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FISCAL IMPACT REPORT

SPONSOR: Aragon DATE TYPED: 2/7/03 HB

SHORT TITLE: Repeal Gross Receipts Tax Municipal Credit SB 302

ANALYST: Smith

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	FY04			
	125,000.0	136,000.0	Recurring	General Fund
	0	0	Recurring	Local Governments

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION

Responses Received From

TRD

SUMMARY

Synopsis of Bill

This bill repeals the section of statute that currently provides taxpayers a credit against the state gross receipts tax (GRT) to offset municipal GRT liability. The credit depends on the municipal gross receipts tax rate imposed. If the municipality has imposed a municipal GRT rate of one-quarter percent (.25%), the credit is equal to that amount. If the municipal GRT rate is one-half percent (.5%) or more, the credit is worth one-half percent.

All municipalities in the state have imposed a municipal GRT of at least .5%. Therefore, the effective state gross receipts tax rate for all taxpayers reporting within municipal boundaries is 4.5%.*

FISCAL IMPLICATIONS

The fiscal impact is based on an expected municipal gross receipts tax base of approximately $27.2 billion. All municipalities in the state have imposed a municipal GRT of at least one-half percent.

OTHER SUBSTANTIVE ISSUES

TRD makes the following tax policy arguments

- The current credit allows municipal governments some "cushion" to impose local option taxes without placing undue burden on taxpayers. Repealing the credit for municipal gross receipts tax liability will remove that mitigating factor, and result in a rate increase of .5% for all municipal taxpayers.

- The effective .5% rate increase will lead to gross receipts tax rates in some municipalities approaching 8%. The principle on which the gross receipts tax was founded was to couple a broad base with a low rate. This proposal represents some erosion of that principle.

- Repealing the credit will increase the differential between the total GRT rates imposed in cities and total rates imposed in unincorporated areas. Repealing the credit may provide some incentive for taxpayers to locate businesses just outside municipal boundaries to take advantage of lower rates. Hence, the municipal credit may serve to limit "urban sprawl" to some degree.

SS/njw:sb