NOTE: As provided in LFC policy, this report is intended for use by the standing finance committees of the legislature. The Legislative Finance Committee does not assume responsibility for the accuracy of the information in this report when used in any other situation.

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FISCAL IMPACT REPORT

| SPONSOR: | Watchman | DATE TYPED: | 02/15/01 | HB | 570 |
|-----------------------------------|----------|-------------------|----------|----|-----|
| SHORT TITLE: Eliminate Gross Rece | | eipts Tax on Food | Sales | SB | |
| | | YST: | Eaton | | |

REVENUE

| Estimated Revenue | | | Subsequent | | Recurring | Fund | |
|-------------------|------|------------|--------------|------------|------------|--------------|--|
| FY01 | FY02 | | Years Impact | | or Non-Rec | Affected | |
| | \$ | (52,900.0) | \$ | (58,900.0) | Recurring | General Fund | |
| | \$ | (41,700.0) | \$ | (46,400.0) | Recurring | Local Govt. | |

(Parenthesis () Indicate Revenue Decreases)

Duplicates/Conflicts with/Companion to/Relates to House Bill 468, Senate Bill 367

SOURCES OF INFORMATION

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

This proposes the repeal of the gross receipts tax on food effective July 1, 2002.

FISCAL IMPLICATIONS

The Taxation and Revenue Department (TRD) report that the impact of this bill would reduce the general fund in FY02 by \$52.9 million and reduce local government revenue by \$41.7 million. The table below illustrates the five year impact.

| | FY 2002 | FY 2003 | FY 2004 | FY 2005 | FY 2006 |
|-------------------|------------|-------------|-------------|-------------|-------------|
| General Fund | (52,900.0) | (58,900.0) | (60,100.0) | (61,400.0) | (62,800.0) |
| Local Governments | (41,700.0) | (46,400.0) | (47,200.0) | (48,200.0) | (49,300.0) |
| Total Impact | (94,600.0) | (105,300.0) | (107,300.0) | (109,600.0) | (112,100.0) |

Source: Taxation and Revenue Department

ADMINISTRATIVE IMPLICATIONS

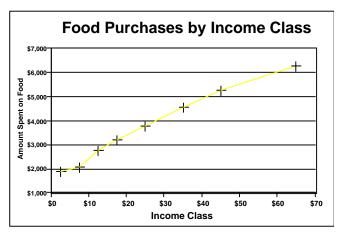
The Taxation and Revenue Department (TRD) report that this bill will cause a major impact on the regulatory process, but imposes an insignificant burden on revenue processing, forms development and systems maintenance.

TECHNICAL ISSUES

The repeal of the tax on food might trigger a downward adjustment of some revenue bonds by the rating agencies. Bondholders could sue for loss of capital value of their bonds if this does occur and could win a settlement equal to the amounts by which their capital had eroded. The Taxation and Revenue Department (TRD) does not know how likely this scenario is, but feels it important to point out the risk.

OTHER SUBSTANTIVE ISSUES

The Taxation and Revenue Department (TRD) note that the financial benefits of this bill will not go primarily to low-income citizens of the state. The lowest income 62,000 families, with 164,000 persons, are food stamp recipients. Food purchased with food stamps are deductible from gross receipts. Purchases for food tend to consume a greater percentage of household budget as income rises (see TRD graph below). Because of this effect, 50% of the benefit of this bill will go to the 20% of the population with the highest income. TRD indicated in their report that New Mexico, with its food stamp exemption and LICTR, have satisfactorily addressed the problems of regressivity of taxing food.



Data is based on 1988 Consumer Expenditure Survey.

Source: Taxation and Revenue Department

JBE/njw