OPTIONS FOR REDUCING HORIZONTAL INEQUITIES IN THE GROSS RECEIPTS AND COMPENSATING TAX AND OTHER GROSS RECEIPTS TAXES

BLUE RIBBON TAX REFORM COMMISSION
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NONPROFIT ORGANIZATIONS

New Mexico follows federal practice and grants an income tax exemption to every organization recognized as a nonprofit by the Internal Revenue Service (IRS). Although it is not compelled to by federal law, New Mexico also exempts the receipts of entities described as 501(c)(3) organizations, generally the religious, educational, scientific and eleemosynary institutions normally thought of as nonprofits. Also exempt are chambers of commerce, visitors bureaus and convention bureaus among the 501(c)(6) organizations. Receipts of ministers priests, rabbis and other religious officials of a 501(c)(3) organization from performing rites or ceremonies are also exempt.

With respect to nonprofits not classified as 501(c)(3), dues and registration fees of every federal- or state-recognized nonprofit are exempt as are receipts of facilities providing accommodations for retired elderly persons. Each non-501(c)(3) may conduct two fundraising events annually; proceeds from the fundraisers are deductible. Otherwise receipts of these nonprofits are taxable under current law, just as any business organization would be.

Receipts of otherwise taxable businesses from selling tangible personal property, other than construction materials, to 5012(c)(3) organizations are deductible from gross receipts. Also deductible from compensating tax are donations by businesses of inventory, other than construction materials, to 501(c)(3) organizations.

The original reason offered for these provisions is that these organizations are thought to do work that government might otherwise have to do. Further, their revenues derive normally from donations and alms. Typically they are not in competition with private enterprise and so they may enhance the business sector's ability to generate jobs and income.

In today's world, that picture is still true for many or most nonprofits. There are, however, some middle-sized and large organizations with a powerful economic presence in the marketplace. Without a doubt, they compete with private business. As examples, one of New Mexico's national laboratories and several of its hospitals are organized as 501(c)(3) organizations.

Is it equitable to tax some participants in a market and not others? Should the state look at the product or activity being taxed rather than the purveyor?

OPTIONS

OPTION 1. Tax Treatment of Nonprofit Organizations Other than Hospitals.

OPTION 1A. Repeal the Exemption for Receipts from Commercial Activities. Under this option, the gross receipts tax would apply to sales by nonprofit organizations of tangible personal property and to performance of services for consideration. It would not touch the donations received by nonprofits, the exempt dues and registration fees or the receipts of ministers.

PROS

- This would put all players in the market on the same footing. It is no different than the treatment of nonprofit organizations that fall under other IRS classifications.

- This would rectify the vast difference between Sandia National Laboratories and Los Alamos National Laboratory.

- It would raise state and local revenues from market activity, allowing either an expansion of services or a lowering of the tax burden on everyone else.

- To the extent that nonprofits operate with lower cost structures than the for-profit businesses they may compete with, allowing the nonprofits to undersell the for-profits, the nonprofits' gross receipts tax burden would be correspondingly lower.

- Some would argue that the IRS's screening process is loose enough that some organizations granted nonprofit status are little more than disguised businesses. For-profit health and fitness clubs, for example, have long complained of unfair competition from nonprofit health and fitness clubs. This would address the unfair competition.

CONS

- Although the tax on market activities is not intended to reach donations, the very fact that an organization becomes subject to gross receipts taxation will have an effect on its stream of donations.

- Organizations that sell goods or perform services also receive donations. If the organization cannot raise its price to cover the tax or chooses not to if that would interfere with its mission, some of the donations will be used to cover the tax instead of being spent on what the donors intended.

- This option should be modified to exempt smaller nonprofits from taxation. This could be accomplished by setting high floor amounts before an organization is subject to gross receipts tax.

- The effects on local government finances are not entirely benign. For

example, changing the tax status of Los Alamos National Laboratory will redirect revenues away from Santa Fe, Espanola, Albuquerque and other localities to Los Alamos County.

- In contracting with governments to deliver services to target populations, nonprofits are better able to perform because their focus is also on serving the target population, not with making a profit. This proposal simply will raise the cost of providing those services. In effect, money simply moves from one pocket to another.

OPTION 1B. Place Nonprofits Other than Hospitals Under a New Tax.
Placing nonprofits under a new tax allows the setting of a rate less than the combined state and local gross receipts tax rate. It might also enable the installation of administrative mechanisms more sensitive to the nature and situation of nonprofits.

PROS

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HOSPITALS

OPTION 2. Tax Treatment of Hospitals.
In this state, hospitals are organized in one of four ways: government-owned, 501(c)(3) nonprofit, health maintenance organizations (HMO) or for-profit. Government hospitals and 501(c)(3) nonprofit hospitals are subject to no tax on their receipts. Hospitals organized as part of an HMO pay a three percent tax on their premium income. For-profit hospitals pay gross receipts tax at 50 percent of the combined state and local rate.

For-profit hospitals may acquire services, e.g. physician services, for resale in a nontaxable transaction. Because governmental hospitals, nonprofit hospitals and HMO hospitals do not pay gross receipts tax on their receipts, they may not acquire services for resale in a nontaxable transaction. Governmental and nonprofit hospitals may purchase all tangibles, however, in nontaxable transactions. HMO hospitals and for-profit hospitals may acquire only those tangibles intended for resale in a nontaxable manner.

This hodgepodge makes no sense.

OPTION 2A. Expand the Deduction for Receipts of For-Profit Hospitals (Section 7-9-73.1 NMSA 1978) from 50 Percent to 100 Percent.

PROS

- All hospitals, except those organized as HMOs, will be treated the same on their receipts. Presumably, the HMO hospital may find it expedient to reorganize. None of the hospitals will be able to purchase services for resale in a nontaxable manner; again, uniformity is achieved.

- It is far simpler to adjust the few to the many rather than the other way around. The number of governmental and nonprofit hospitals, particularly among general hospitals, exceeds that of for-profit hospitals.

CONS

- The revenue loss is relatively small to the state but the loss to local revenues is concentrated in a few communities. A save-harmless provision may be in order.

- This is a retreat from the principle of broad coverage and low rates. Carving out a large and growing part of the economy from the tax base makes little long-run sense.

- Although any relief in the medical sector is welcome, freeing hospitals of their gross receipts tax burden does nothing for health practitioners and in fact may

exacerbate their position. Better to spend the money attacking the main problem, which is the tax on health care practitioners' receipts.

OPTION 2B. Tax All Hospitals Under a Uniform Rate Under a New Tax.
Under this option, all hospitals, regardless of how they are organized, would be taxed at the same rate under a new tax. The fiscal impact of this option will depend on the new rate and what is included in the base. The impact listed in the Revenue Impact Table assumes a tax of three percent.

PROS

- All hospitals would be treated similarly.

- If the tax is properly designed, it might be possible to use the revenues to leverage federal dollars.

CONS

- This will raise the cost of health care for most consumers.

OPTION 2C. Repeal the Deduction for For-Profit Hospitals, But Allow a Deduction for Uncompensated Care.
For-profit hospitals note that under federal law they are obliged to treat certain patients who may not able to pay or, if able, unwilling to pay. One genuine issue is arriving at a satisfactory definition of "uncompensated care". If in practice it turns out that under any reasonable definition of uncompensated care, every for-profit hospital provides uncompensated care at least equal to seven percent of its taxable receipts, then this option is equivalent to Option 2A.

PROS

- In providing these free services, for-profit hospitals are like nonprofit and governmental hospitals. Thus, they should be given credit for their charitable work.

- It is far simpler to adjust the few to the many rather than the other way around. The number of governmental and nonprofit hospitals, particularly among general hospitals, exceeds that of for-profit hospitals.

CONS

- This involves a lot of paperwork and possible disputes over the definition of "uncompensated care" just to arrive at the same place as under Option 2A. Few hospitals cannot generate an uncompensated care number equal to seven percent or less of their receipts.

AGRICULTURAL DEDUCTIONS

OPTION 3. Require Nontaxable Transaction Certificates for the Agricultural Deductions Claimed Under Sections 7-9-58 and 7-9-59 NMSA 1978.
Feed stores and others selling feed, soil conditioners, insecticides, etc., to persons in the business of farming or ranching may deduct their receipts from such sales if they receive a signed statement that the buyer is in that business. The Equity Committee heard testimony that some feed stores and other suppliers sell seeds, feed and other agricultural supplies to people not in the business of farming or ranching, but neither charged nor (presumably) paid gross receipts tax on receipts from the sales. To reduce the abuse, it was suggested that the deductions for selling agricultural inputs be made subject to the same requirements for possession of a nontaxable transaction certificate as similar sales of inputs to other industries. The farmer or rancher could demonstrate being in the business by producing the Schedule F filed with his federal income tax return from the previous calendar year.

PROS

- Farming and ranching are businesses. The tax system ought to treat them the same way it deals with other businesses.
- Anecdotal evidence suggests that enforcement needs to be tightened in this area.

CONS

- Many farms and ranches are small operations. This change would impose a burden on them when the problem seems to be with the suppliers, not the farmers and ranchers.

MISCELLANEOUS GROSS RECEIPTS TAX CHANGES

OPTION 4. Miscellaneous Changes to the Gross Receipts Tax.

OPTION 4A. Tax Employee-Leasing Companies in the Same Manner as Temporary Employment Agencies.
Temporary employment service companies have expressed a desire to be treated for tax purposes in the same manner as employee-leasing agencies. In general, employee-leasing companies are considered "joint employers" with their clients. Employee-leasing companies generally have gross receipts only from their commissions; the wages of the employees are excluded from the employee-leasing company's gross receipts. A service providing temporary employees in contrast is not considered a "joint employer" and so the service's total receipts, including reimbursement of the employees' wages, is subject to gross receipts tax. Yet, both ways of delivering labor services are almost identical in practice. Many companies, in fact, engage in both businesses.

PROS

- Very similar businesses are being treated differently today. It is time to recognize how closely similar these businesses are.
- Use of temporary employees helps a lot of small businesses control costs and stay competitive. Cutting the costs of temporary services by removing the gross receipts tax on the employees' wages will make this tool more widely available.
- There is a fundamental conceptual difference between offering to perform a service for another and offering to provide an employee to perform the service at the client's direction and control.

CONS

- Neither temporary employment services nor employee-leasing businesses differ much from businesses that contract to do the work. Contractors pay full gross receipts; so should the temporary employee services.
- This arena is too complex for a decision to be made on the evidence before the commission.

ISSUES
The line between these two types of labor-supplying businesses is fuzzy. So, too, is the line between performing a service for someone else and supplying one or more persons to perform that service as temporary or leased employees. Example: Suppose a company is interested in having its windows washed regularly. It could hire a window-washing

service to do the job. It could also contract with a temporary or employee-leasing company to take on the necessary number of individuals. The windows get washed. Shouldn't the tax consequences be the same no matter which way the washing occurred?

OPTION 4B. Receipts of Bailbondsmen Are Receipts from Performing a Service.
Today bailbondsmen are considered to be offering a form of insurance. They are taxed under the insurance premiums tax and not the gross receipts tax. Some argue that bailbondsmen provide a service: getting people released temporarily from jail.

PROS

- Considering this business as a service would mean local governments would share in the taxes paid.

CONS

- Putting up bail bonds is a form of insurance. It should be treated like every other form of insurance.

OPTION 4C. Repeal Section 7-9-54.1 NMSA 1978, the Deduction for Aerospace Corporations.
Section 7-9-54.1 NMSA 1978 provides a deduction for receipts from selling research and development services to a 501(c)(3) organization than procures goods and services for the United States Air Force. This 1992 law was intended to lure a major United States Air Force research installation from California. The facility never moved.

PROS

- The gambit did not work. It is time to cut off the special treatment.

- All research and development activities should be treated similarly. The others are taxed; this activity should be taxed as well.

CONS

- Research and development is or at least could be one of New Mexico's strengths. The state needs to expand the deduction, not eliminate it.

OPTION 4D. Amend Section 7-9-55 NMSA 1978 to Provide a "Delivery Rule" for Exports.
Section 7-9-55 NMSA 1978 permits a gross receipts tax deduction for exported goods. Most states use a "delivery" rule for exports; that is, if the good is delivered to the customer out-of-state for out-of-state use, it is a deductible export. New Mexico uses a more complicated standard that requires not only delivery out-of-state but that title and

risk of loss pass to the nonresident customer outside of New Mexico. This option would amend the law to permit receipts from the sale of tangible personal property or licenses to be deducted from gross receipts if the property is delivered to an out-of-state buyer for initial out-of-state use.

PROS

- This option would make the export deduction for goods similar to the export deduction for services pursuant to Section 7-9-57 NMSA 1978.

- This aligns New Mexico with the long-standing practice in the large majority of states.

- It is likely that the delivery standard will be contained in the streamlined sales tax project effort.

CONS

- Although it is likely that many retail businesses are following the delivery rule in practice, some actually follow the existing requirements. Switching to the new rule will, in fact, create more deductions and lower revenues for both the state and at least some of the local governments.

OPTION 4E. Change the 50 Percent Deduction (Section 7-9-62 NMSA 1978) for Agricultural Implements.

There are two options for changing this section, which permits 50 percent of the receipts from selling agricultural implements to be deducted from gross receipts, like receipts from selling off-road vehicles.

OPTION 4E (1). Repeal the Deduction.

PROS:

- Equipment used by other businesses is fully taxed. This equipment should be treated the same way.

- The Streamlined Sales Tax Agreement bars partial deductions.

- If equipment sold by out-of-state sources can undersell New Mexico dealers solely because of this tax difference, then compensating tax enforcement ought to be stepped up.

CONS

- This will increase the costs for farmers and ranchers and may accelerate the loss of family farms and ranches.

- Inputs to business operations should not be taxed. This proposal goes the wrong way. Farm equipment, as well equipment used by all other industries, should not be taxed.

OPTION 4E (2). Place Agricultural Implements Under a Separate Tax with Off-Road Vehicles.
This option is treated under the discussion of selective excise taxes. The fiscal impact of this option cannot be calculated without a specific proposal and tax rate.

PROS

- If agricultural implements are to be continued to be grouped with tractors, off-road vehicles and aircraft, then it makes sense to tax them in the same way.

CONS

- This proposal goes the wrong way. Farm equipment, as well equipment used by all other industries, should not be taxed.

OPTION 4F. Repeal the Deduction for Newspapers (Section 7-9-64 NMSA 1978).
Newspapers and magazines share a deduction for receipts from publishing, but only newspapers enjoy a deduction for receipts from retail sale. Books, cable TV service, internet access service and similar means of providing news and information are taxed.

PROS

- This extends the same treatment given to other media to newspapers.

CONS

- This will impair the ability of the press to reach the citizenry and fulfill its role as the guardian of freedoms.

- The power to tax is the power to destroy. Taxing newspapers is an attempt to silence the main voice holding governments accountable.

- This will probably force price increases larger than the tax amount because so many copies are sold through vending machines.

OPTION 4G. Remove Reference to "18 tons" in Section 7-9-65 NMSA 1978.
It is not clear why a deduction should be granted when chemicals and reagents are bought in carload lots (a carload lot is 18 tons), but not when acquired in smaller units. The Streamlined Sales Tax Agreement requires elimination of quantity and dollar limitations in deductions.

PROS

- If New Mexico joins the Streamlined Sales Tax Agreement, then this provision needs to be eliminated or restated.
- The tax policy reason for this deduction escapes detection.

CONS

- This deduction has been in place since at least 1969. No strong reason has been advanced to change this long-standing policy.

OPTION 4H. Repeal Section 7-9-70 NMSA 1978, a Deduction for Rental or Leasing of Vehicles Used in Interstate Commerce.
The deduction is granted for the rental or leasing of vehicles used in interstate commerce under the regulations or authorization of any agency of the United States. The agency primarily referred to is the Interstate Commerce Commission, which was abolished years ago.

PROS

- This appears to be obsolete language. No federal agency currently exercises economic jurisdiction over truck and bus transportation.
- If federal law or regulations prohibit applying gross receipts tax to such vehicles, the federal law or regulations will control regardless of whether this deduction exists.

CONS

- This is another effort in the wrong direction. The deduction should be rewritten to remove references to federal agencies and expanded to include rental or leasing of vehicles to be used in intrastate commerce as well.

OPTION 4I. Remove the $5,000 Cap from Section 7-9-74 NMSA 1978, a Deduction for Sales of Inputs to Jewelry Manufacturers.
This deduction is for receipts from selling ingredients or components to a person who states in writing that he will use the tangibles in manufacturing jewelry. The deduction is limited to $5,000 worth of tangibles in any 12-month period. The deduction is necessary only for manufacturers, such as Native American artisans working and selling on their own tribal territory, who have not registered for gross receipts tax purposes and thus are ineligible to receive nontaxable transaction certificates. Some testimony was received that the $5,000 ceiling has not been enforced for years. The fiscal impact of this change is negligible.

PROS

- There is no logic to the cap in the first place. If the idea is to support Native American jewelry manufacturing, the cap is counter-productive.
- The Streamlined Sales Tax Agreement bans quantity and dollar ceilings and floors. Getting rid of the $5,000 limit conforms this section to the agreement.

CONS

- There appears to be no good reason not to make this change.

MUNICIPAL CREDIT

OPTION 5. Municipal Credit (Section 7-9-82 NMSA 1978).
This credit was enacted in 1982 as a device to discourage urban sprawl. It does so by lessening the difference between gross receipts tax rates in municipalities and those in force, which are typically much lower, in the county areas. When the municipality has imposed a rate of one-half percent or more (and all of them have), the state credit is one-half percent. The credit is applied against the state's own five percent rate. In municipalities, then, the net state tax rate is actually 4.5 percent. The total rate within municipalities is the 4.5 percent state rate plus the municipal rate plus any county-wide rates. The taxpayer is the direct beneficiary because, absent the credit, the total tax rate would be one-half percent higher.

OPTION 5A. Repeal the Municipal Credit.

PROS

- There is no evidence that the municipal credit has made any difference at all in slowing down urban sprawl. Other factors, such as population growth, are far more powerful.

- Even if the policy is somewhat successful, its price is way out of proportion to its benefits.

CONS

- This is a tax increase, plain and simple.

OPTION 5B. Reduce the Municipal Credit to One-Fourth Percent.

PROS

- See the arguments above for repealing the credit.

CONS

- This is still a tax increase, plain and simple.

- This is a halfway measure. The remaining one-fourth percent credit is too little to accomplish its goal, but the one-fourth percent reduction in the credit is still a tax increase.

COMPENSATING TAX

OPTION 6. Compensating Tax Changes.
The compensating tax (Section 7-9-7 NMSA 1978) is New Mexico's companion to the gross receipts tax. It is levied on the purchaser of goods or services, mainly because the state has jurisdiction over the purchaser and usually does not over the seller. The tax's main purpose is to protect in-state merchants from untaxed competition from out-of-state competitors. Today the tax is imposed on the purchase of tangible personal property from an out-of-state source for use in New Mexico. If another state does tax the transaction in which the tangible property is acquired, a credit in the amount of the other state's tax may be claimed against the amount due New Mexico. The compensating tax is also used as a penalty when a purchaser misuses nontaxable transactions certificates.

OPTION 6A. Provide for Local-Option Add-on Taxes.
Unlike gross receipts tax, no local government has been authorized to impose local-option taxes on top of the compensating tax.

PROS

- The logic that supports a compensating tax companion to the state gross receipts tax applies with equal force to the local-option gross receipts taxes levied by the municipalities and counties.

- Absence of local-option taxes means that it is financially rewarding to misuse nontaxable transaction certificates. This is a way of converting what might be a 6.5 percent or seven percent gross receipts tax liability into a five percent obligation. On large transactions the incentive may prove irresistible. The only penalty is paying the compensating tax. Presence of the local-option taxes would eliminate the temptation.

- Local governments could use the money, especially if new deductions are recommended without hold harmless provisions.

CONS

- This is an unabashed tax increase.

- This will complicate the CRS-1 form (used by taxpayers to report gross receipts, compensating and withholding taxes). It may require a whole new design. Adjusting to the new form and procedures will cost taxpayers.

OPTION 6B. Expand the Compensating Tax to Services.

Option 6B (1). Expand to Cover All Services.

The compensating tax has never applied to services. At the time of its enactment, far fewer services crossed borders and perhaps the administrative difficulties were perceived as too daunting.

PROS

- Today, services are a large and growing part of both the national and the state economies. With computer and information processing technology, the administrative challenges should be manageable.
- Many in-state service providers face stiff competition from out-of-state providers. It is not fair to tax in-state providers but let their competitors escape paying equivalent taxes.

CONS

- Expanding the tax base is another way to increase taxes.
- Imposing the compensating tax on services will increase costs for New Mexico businesses and consumers and will require more paperwork.

OPTION 6B (2). Expand the Compensating Tax to Cover Certain Research and Development Services.

Instead of imposing tax on all services, New Mexico could start on a smaller experimental basis by taxing only those out-of-state research and development services now included in the definition of "gross receipts". Many times the out-of-state research and development firm has no nexus with New Mexico and so the state has no way to enforce the tax it believes it is due.

PROS

- Basically this option just gives teeth to a policy decision made in 1989 that meant to equalize the tax treatment of in-state and out-of-state research and development firms.
- By narrowing the number of potential taxpayers, the need for large-scale systems changes may be avoided or delayed.
- In-state research and development service providers face stiff competition from out-of-state providers. It is not fair to tax in-state providers but let their competitors escape paying equivalent taxes.

CONS

- This will complicate tax reporting for in-state businesses, not out-of-state companies.

OPTION 6C. Repeal Ban on Compensating Tax Collection Enforcement Against Households.

In 1995, the legislature prohibited the Taxation and Revenue Department from taking any active steps to enforce compensating tax due on purchases by households from remote sellers (mail catalogues, 1-800 vendors, cable TV merchandisers, internet sellers, etc.). The department then had, and now has, no effective reporting mechanism to capture the necessary information about these purchases. Oddly, no change was made to the compensating tax; compensating tax is still due on purchases from remote vendors.

PROS

- The statute encourages disrespect for the law.
- As a temporary measure, this law may have had some merit but no noticeable effort has been made to solve the underlying problem. No effort will be made until the statute is removed.
- If Congress authorizes states to impose sales tax on remote vendors, New Mexico will receive no benefit until this statute is repealed.

CONS

- This repeal by itself does nothing to solve the underlying problem: how does the tax collector enforce this tax without intruding into the private lives of households?
- There is no need to act until Congress actually authorizes states to collect from remote sellers.

OPTION 6D. Apply Tax to On-Reservation Sales to Non-Members for Off-Reservation Use.

Currently, this issue is confined to the sale of manufactured housing. The compensating tax is designed to protect in-state merchants from untaxed competition by out-of-state vendors. Vendors on tribal territory in New Mexico can also do business without paying New Mexico gross receipts tax, thus confronting the off-reservation business with untaxed competition from within New Mexico.

OPTION 6D (1). Encourage Adoption of Tribal-State Gross Receipts Tax Agreements.

Sections 9-11-12.1 and 9-11-12.2 NMSA 1978 allow the Taxation and Revenue Department and individual tribal governments to enter into agreements under which a tribal government imposes a gross receipts-like tax to be administered by the department. Under such an arrangement, this tax would be imposed on the on-reservation seller, this eliminating the issue. There is no time table for entering into such agreements.

PROS

- The law is already in place.

- It avoids any action on the state's part that might be construed as leaning on tribal sovereignty.

CONS

- There is no guarantee that this approach will solve the problem or solve it before serious economic damage is done to the off-reservation dealers.

OPTION 6D (2). Extend Compensating Tax to Cover These Sales.

PROS

- This protects off-reservation outfits from untaxed competition until the tribal-state tax agreement (if there is one) takes effect.

CONS

- Although it may not seem to be so, this could be difficult to enforce.

GOVERNMENTAL GROSS RECEIPTS TAX

OPTION 7. Governmental Gross Receipts Tax Options.
The governmental gross receipts tax is unique to New Mexico. Under this tax, New Mexico taxes itself and most of its political subdivisions and instrumentalities. Governmental hospitals and public schools are exempt. A five percent tax is imposed on the sale by the government of tangibles and a short list of services (recreational, athletic, entertainment, refuse collection, refuse disposal and sewage services). The concept is that when government acts in a commercial fashion, then it should play by the same tax rules as private businesses to avoid giving itself an unfair advantage.

OPTION 7A. Extend Governmental Gross Receipts Tax to Additional Services.
The enumerated services do not exhaust the markets in which governments compete with private business. Two examples of governmental services that perhaps should be taxed are research and development and parking services.

PROS

- This extends the underlying concept into more areas where it is appropriate.
- It could also provide a logical foundation for treating nonprofit organizations equivalently.

CONS

- The governmental gross receipts tax can be viewed as a device to move money from local governments to the state treasury. Enlarging this raid on local finances is not warranted.
- This is simply an indirect way of raising taxes on the public.

OPTION 7B. Apply Local-Option Taxes to the Governmental Gross Receipts Base.
Local option taxes have never applied to governmental gross receipts, but it seems logical to do so.

PROS

- If the governmental gross receipts tax is meant to impose the same tax burden on sales by governments as is imposed on sales by businesses, then the total tax rate should be equal to that of the combined state and local gross receipts tax rates.
- There is no reason why municipalities and counties should not benefit from sales subject to the governmental gross receipts tax as they do for sales subject to gross receipts tax. Economic activity generates the need for government

services at the local level.

CONS

- To make the rates actually equivalent, a version of the municipal credit would have to apply to the governmental gross receipts tax rate. This might impair the bonds that the governmental gross receipts tax is pledged to repay.

INTERSTATE TELECOMMUNICATIONS GROSS RECEIPTS TAX

OPTION 8. Equalize Rate of the Interstate Telecommunications Gross Receipts Tax with That of the Gross Receipts Tax.

Receipts from long-distance calls were originally subject to the gross receipts tax. The Federal Communications Commission denied New Mexico telephone companies permission to change their rates automatically whenever the state or local gross receipts taxes changed, unless the rates were contained in a tax specific to the industry. The interstate telecommunications gross receipts tax was created to respond to that condition. At the time, a partial deduction was available for receipts from interstate telecommunications. In the new tax, the rate was set at 4.25 percent to reflect the deduction.

PROS

- The rate does not match the rate faced by other goods and services, but it should. Whatever the historical reasons were for the lower rate, that was then.

CONS

- This is a tax increase.
- Good telecommunications is essential in the modern economy. Raising its cost will impede economic development.