F I S C A L   I M P A C T   R E P O R T

SPONSOR Snyder **DATE TYPED** 02-17-04 **HB**

SHORT TITLE Business Service Tax Credit **SB** 425

ANALYST Taylor

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY04	FY05			
	(60,000.0)	(63,000.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

SUMMARY

Senate Bill 425 provides a tax credit which is denominated as the “business services tax credit”. The credit is equal to one percent of qualified business services expenditures, or, in the case of licensed hospitals claiming the 50 percent gross receipts tax deduction provided in Section 7-9-73.1 NMSA 1978, one-half percent of qualified business service expenditures.

The business service tax credit may be claimed against the state gross receipts tax, compensating tax or withholding for which the taxpayer is liable, but may not exceed tax liability. Excess credits may be carried forward for three years.

Qualified business expenditures are defined as an amount paid for services performed in the state that are subject to the gross receipts tax and not eligible for a deduction or exemption. It excludes expenditures for entertainment or recreational services, janitorial services, repair and maintenance services, services for which the taxpayer has received any other tax credit and gross receipts taxes.

FISCAL IMPLICATIONS

TRD estimates that qualifying business-to-business transactions total more than $6 billion in FY05. Applying the one percent tax credit against the $6 billion base implies a $60 million loss to the general fund.

ADMINISTRATIVE IMPLICATIONS

TRD reports that the administrative implications of the bill are modest and can be managed with existing resources.

OTHER SUBSTANTIVE ISSUES

TRD provided the following substantive issue:

> This proposal provides a credit to the purchaser of the service rather than the seller on which the legal incidence of the gross receipts tax actually falls. The rationale is to at least partially reimburse taxpayers for passed-on gross receipts taxes paid on inter-business services. However, it may be questionable tax policy to allow a taxpayer to claim credit for a tax liability that, in part, another taxpayer is ultimately liable.
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> This proposal provides partial relief for the "pyramiding" of the gross receipts tax on services, i.e. the imposition of tax on tax. Pyramiding is considered by most tax professionals to be an inefficient and undesirable feature of a tax system. Among other things, it increases the overhead costs of businesses operating in New Mexico relative to their competitors in other states.

BT/lg