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FISCAL IMPACT REPORT

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|--------------|-------------------------------------|-------------|----------|----------|-------|
| SPONSOR: | Wright | DATE TYPED: | 02/06/00 | HB | 221 |
| SHORT TITLE: | Clothing and Footwear Tax Deduction | | | SB | |
| | | | | ANALYST: | Eaton |

REVENUE

| Estimated Revenue | | Subsequent Years Impact | Recurring or Non-Rec | Fund Affected |
|-------------------|------------|----------------------------|-------------------------|------------------|
| FY00 | FY01 | | | |
| | \$ (970.0) | | Recurring | General Fund |
| | \$ (670.0) | | Recurring | Local Govts. |

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

This bill provides an annual gross receipts tax holiday for sales of qualified clothing and footwear during a three-day period in August prior to the beginning of each school year. This holiday is accomplished through a gross receipts tax deduction. To qualify for the deduction, individual items must be purchased at a price of less than \$100. The provisions of the bill are not meant to apply to sales of specialized athletic/protective gear or accessories. The proposed tax holiday is similar to programs currently administered in Florida, New York, and Texas.

The bill would take effect July 1, 2000.

FISCAL IMPLICATIONS

The fiscal impact was estimated by TRD by examining reports from the Texas State Comptroller's Office and the U.S. Bureau of Labor Statistics' 1998 Consumer Expenditure Survey as well as in-house sources. Data extrapolated implies that New Mexico would have a 75% increase in sales due to the deduction. It is estimated that this proposal will reduce New Mexico state and local gross receipts tax collections by approximately \$1.6 million.

ADMINISTRATIVE IMPLICATIONS

Administrative impact on the Department would be significant. Extensive regulations must be developed. Taxpayer instructions, including itemized lists detailing the taxable status of equivocal clothing/footwear, must be written and promulgated.

TECHNICAL ISSUES

TRD suggest that it might be prudent to enact this legislation with a sunset so that the legislature would have an opportunity to decide whether or not to continue based on the experience.

JE/njw