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FISCAL IMPACT REPORT

SPONSOR: Campos DATE TYPED: 2/18/03 HB _____

SHORT TITLE: Define "County" In Local Liquor Excise Act SB 243

ANALYST: Neel

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	FY04			
	\$164.5	\$329.0	Recurring	San Miguel County
	\$ 8.5	\$17.0	Recurring	TRD Administrative Fees

(Parenthesis () Indicate Revenue Decreases)

Relates to:

HB 350, Define "County" In Local Liquor Excise Act

HB 579, Define "County" In Local Liquor Excise Act

SOURCES OF INFORMATION

Responses Received From:

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 243 allows San Miguel county to impose a tax of up to 5 percent on the wholesale value of liquor sold by retailers in the county.

The tax imposed by the Local Liquor Excise Tax Act [7-24-8 to 7-24-16 NMSA 1978] is to be paid on or before the twenty-fifth day of the month following the month in which the taxable event occurs.

FISCAL IMPLICATIONS

TRD anticipates provisions in HB 350 will generate approximately \$356.0 with \$17.0 or 5 percent dedicated to TRD for administering the program.

ADMINISTRATIVE IMPLICATIONS

Administrative costs to the Department should be fairly small since the bill only expands the tax to one county. The program would probably be implemented as a manually-intensive system rather than a fully computerized system. TRD further notes that eventually an additional FTE may be required to help administer the program.

OTHER SUBSTANTIVE ISSUES

TRD notes the following significant issues:

- 1) New Mexico's current tax rates on alcoholic beverages ranks relatively high among states. Laws 1993, Chapter 65 (SJC Substitute for SB-341, et al) increased the state-imposed liquor excise tax over a two-year period from about \$18 million to about \$35 million per year. The tax on beer increased from 18 cents to 41 cents per gallon; the tax on wine increased from 25 cents to 45 cents per liter; and, the tax on spirits increased from \$1.04 to \$1.60 per liter. As of 2001, New Mexico imposed the 8th highest tax on beer, the 4th highest tax on wine and, among the states not imposing a state monopoly on the sale of spirits, the 3rd highest tax on spirits.
- 2) The 1993 and 1994 liquor tax increases resulted in no discernible effect on levels of alcohol consumption. The 128% increase in the tax on beer, for example, amounted to about 13 cents per six-pack, or about 4% to 5% increase in price. While the consumer "price elasticity" response was projected to be about a 2% decline in consumption, in hindsight the actual decline now appears to have been significantly less than 2%.
- 3) Differences between the value-based Local Option Liquor Tax and the volume-based state Liquor Excise Tax make computerized audit cross-checks difficult. The Department probably will not spend a lot of its limited audit resources providing audit coverage for a local option liquor tax, especially if it were at the expense of the more productive state and local gross receipts tax.
- 4) Section 7-24-12 NMSA 1978 of the current Local Liquor Excise Tax Act exempts "the purchase of alcoholic beverages by any instrumentality of the armed forces of the United States engaged in resale activities." It might be useful to condition this exemption on the continuation of the federal prohibition so that, if the federal government ever allows such sales to be taxed by state and local governments, such sales would automatically become taxable.
- 5) Creation or expansion of local option taxes of this sort inhibit the ability of the state to raise revenue from the same source. Approximately \$37.7 million is currently being raised by the state liquor excise tax, of which about \$24.7 million is general fund revenue and \$13 million is distributed to the Local DWI Grant Fund. An additional large portion of the state general fund revenue from the state liquor excise tax could be considered to be "taken-up" by continuing appropriations to the Health Department and the DWI Program Fund for alcohol-related programs.

6) Statistical information regarding the value of alcoholic beverages and their distribution by county would be somewhat enhanced by expansion of the Local Liquor Excise Tax. The state liquor excise tax is collected at the distributor/wholesaler level. Since the disposition of the tax revenues in no way depends on the geographic dispersion of ultimate sales, the state Liquor Excise Tax does not generate information about patterns of local sales on either a dollar or volume basis. We are not aware of any other regularly reported source which does.

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