduction for sale of goods for resale, deductions for the sale of services for resale are limited to a few specific industries.

Legislation enacted in 2012 to address tax pyramiding in the manufacturing and construction sectors was onerous to administer and more open-ended than intended, doubling its estimated fiscal impact and requiring legislation to reduce the revenue losses. LFC recommended future anti-pyramiding legislation should be constructed narrowly to limit uncertainty and minimize further tax revenue losses. The new anti-pyramiding provision in HB8 was much more narrowly constructed than the broader business-to-business services provision in HB412. However, uncertainty regarding the cost of this provision still exists.

Addressing the kinds of pyramiding that remain in our tax system (e.g. sale of certain professional services to businesses) could make New Mexico more competitive for service-based businesses – an important consideration as the services proportion of the economy grows and the state faces national and international competition from locations that often do not have transaction taxes that create pyramiding problems.

Many of the state's current tax inefficiencies, such as business-to-business pyramiding, are magnified by high tax rates. The Tax Foundation iterates that "productive capacity depends on the size and skills of the workforce; the amount and quality of machines, buildings, vehicles, computers, and other physical capital that workers use; and the stock of knowledge and ideas." High marginal tax rates can discourage saving, investment, and innovation in the state economy, thereby suppressing growth. However, no detailed, econometric or financial analysis has been performed to demonstrate whether the state would be better served overall by removing additional pyramiding versus greater rate reduction. Because pyramiding is rate-sensitive, lowering the rate inherently helps address the problem. A lower tax rate results in a lower final product price and less tax paid at each stage of production.

The bill largely appeals to the general tax policy ideals of broadening the base and lowering the rate. However, food remains untaxed, which is a significant policy consideration and requires a higher GRT rate because of a smaller tax base. Additionally, certain economic development incentives remain in place. Critics note that not repealing all incentives has the appearance of picking winners and losers.

Supporters note the state's economic development community essentially made promises to companies that located in New Mexico with the understanding they would receive certain incentives; keeping these promises, at least for a period of time, would help the state's standing with the existing business community and could assist future recruitment efforts.

The bill would offer both benefits and drawbacks for economic development in the state. Some companies are attracted to simple tax code systems and lower overall rates. However, some business incentives are repealed by the bill either immediately or in the future, so some companies that might have located in New Mexico and been able to largely avoid paying GRT would now be subject to the tax, albeit at a lower rate. Additionally, many companies value stability in the tax code for planning purposes, and the very nature of a major tax reform effort such as this creates uncertainty; this could pose a setback for economic development efforts in the near term until revenues stabilize and final rates are set.

After this initial period of uncertainty and transition, the bill simplifies the tax code, which could offer other benefits in addition to economic development promotion. Repealing so many tax deviations could make it less likely for companies or individuals to find and exploit loopholes in the tax code, although companies might find ways to use the new anti-pyramiding provision in unintended ways or to an unexpected degree. It might be easier for economists to estimate revenues under a simpler tax code with fewer deviations, and the broader base and reduced rates would likely result in less volatility in revenues.

Additionally, while the elimination of a variety of tax deviations would help simplify the tax code, it is important to consider the overarching tradeoff of repealing a number of exemptions, deductions, and credits in order to "buy" rate reduction and a new anti-pyramiding deduction for a select group of professional services. Although this FIR will not attempt to discuss the policy implications of this choice, it is a notable consideration for both legislators and citizens.

Healthcare Taxation

With the bill's apparent intent to repeal the exemption for receipts of nonprofits, and with the creation of a new deduction for the first $250 thousand of nonprofit receipts, most nonprofit organizations in the healthcare industry would be brought into the sales tax regime. Additionally, the bill removes the exemption for government hospitals and any other government health care facilities licensed by the Department of Health. However, the bill also makes significant changes to the current Medicare deduction. The existing deduction removes from taxation any Medicare payments for goods and services but provides a specific list of those eligible for the deduction. Because other healthcare tax expenditures are repealed by the bill, this could leave some healthcare providers without the Medicare deduction and possibly without any way of passing on that tax, so the bill removes the specific list of those who may claim the deduction and broadens it to include any Medicare payments for services. However, the bill narrows the deduction at the same time by removing eligibility for Medicare payments for prescriptions drugs and other tangible personal property. Without this limit on eligibility, the savings estimated from some of the tax expenditure repeals would not be fully realized.

Effective Date

The effective date of February 1, 2018 could pose significant difficulties for TRD to notify all the new taxpayers (those who would be subject to tax for the first time due to tax expenditure repeals) of their tax obligations and for businesses and individuals to restructure contracts and other agreements. Contracts that currently include GRT payments would need to be changed to reflect the name change, new rates, the loss of certain tax expenditures, and the creation of the new anti-pyramiding deduction. Contracts that do not include GRT payments might need to be renegotiated to include the new sales tax payments if a previously nontaxable transaction would now be taxable under this bill. This could be a substantial challenge in the given timeframe. As an example, agreements such as health insurance premium pricing, coverage, patient costs, and healthcare provider payments are set far in advance and could be difficult or impossible to change before the bill goes into effect.

ADMINISTRATIVE IMPLICATIONS

There will be a very significant, short-term impact to TRD. Long-term, TRD should see significant administrative impact savings due to substantial simplification and streamlining of the tax code.

TECHNICAL ISSUES

Nonprofit Organizations

Section 70 leaves the GRT exemption for the receipts of nonprofit organizations, including both charitable 501(c)(3) and business-oriented 501(c)(6) organizations. Leaving this exemption in place appears unintended, as Section 87 adds a new deduction for 501(c)(3) organizations on the first $250 thousand in receipts.

Receipts of nonprofit organizations would be a significant portion of the expanded GRT base. With the exemption left in place, the new base and rates will likely result in a net sales tax revenue loss for the state. This error is reflected is the fiscal impact estimates for this FIR;

however, it could be resolved by repealing the nonprofit exemption (Section 7-9-29 NMSA 1978). See Appendix B for fiscal impact estimates without this technical error.

State Rate Reduction

As previously mentioned, data provided by TRD indicates the 3.6 percent state sales tax rate set in the bill does not consider the new nonprofit deduction. Additionally, the 3.6 percent rate assumed that Medicare receipts would also be taxed. However, this bill retains Section 7-9-77.1, which is the Medicare deduction, and Medicare receipts will not contribute to base expansion. Thus, the 3.6 percent rate is likely too low for state revenue neutrality, and LFC calculations provided in the fiscal implications section indicate a net negative general fund revenue impact.

General Fund GRT Revenue Cap

Section 36 of the bill sets a cap in FY18 of $1,875 million in sales tax revenue that can flow to the general fund, sending any additional sales tax revenue to the tax stabilization reserve. As discussed in the fiscal implications section, this revenue cap assumes the state will receive a full year of revenue from other tax increases enacted in the bill; however, since the effective date of this bill is February 1, 2018, the state will only actually receive five months of revenue from these sources.

Rate Recalculation

Section 56 of the bill provides a formula by which TRD would recalculate the state sales tax rate, and Section 130 provides a formula for recalculating the municipal rates. Each of these formulas attempts to approximate the new tax base for a full year by using "the gross receipts of all persons that engaged in business in the state and were subject to the state sales tax rate from February 1, 2018 through July 31, 2018 multiplied by two and eleven thousandths."

One issue with this language is the 2.011 adjustment factor used to approximate the base for a full year. This figure was presumably chosen to account for variation in gross receipts over the course of a fiscal year; for an average year, the receipts from February through July must be multiplied by 2.011 to estimate the receipts for the full fiscal year. However, LFC reviewed historical data on the patterns of taxable gross receipts over a fiscal year and determined the figure could range between 1.971 and 2.082. This variation could make up to a tenth of a percent difference in the final rate recalculation in either the positive or negative direction.

The formulas also do not specify whether TRD is to use *total* gross receipts or *taxable* gross receipts in the rate recalculations – the difference of which would have a significant impact on the final rates determined by the formulas. Presumably, the intent is to use taxable gross receipts, but the bill should clarify this to avoid any potential misunderstanding. Additionally, gross receipts reporting each month is made up of receipts for the current period and for other periods to get to the monthly total, but the bill does not clarify whether TRD is to use total or current period gross receipts, and this difference would also have a significant impact.

Non-Taxable Transaction Certificates Penalty Provision

NMML reported the following technical issue in its analysis.

HB412 pioneered a new approach to handling misuse of non-taxable transaction certificates (NTTCs) and other deduction documents. In this situation, current law imposes the compensating tax on the buyer (Section 7-9-7A(3) NMSA 1978). Since the compensating tax rate of 5.125 percent is lower than the total state and local tax rate anywhere in New Mexico, the "penalty" actually saves the buyer money compared with absorbing the passed-on gross receipts tax.

HB412 took the compensating tax out of the loop and instead imposed a new penalty (at a proposed Section 7-1-69.3) equal to the greater of 6 percent of the value of the product or $25. HB412 also rewrote Section 7-9-43 (the NTTC rules) to make the purchaser liable for any tax, penalty, and interest the seller would have been required to pay absent the NTTC or other evidence. The two together would have been a hefty financial deterrent to misusing NTTCs and other evidence.

HB8 retains the purchaser liability language in Section 7-9-43 and drops the penalty at Section 7-1-69 but reintroduces the compensating tax liability in Section 7-9-7. Further, Section 7-9-44 (Section 73 of the bill) still refers to the now-absent Section 7-1-69.3 penalty. This is a technical issue and must be clarified, and it would impact local governments.

Does the bill meet the Legislative Finance Committee tax policy principles?

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

Does the bill meet the Legislative Finance Committee tax expenditure policy principles?

1. **Vetted**: The proposed new or expanded tax expenditure was vetted through interim legislative committees, such as LFC and the Revenue Stabilization and Tax Policy Committee, to review fiscal, legal, and general policy parameters.
2. **Targeted**: The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals.
3. **Transparent**: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies.
4. **Accountable**: The required reporting allows for analysis by members of the public to determine progress toward annual targets and determination of effectiveness and efficiency. The tax expenditure is set to expire unless legislative action is taken to review the tax expenditure and extend the expiration date.
5. **Effective**: The tax expenditure fulfills the stated purpose. If the tax expenditure is designed to alter behavior – for example, economic development incentives intended to increase economic growth – there are indicators the recipients would not have performed the desired actions "but for" the existence of the tax expenditure.
6. **Efficient:** The tax expenditure is the most cost-effective way to achieve the desired results.

JC & DI/

Appendix A

Estimated Impact of HB8 on State Revenues – Bill as Introduced

High Anti-Pyramiding Estimate

Underlying Assumptions	FY17	FY18	FY19	FY20	FY21
CREG GRT Growth Rates		7.5%	4.8%	5.0%	4.4%
Current Base	$ 48,372.1	$ 52,000.0	$ 54,496.0	$ 57,220.8	$ 59,738.5
Base Expansion (Repeals)*		$ 4,263.3	$ 4,467.9	$ 4,691.3	$ 4,897.8
Base Contraction (B2B, high end of range)		$ (2,017.0)	$ (2,113.8)	$ (2,219.5)	$ (2,317.2)
HB8 Base Estimate (full year, new base, high)		$ 54,246.3	$ 56,850.1	$ 59,692.6	$ 62,319.1

State Calculations (in $millions)	FY17	FY18	FY19	FY20	FY21
CREG GRT Revenue Estimate	$ 1,868.6	$ 2,007.9	$ 2,103.8	$ 2,209.2	$ 2,306.2
Base 1st Half Year*	$ 24,186.0	$ 30,333.3	$ 28,425.1	$ 29,846.3	$ 31,159.5
Base 2nd Half Year*	$ 24,186.0	$ 22,602.6	$ 28,425.1	$ 29,846.3	$ 31,159.5
Effective State Rate 1st Half Year	4.16%	4.16%	3.60%	3.51%	3.51%
Effective State Rate 2nd Half Year	4.16%	3.60%	3.51%	3.51%	3.51%
GRT (Sales Tax) Revenue Generated	$ 2,012.3	$ 2,075.6	$ 2,021.0	$ 2,095.2	$ 2,187.4
Less GRT (Sales Tax) Non-Base Impacts	$ (144)	$ (155.0)	$ (155.0)	$ (155.0)	$ (155.0)
Difference (HB8 Sales Tax Revenue - CREG)	$ -	$ (87.3)	$ (237.8)	$ (269.0)	$ (273.8)
HB8 Medical Hold Harmless Repeal		$ 11.9	$ 27.9	$ 27.3	$ 27.1
HB8 MVX (1% to General Fund)		$ 20.5	$ 51.0	$ 53.0	$ 54.0
HB8 Health Ins. Premium Tax (1% to GenFund)		$ 27.5	$ 68.8	$ 71.7	$ 74.7
Comp (Use) Tax Local Sharing & Rate Red.		$ (16.0)	$ (42.6)	$ (47.7)	$ (52.5)
Total Revenue Generated	**$ 1,868.6**	**$ 1,964.4**	**$ 1,971.1**	**$ 2,044.4**	**$ 2,135.7**
Total Revenue Surplus (Deficit)	$ -	$ (43.5)	$ (132.7)	$ (164.8)	$ (170.5)
GRT (Sales Tax) GenFund Rev (capped in FY18-19)	$ 1,868.6	$ 1,875.0	$ 1,893.9	$ 1,967.5	$ 2,059.5
HB8 General Fund Impact	**$ -**	**$ (100.9)**	**$ (132.7)**	**$ (164.8)**	**$ (170.5)**
HB8 Distribution to Reserves	$ -	$ 57.4	$ -	n/a	n/a

* FY18 base estimates are adjusted for the bill's effective date of February 1, 2018, assuming 7 months of revenues in the first half of the year at the current base and current GRT rate, and 5 months of revenue in the second half of the year with the new base and new rate. FY19-FY21 base estimates are adjusted for CREG growth rates for GRT, per the December 2016 consensus revenue estimate. All base estimates include the technical error of not repealing the nonprofit receipts exemption and assume the *maximum* estimate for the new anti-pyramiding deduction. Total revenue generated does not include road fund revenues shown on page one.

Low Anti-Pyramiding Estimate

Underlying Assumptions	FY17	FY18	FY19	FY20	FY21
CREG GRT Growth Rates		7.5%	4.8%	5.0%	4.4%
Current Base	$ 48,372	$ 52,000	$ 54,496	$ 57,221	$ 59,739
Base Expansion (Repeals)*		$ 4,263	$ 4,468	$ 4,691	$ 4,898
Base Contraction (B2B, low end of range)		$ (1,121)	$ (1,174)	$ (1,233)	$ (1,287)
HB8 Base Estimate (full year, new base, low)		$ 55,143	$ 57,790	$ 60,679	$ 63,349

State Calculations (in $millions)	FY17	FY18	FY19	FY20	FY21
CREG GRT Revenue Estimate	$ 1,868.6	$ 2,007.9	$ 2,103.8	$ 2,209.2	$ 2,306.2
Base 1st Half Year*	$ 24,186.0	$ 30,333.3	$ 28,894.8	$ 30,339.5	$ 31,674.5
Base 2nd Half Year*	$ 24,186.0	$ 22,976.1	$ 28,894.8	$ 30,339.5	$ 31,674.5
Effective State Rate 1st Half Year	4.16%	4.16%	3.60%	3.46%	3.46%
Effective State Rate 2nd Half Year	4.16%	3.60%	3.46%	3.46%	3.46%
GRT (Sales Tax) Revenue Generated	$ 2,012.3	$ 2,089.0	$ 2,040.0	$ 2,099.5	$ 2,191.9
Less GRT (Sales Tax) Non-Base Impacts	$ (144)	$ (155.0)	$ (155.0)	$ (155.0)	$ (155.0)
Difference (HB8 Sales Tax Revenue - CREG)	$ -	$ (73.9)	$ (218.8)	$ (264.7)	$ (269.3)
HB8 Medical Hold Harmless Repeal		$ 11.9	$ 27.9	$ 27.3	$ 27.1
HB8 MVX (1% to General Fund)		$ 20.5	$ 51.0	$ 53.0	$ 54.0
HB8 Health Ins. Premium Tax (1% to GenFund)		$ 27.5	$ 68.8	$ 71.7	$ 74.7
Comp (Use) Tax Local Sharing & Rate Red.		$ (16.0)	$ (42.6)	$ (47.7)	$ (52.5)
Total Revenue Generated	**$ 1,868.6**	**$ 1,977.9**	**$ 1,990.1**	**$ 2,048.7**	**$ 2,140.1**
Total Revenue Surplus (Deficit)	$ -	$ (30.0)	$ (113.7)	$ (160.5)	$ (166.1)
GRT (Sales Tax) GenFund Rev (capped in FY18-19)	$ 1,868.6	$ 1,875.0	$ 1,912.9	$ 1,971.8	$ 2,064.0
HB8 General Fund Impact	**$ -**	**$ (100.9)**	**$ (113.7)**	**$ (160.5)**	**$ (166.1)**
HB8 Distribution to Reserves	$ -	$ 70.9	$ -	n/a	n/a

* FY18 base estimates are adjusted for the bill's effective date of February 1, 2018, assuming 7 months of revenues in the first half of the year at the current base and current GRT rate, and 5 months of revenue in the second half of the year with the new base and new rate. FY19-FY21 base estimates are adjusted for CREG growth rates for GRT, per the December 2016 consensus revenue estimate. All base estimates include the technical error of not repealing the nonprofit receipts exemption and assume the *minimum* estimate for the new anti-pyramiding deduction. Total revenue generated does not include road fund revenues shown on page one.

Appendix B

Estimated Impact of HB8 on State Revenues – Including Repeal of Nonprofit Exemption

High Anti-Pyramiding Estimate

Underlying Assumptions	FY17	FY18	FY19	FY20	FY21
CREG GRT Growth Rates		7.5%	4.8%	5.0%	4.4%
Current Base	$ 48,372.1	$ 52,000.0	$ 54,496.0	$ 57,220.8	$ 59,738.5
Base Expansion (Repeals)*		$ 6,066.2	$ 6,357.4	$ 6,675.2	$ 6,968.9
Base Contraction (B2B, high end of range)		$ (2,017.0)	$ (2,113.8)	$ (2,219.5)	$ (2,317.2)
HB8 Base Estimate (full year, new base, high)		$ 56,049.2	$ 58,739.5	$ 61,676.5	$ 64,390.3

State Calculations (in $millions)	FY17	FY18	FY19	FY20	FY21
CREG GRT Revenue Estimate	$ 1,868.6	$ 2,007.9	$ 2,103.8	$ 2,209.2	$ 2,306.2
Base 1st Half Year*	$ 24,186.0	$ 30,333.3	$ 29,369.8	$ 30,838.3	$ 32,195.1
Base 2nd Half Year*	$ 24,186.0	$ 23,353.8	$ 29,369.8	$ 30,838.3	$ 32,195.1
Effective State Rate 1st Half Year	4.16%	4.16%	3.60%	3.40%	3.40%
Effective State Rate 2nd Half Year	4.16%	3.60%	3.40%	3.40%	3.40%
GRT (Sales Tax) Revenue Generated	$ 2,012.3	$ 2,102.6	$ 2,055.9	$ 2,097.0	$ 2,189.3
Less GRT (Sales Tax) Non-Base Impacts	$ (144)	$ (155.0)	$ (155.0)	$ (155.0)	$ (155.0)
Difference (HB8 Sales Tax Revenue - CREG)	$ -	$ (60.3)	$ (202.9)	$ (267.2)	$ (271.9)
HB8 Medical Hold Harmless Repeal		$ 11.9	$ 27.9	$ 27.3	$ 27.1
HB8 MVX (1% to General Fund)		$ 20.5	$ 51.0	$ 53.0	$ 54.0
HB8 Health Ins. Premium Tax (1% to GenFund)		$ 27.5	$ 68.8	$ 71.7	$ 74.7
Comp (Use) Tax Local Sharing & Rate Red.		$ (16.0)	$ (42.6)	$ (47.7)	$ (52.5)
Total Revenue Generated	**$ 1,868.6**	**$ 1,991.5**	**$ 2,006.0**	**$ 2,046.2**	**$ 2,137.5**
Total Revenue Surplus (Deficit)	$ -	$ (16.4)	$ (97.8)	$ (163.0)	$ (168.7)
GRT (Sales Tax) GenFund Rev (capped in FY18-19)	$ 1,868.6	$ 1,875.0	$ 1,928.8	$ 1,969.3	$ 2,061.4
HB8 General Fund Impact	**$ -**	**$ (100.9)**	**$ (97.8)**	**$ (163.0)**	**$ (168.7)**
HB8 Distribution to Reserves	$ -	$ 84.5	$ -	n/a	n/a

* FY18 base estimates are adjusted for the bill's effective date of February 1, 2018, assuming 7 months of revenues in the first half of the year at the current base and current GRT rate, and 5 months of revenue in the second half of the year with the new base and new rate. FY19-FY21 base estimates are adjusted for CREG growth rates for GRT, per the December 2016 consensus revenue estimate. All base estimates assume the *maximum* estimate for the new anti-pyramiding deduction. Total revenue generated does not include road fund revenues shown on page one.

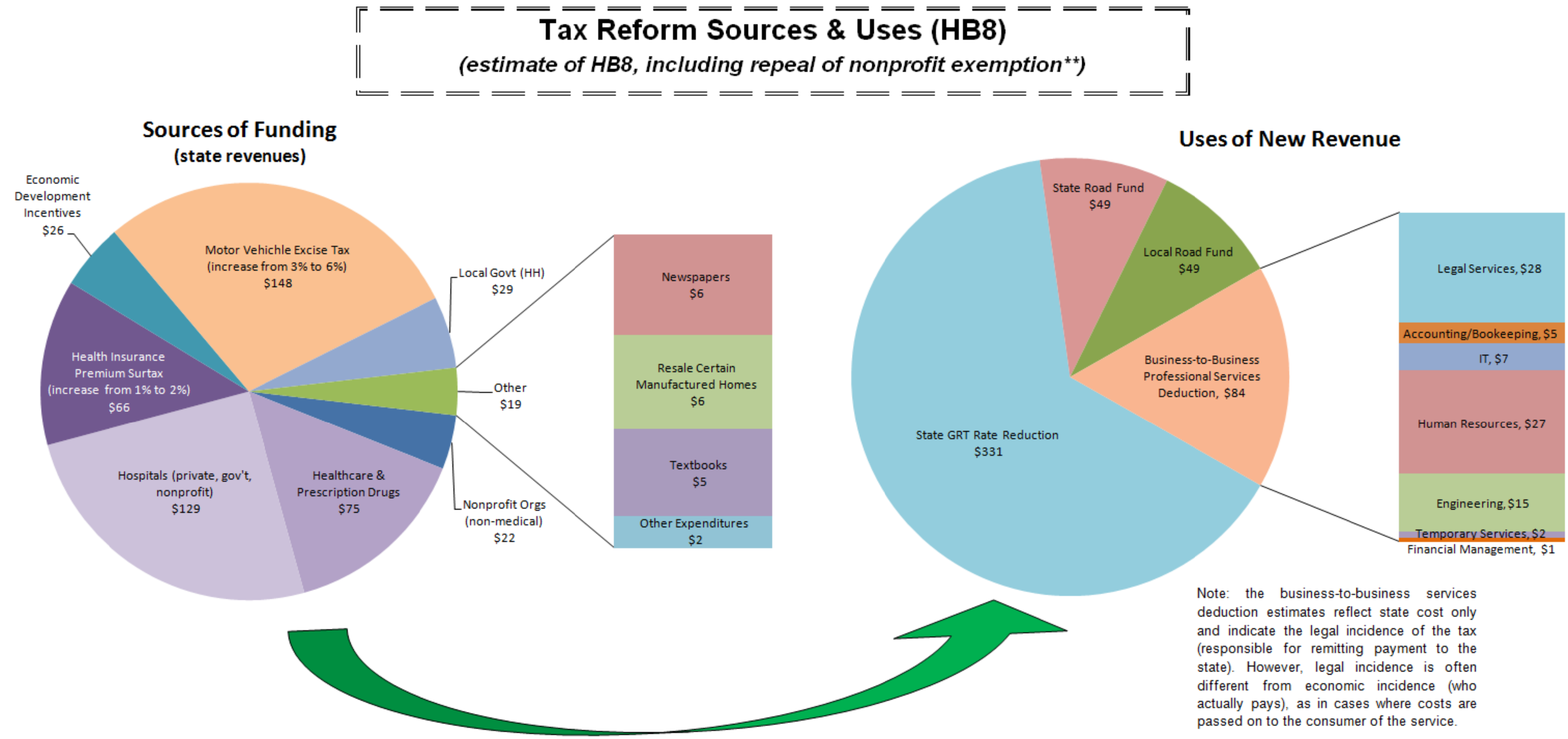
Low Anti-Pyramiding Estimate

Underlying Assumptions	FY17	FY18	FY19	FY20	FY21
CREG GRT Growth Rates		7.5%	4.8%	5.0%	4.4%
Current Base	$ 48,372	$ 52,000	$ 54,496	$ 57,221	$ 59,739
Base Expansion (Repeals)*		$ 6,066	$ 6,357	$ 6,675	$ 6,969
Base Contraction (B2B, low end of range)		$ (1,121)	$ (1,174)	$ (1,233)	$ (1,287)
HB8 Base Estimate (full year, new base, low)		$ 56,946	$ 59,679	$ 62,663	$ 65,420

State Calculations (in $millions)	FY17	FY18	FY19	FY20	FY21
CREG GRT Revenue Estimate	$ 1,868.6	$ 2,007.9	$ 2,103.8	$ 2,209.2	$ 2,306.2
Base 1st Half Year*	$ 24,186.0	$ 30,333.3	$ 29,839.5	$ 31,331.5	$ 32,710.1
Base 2nd Half Year*	$ 24,186.0	$ 23,727.3	$ 29,839.5	$ 31,331.5	$ 32,710.1
Effective State Rate 1st Half Year	4.16%	4.16%	3.60%	3.35%	3.35%
Effective State Rate 2nd Half Year	4.16%	3.60%	3.35%	3.35%	3.35%
GRT (Sales Tax) Revenue Generated	$ 2,012.3	$ 2,116.1	$ 2,073.8	$ 2,099.2	$ 2,191.6
Less GRT (Sales Tax) Non-Base Impacts	$ (144)	$ (155.0)	$ (155.0)	$ (155.0)	$ (155.0)
Difference (HB8 Sales Tax Revenue - CREG)	$ -	$ (46.8)	$ (185.0)	$ (265.0)	$ (269.6)
HB8 Medical Hold Harmless Repeal		$ 11.9	$ 27.9	$ 27.3	$ 27.1
HB8 MVX (1% to General Fund)		$ 20.5	$ 51.0	$ 53.0	$ 54.0
HB8 Health Ins. Premium Tax (1% to GenFund)		$ 27.5	$ 68.8	$ 71.7	$ 74.7
Comp (Use) Tax Local Sharing & Rate Red.		$ (16.0)	$ (42.6)	$ (47.7)	$ (52.5)
Total Revenue Generated	**$ 1,868.6**	**$ 2,004.9**	**$ 2,023.9**	**$ 2,048.4**	**$ 2,139.8**
Total Revenue Surplus (Deficit)	$ -	$ (3.0)	$ (79.9)	$ (160.8)	$ (166.4)
GRT (Sales Tax) GenFund Rev (capped in FY18-19)	$ 1,868.6	$ 1,875.0	$ 1,931.3	$ 1,971.5	$ 2,063.7
HB8 General Fund Impact	**$ -**	**$ (100.9)**	**$ (95.3)**	**$ (160.8)**	**$ (166.4)**
HB8 Distribution to Reserves	$ -	$ 97.9	$ 15.5	n/a	n/a

* FY18 base estimates are adjusted for the bill's effective date of February 1, 2018, assuming 7 months of revenues in the first half of the year at the current base and current GRT rate, and 5 months of revenue in the second half of the year with the new base and new rate. FY19-FY21 base estimates are adjusted for CREG growth rates for GRT, per the December 2016 consensus revenue estimate. All base estimates assume the *minimum* estimate for the new anti-pyramiding deduction. Total revenue generated does not include road fund revenues shown on page one.

Appendix C



Note: the business-to-business services deduction estimates reflect state cost only and indicate the legal incidence of the tax (responsible for remitting payment to the state). However, legal incidence is often different from economic incidence (who actually pays), as in cases where costs are passed on to the consumer of the service.

** The bill as introduced inadvertently did not repeal the nonprofit gross receipts exemption; however, the intent was to repeal the exemption for nonprofit receipts and provide a new deduction on the first $250 thousand of nonprofit receipts. The repeal of the nonprofit exemption and the new deduction is reflected in the sources chart above.

Appendix D

Repealed Deductions/Credits

Repeals	Statute	Description	Estimated State Cost (thousands)	Category – per Tax Expenditure Report (TER)	Notes
R	7-2-18.4; 7-2A-15	Qualified Business Facility Rehabilitation Credit; PIT & CIT Credit.	$0.0	Econ. Dvlpmt	
R	7-2-18.5 & 7-2A8.8	Welfare-To-Work PIT & CIT Credit.	$0.0	Citizen Benefits	credit rarely used
R	7-2-18.8	PIT Credit; Electronic Equipment To Verify Age To Sell Cigarettes & Alcohol	$0.0	Citizen Benefits	
R	7-2-18.21	PIT Credit; Blended Biodiesel Fuel.	$0.0	Environment & Conservation	
R	7-2D-8.1	Venture Capital Investment Credit Against PIT	$0.0	Econ. Dvlpmt	none claimed
R	7-9-13.1	Exemption; GRT; Services Performed Outside The State The Product Of Which Is Initially Used In New Mexico; Exceptions.	$0.0	Unclear	
R	7-9-13.4	Textbooks Exemption From GRT	$5,280.0	Citizen Benefits	
R	7-9-15	Use Of Property By Nonprofit Comp Exemption	$0.0	Citizen Benefits	Cost combined with 7-9-60
R	7-9-16	Non-Profit Elderly Care Facilities Exemption	Unknown	Citizen Benefits	
R	7-9-26.1	Fuel For Space Vehicle Exemption From GRT And Comp	$0.0	Specialized Industry	
R	7-9-41.4	Officiating At NM Activities Association-Sanctioned School Events Exemption From GRT	$105.0	Citizen Benefits	
R	7-9-54.1	Aerospace Svcs To Certain Orgs GRT Ded	$0.0	Anti-pyramiding	
R	7-9-54.2	Space Related Transactions Grt Ded	$416.0	Specialized Industry	
R	7-9-54.3	Wind And Solar Generation Equipment GRT Ded	$0.0	Environment & Conservation	
R	7-9-54.4	Space-Related Test Articles Comp Tax Ded	$0.0	Specialized Industry	
R	7-9-54.5	Test Articles Comp Tax Ded	$0.0	Specialized Industry	
R	7-9-56.2	Hosting World Wide Web Sites Grt Ded	$210.2	Econ. Dvlpmt	
R	7-9-56.3	Border Zone Trade-Support Companies GRT Ded	$130.5	Specialized Industry	
R	7-9-57	Certain Services To An Out-Of-State Buyer GRT Ded	$0.0	Econ. Dvlpmt	
R	7-9-57.2	Software Development Services Grt Ded	$1,414.2	Specialized Industry	
R	7-9-60	Sales To Nonprofit Organizations GRT Or GGRT Ded	$9,007.8	Citizen Benefits	
R	7-9-61.1	Loans GRT Ded	$2,423.0	Citizen Benefits	
R	7-9-61.2	Sales Of Tangible Personal Property To Credit Unions GRT Ded	$294.0	Econ. Dvlpmt	
R	7-9-63	Publication Sales Grt Ded	$126.0	Specialized Industry	
R	7-9-64	Newspapers Grt Ded	$6,005.2	Specialized Industry	
R	7-9-65	Purchase Of Certain Chemicals And Reagents GRT Ded	$0.0	Specialized Industry	
R	7-9-66	Certain Commissions Grt Ded	$0.0	Avoid Double Taxation	
R	7-9-66.1	Real Estate Transactions Grt Ded	$1,399.0	Specialized Industry	

Appendix D

Repeals	Statute	Description	Estimated State Cost (thousands)	Category – per Tax Expenditure Report (TER)	Notes
R	7-9-69	Administrative / Accounting Services Grt Ded	$0.0	Anti-pyramiding	Included in new anti-pyramiding provision
R	7-9-73	Prosthetic Devices GRT Or GGRT Ded	$0.0	Anti-pyramiding	
R	7-9-73.1	Hospitals 50% Grt Ded	$8,775.4	Health Care	
R	7-9-73.2	Prescription Drugs GRT Or GGRT Ded	$40,139.0	Health Care	
R	7-9-73.3	DME, Medical Supplies GRT Or GGRT Ded	$200.0	Health Care	
R	7-9-74	Jewelry Manufacturers Grt Ded	$0.0	Anti-pyramiding	
R	7-9-76	Travel Agents' Commissions Grt Ded	$0.0	Anti-pyramiding	
R	7-9-76.1	Resale Of Certain Manuf'd Homes GRT Ded	$5,657.6	Avoid double taxation	
R	7-9-76.2	Leasing Or Licensing Films And Tapes GRT Ded	$0.0	Anti-pyramiding	
R	7-9-78.1	Uranium Enrichment Plant Equip Comp Tax Ded	$0.0	Specialized Industry	
R	7-9-79.2	Biodiesel Blending Facility Credit Against GRT Or Comp	$0.0	Environment & Conservation	
R	7-9-83	Jet Fuel Grt Ded	$4,080.00	Econ. Dvlpmt	
R	7-9-84	Jet Fuel Comp Tax Ded		Econ. Dvlpmt	
R	7-9-86	Film Companies GRT And GGRT Ded	$0.0	Econ. Dvlpmt	PIT & CIT ded. are retained
R	7-9-89	Deduction GRT; Sales To Certain Accredited Diplomats And Missions.	$0.0	Federal preemption	
R	7-9-91	Contribution Of Inventory To Non-Profits & Gov'tal Agencies Comp Tax Ded	$0.0	Citizen Benefits	
R	7-9-93	Health Care Practitioners Grt Ded	$34,000.0	Health Care	
R	7-9-94	Military Acquisition Programs Grt Ded	$0.0	Specialized Industry	None claimed
R	7-9-95	Back To School GRT Ded (Tax Holiday)	$2,100.0	Citizen Benefits	
R	7-9-96	Sales For Resale 10% Credit Against GRT Or GGRT**	$0.0	Anti-pyramiding	
R	7-9-96.1	Hospitals Credit Against GRT	$13,700.4	Health Care	
R	7-9-97	Purchases By / On Behalf Of The State (forfeiture) GRT Ded	$0.0	Unclear	Presumably to relieve mining companies; see 2016 TER
R	7-9-98	Biomass-Related Equipment And Biomass Materials Comp Tax Ded	$33.0	Environment & Conservation	
R	7-9-99	Services Used In Construction Of (Sole Community Provider Hospital) GRT Ded	$0.0	Health Care	
R	7-9-100	Construction Equipment And Materials For (Sole Community Provider Hospital) GRT Ded	$0.0	Health Care	
R	7-9-101	Electric Transmission Facilities Grt Ded	$0.0	Environment & Conservation	
R	7-9-102	Electric Transmission Facilities Comp Tax Ded	$0.0	Environment & Conservation	
R	7-9-103	Services For Electric Transmission Facilities GRT Ded	$3.6	Environment & Conservation	
R	7-9-103.1	Electricity Conversion Grt Ded	$0.0	Specialized Industry	
R	7-9-103.2	Electricity Exchange Grt Ded	$0.0	Specialized Industry	
R	7-9-104	Nonathletic Special Events Grt Ded	$102.8	Citizen Benefits	

Appendix D

Repeals	Statute	Description	Estimated State Cost (thousands)	Category – per Tax Expenditure Report (TER)	Notes
R	7-9-105	Credit For Penalty Pursuant To Section 7-1-71.2	$0.0	Health Care	Credit no longer applicable
R	7-9-106	Military Construction Services Grt Ded	$0.0	Specialized Industry	expired
R	7-9-107	Production Or Staging Of Professional Contests GRT Ded	$58.3	Specialized Industry	
R	7-9-108	Performing Management Or Investment Advisory Services	$84.1	Econ. Dvlpmt	Included in new anti-pyramiding provision
R	7-9-111	Hearing And Vision Aides GRT Ded	$1,085.8	Health Care	
R	7-9-112	Solar Energy Systems Grt Ded	$1,560.0	Environment & Conservation	
R	7-9-114	Advanced Energy GRT And Comp Tax Ded	$300.0	Environment & Conservation	
R	7-9A-1	Investment Tax Credit	$1,888.5	Econ. Dvlpmt	
R	7-9G-1	High-Wage Jobs Tax Credit	$10,000.0	Econ. Dvlpmt	
R	7-9G-2	Advanced Energy Combined Reporting Tax Credit	$897.5	Environment & Conservation	
R	7-9J	Alt Energy Product Manuf'ers Tax Credit	$120.6	Environment & Conservation	
R	7-9I	Affordable Housing Tax Credit	$271.9	Citizen Benefits	Previously amended only against PIT/CIT in HB412
R	60-2E-47.1	County gaming tax credit (county bus retention)	Unknown		

Amended Deductions/Credits

Amend	Statute	Description	Estimated State Cost (thousands)	Notes
A	7-9-13	GRT Exemption for governmental agencies	State Gain $20,900	Revised to exclude receipts from a gov't hospital: results in base expansion
A	7-9-29	Receipts of Nonprofit Orgs Exemption GRT	State Gain $80,600.0	Change to deduction on first $250k of gross receipts
A	7-9-40.B.	Receipts of a Racetrack authorized to be retained under 60-1A-19	$210.7	Elimin. ded. for purses and jockey remuneration at nm racetracks
A	7-9-46	Sales to Manufacturers GRT and GGRT Ded	$0.0	Expand ded. to include manufacturing equipment
A	7-9-46.6 & 7-9-46.7	Distribution to municipalities & counties, offset for food & medical deduction (hold harmless)	State Gain $48,000.0	Amended to repeal medical hold harmless payments
A	7-9-54	Sales to Gov't Agencies GRT and GGRT Ded	Unknown	Amend to add exclusion for hospitals
A	7-9-55	Deduction for transaction in interstate commerce	Unknown	
A	7-9-62.1	Aircraft Sales or Services GRT Deduction	Unknown	Sunset 2032
A	7-9-77.1	Medical Services GRT Ded (Medicare)	$44,100.0	Add language to exclude prescription drugs
A	7-9-85	Nonprofit Organizations Fundraisers GRT Ded	$660.6	Amend to extend to all 501c's
A	7-9-87	Lottery Retailers GRT Ded	State Gain $1,440.0	Amend to apply to multistate games only
A	7-9-90	Enriched Uranium GRT Ded	Redacted	Sunset 2047
A	7-9-110.1	Locomotive Engine Fuel Comp Tax Ded	$4,600.0	Sunset 2047
A	7-9F	Technology jobs and research & development tax credit	$4,468.2	Repeal additional 5% credit only

Appendix D

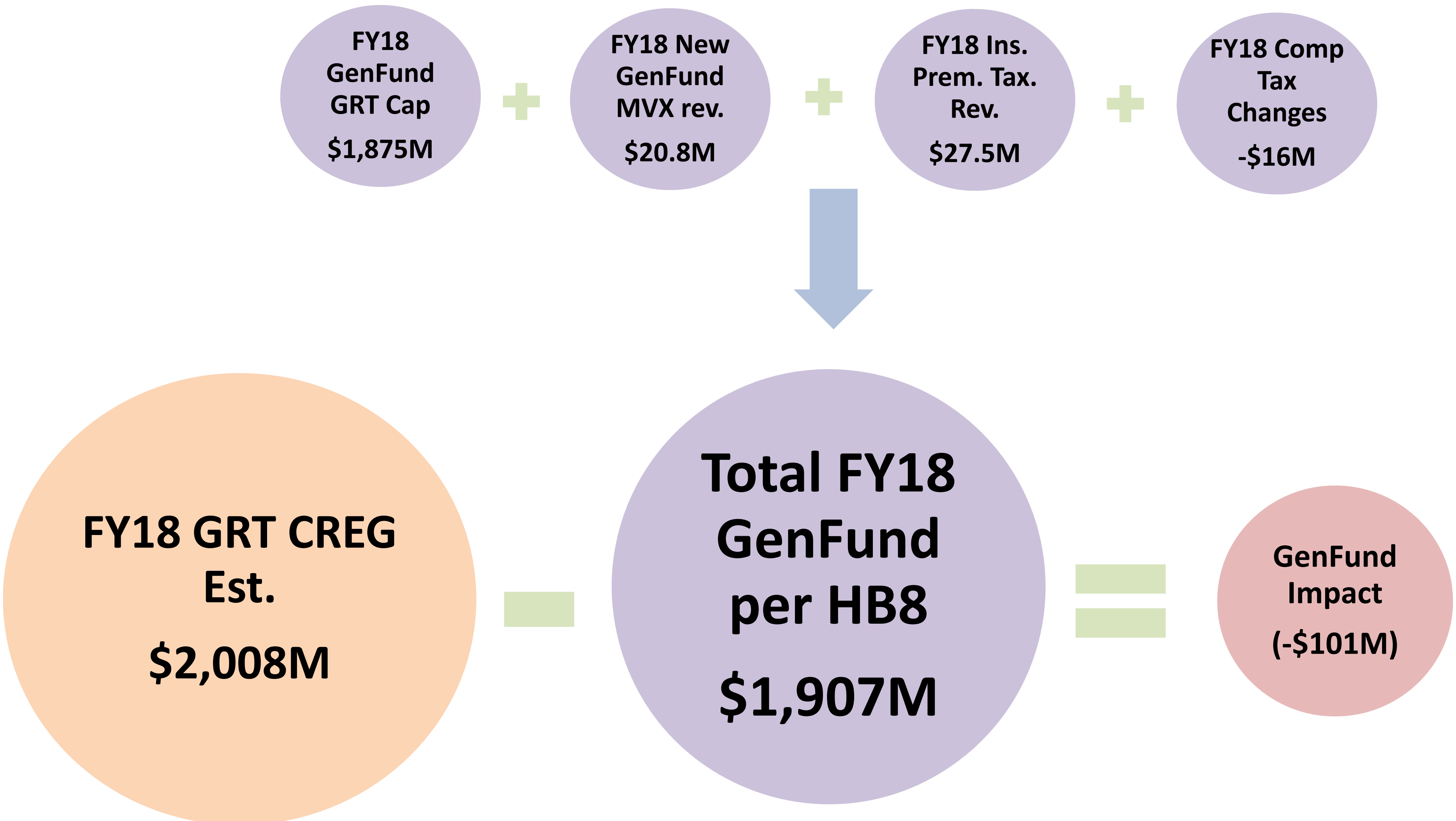
GRT Credits/Deductions <u>Not</u> Changed

Action	Short Description	Statute	Category	Est. Cost (thousands)
None	Agricultural Products Exemption from GRT or GGRT	7-9-18	Anti-Pyramiding	Unknown
None	Livestock Feeding Exemption from GRT	7-9-19	Anti-Pyramiding	Unknown
None	Receipts of a Racetrack authorized to be retained under 60-1A-19; exemption from GRT	7-9-40B	Unknown	Unknown
None	Tangible Personal Property or Licenses for Resale GRT or GGRT Deduction	7-9-47	Anti-pyramiding	Unknown
None	Sale of a Service for Resale GRT or GGRT Deduction	7-9-48	Anti-Pyramiding	
None	Tangible Personal Property and Licenses for Leasing GRT Deduction	7-9-49	Anti-pyramiding	Unknown
None	Leasing for Subsequent Lease GRT Deduction	7-9-50	Anti-pyramiding	Unknown
None	Construction Material GRT Deduction	7-9-51	Anti-pyramiding	Unknown
None	Construction Services GRT Deduction	7-9-52	Anti-pyramiding	Unknown
None	Lease of Construction Equipment GRT Deduction	7-9-52.1	Anti-pyramiding	Unknown
None	Sale or Lease of Real Property and Lease of Manufactured Homes GRT Deduction	7-9-53	Other	Unknown
None	Internet Services GRT Deduction	7-9-56.1	Anti-Pyramiding	Unknown
None	Feed and Fertilizers GRT Deduction	7-9-58	Anti-Pyramiding	Unknown
None	Warehousing, Threshing, Harvesting, Growing, Cultivating and Processing Agricultural Products GRT Deduction	7-9-59	Anti-Pyramiding	Unknown
None	Services on Manufactured Products GRT Deduction	7-9-75	Anti-Pyramiding	Unknown
None	Tangible Property Used for Leasing Comp Tax Ded	7-9-78	Anti-Pyramiding	Unknown
None	Tax Paid in Another State for Property and Services Credit Against GRT and Compensating Tax	7-9-79; 7-9-79.1	Interstate commerce	Unknown
None	Tax Paid to New Mexico Tribes 75% Credit Against GRT	7-9-88.1	Prevent multi-jurisdictional tax	Unknown
None	Tax Paid to Navajo Nation for Selling Coal 75% Credit Against GRT	7-9-88.2	Prevent multi-jurisdictional tax	Unknown
None	Food GRT Deduction (cost includes hold harmless distributions to local governments)	7-9-92	Citizen Benefit	$238,937.8
None	Unpaid Doctor Services Performed in a Hospital Credit against GRT	7-9-96.2	Prevent taxation on nonexistent receipts	Unknown
None	Veterinary Services and Supplies for Cattle GRT Ded	7-9-109	Anti-Pyramiding	Unknown
None	R&D Services and Directed Energy and Satellite-Related Inputs Sold to Dept of Defense GRT Deduction	7-9-115	Economic Development	Not in effect until 2016
None	Wide Area and Private Communications Deduction - Interstate Telecommunications Gross Receipts Tax	7-9C-6	Unclear	Unknown
None	Resale Transactions Deduction - Interstate Telecommunications Gross Receipts Tax	7-9C-7	Define the tax base	Unknown
None	Corporate Telecommunication Services Provided Internally or to Affiliates Deduction - Interstate Telecommunications Gross Receipts Tax	7-9C-8	Anti-pyramiding	Unknown
None	Bad Debts Deduction - Interstate Telecommunications Gross Receipts Tax	7-9C-9	Prevent taxation on nonexistent receipts	Unknown
None	Services Performed Outside NM Credit against Interstate Telecommunications Gross Receipts Tax	7-9C-10	Interstate commerce	Unknown
None	Laboratory Partnership with Small Business Tax Credit against GRT (except Local Option)	7-9E	Economic Development	$1,678.6
None	Research and Development Small Business Tax Credit against GRT or WH (combined with 7-9F in 2015)	7-9H	Economic Development	See 7-9F

Appendix E

Tax Reform Comparisons			
	2017 Regular Session		2017 Special Session
Components	**HB412/HFls**	**HB191/aCC**	**HB8**
Purpose	Address pyramiding & use any remaining savings to reduce rates	Address complexity of GRT by sunsetting expenditures and requiring study by RSTP	Starting with HB412, expand base further, create more limited anti-pyramiding provisions, use remaining savings to reduce rates
Anti-Pyramiding	New B2B services ded.	To be studied by RSTP	New B2B services ded. for select professional services and related occupations only
Cost	Est. $380 million to $700 million (current rates)	To be studied by RSTP	Est. $47 million to $84 million (current rates)
Most Affected	Professional and Technical Services, Mining and Oil & Gas Extraction, Construction (contractor services), Information Industry	To be studied by RSTP	Lawyers, Investment Managers, Accountants and Bookkeepers, Engineers, IT Services, HR Services, and Temp. Worker Services
GRT Rate Change	State & local rates set by formula (calculated by TRD in conj. w/DFA, LFC)	To be studied by RSTP	State rate set in statute initially at 3.6%, effective 2/2018 then recalculated by TRD, effective 1/2019
	State-level rate *increase* of [Unknown, need to revise estimates]		Initial state-level rate reduction of ~ 0.56%
	Local rates adjusted (addt'l estimates needed)		Effective local rates changed through a 0.26% reduction to the muni 1.225% distributions; repeal medical HH
Tax Expenditure Elimination	Eliminated 57 tax expenditures	Eliminated 41 tax expenditures	Eliminates 74 tax expenditures
	Amended 14 addt'l tax expenditures to include sunsets or convert to take against PIT/CIT only	Directed RSTP to study each expenditure set for elimination	Amends 13 tax expenditures to include limitations, add sunsets, or expand deductions
	Repealed 20 anti-pyramiding deductions & exemptions (assumed to be covered under new B2B services ded.)		
Effective Date	7/1/2018	First block of repeals 7/1/19; second half 7/1/21	2/1/2018 followed by 1/1/2019 rate readjustments based on new data
Base Changes			
Food	No	No	No
Nonprofits	Yes, receipts of and sales to	No	Yes, repeals deduction for sales to nonprofits; intends to repeal exemption on receipts of nonprofits (*technical issue - introduced version does not repeal*) and adds new deduction for first $250 thousand in gross receipts
Healthcare Sector	Yes, tax entire healthcare sector	No	Yes, tax entire healthcare sector but allow deduction for Medicare payments
Prescription Drugs	Yes	Yes	Yes
Gov't & School Purchases of Tangible Property	Yes	No	No
High-Wage Jobs	Yes	Yes	Yes
Newspapers	Yes	Yes	Yes
Textbooks	Yes	Yes	Yes
Lottery Retailers	Yes	Yes	Amends to limit deduction to lottery tickets for multi-state games only
Health Insurance Premium Surtax Rate	No	No	Yes, increases health insurance premium surtax to 2% to assist with GRT rate reduction
Motor Vehicle Excise Tax Rate	No	No	Yes, increases MVX rate to 6% to assist with GRT rate reduction and increase road funding
Other Actions	Rebranded GRT as "sales tax" (affects bonding)	Smoothed OGAS revenues & turned tax stabilization reserve into true rainy day fund	Rebrands GRT as "sales tax" (affects bonding)
	Allowed alternative evidence for NTTCs	Added market-based sourcing (corp. income tax reform)	Allows alternative evidence for NTTCs
	Redistributed 60 percent of motor vehicle excise tax to road funds	Exempted guaranteed payments from GRT (avoid double-taxation)	Aligns compensating tax with GRT (removes incentive for out-of-state purchases)
	Aligned compensating tax with GRT (removed incentive for out-of-state purchases)	Required separate reporting of certain large deductions to provide data on size of some tax expenditures	Requires separate reporting of certain large deductions to provide data on size of some tax expenditures
	Redistributed liquor excise tax to state & county DWI programs, drug courts, &		Adds market-based sourcing (corp. income tax reform)
	Created local government tax stabilization		

HB8 – FY18 Impact on General Fund



Note: General fund impact for FY18 does not change, regardless of whether nonprofit receipts are included in the GRT base – this is due to the cap of $1,875M in GRT revenue to general fund per HB8, and due to the effective date of February 2018.