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

SPONSOR Marquardt **DATE TYPED** 2-21-2005 **HB** 688

SHORT TITLE Resale of Services Gross Receipts **SB**

ANALYST Taylor

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
	($59,400.0)	Similar	Recurring	General Fund
	($39,600.0)	Similar	Recurring	Local Governments

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files
Taxation and Revenue Department

Relates to HB 582

SUMMARY

House Bill 688 expands the deduction for certain sales of service for resale to all sales of service for resale.

The bill has an effective date of July 1, 2005.

FISCAL IMPLICATIONS

TRD estimates that sales of service for resale will total approximately $1.5 billion in FY06. Applying an average statewide gross receipts tax rate of 6.6 percent implies that the gross receipts tax on sales of service for resale raises about $99 million of revenue. Approximately 60 percent, or $59.4 million, of the revenue loss is allocated to the state general fund; the remaining $39.6 million represents a negative fiscal impact on local government revenues.

ADMINISTRATIVE IMPLICATIONS

TRD reports that the administrative impacts would be modest, including publication changes, taxpayer outreach, staff training and development of audit and compliance procedures..

OTHER SUBSTANTIVE ISSUES

The Taxation and Revenue Department submitted this discussion of the pyramiding issue for a bill providing partial gross receipts deduction:

> *"Pyramiding" in the Gross Receipts Tax:*
> New Mexico's gross receipts tax ("GRT") is one of the broadest-based transactions taxes of any state in the country. Maintaining a broad tax base enables New Mexico to collect adequate revenue with a relatively low tax rate. Transactions between businesses constitute a significant share of New Mexico's broad gross receipts tax base. Since the inputs and the outputs of businesses are subject to tax, the inclusion of business services in the tax base results in some degree of "pyramiding," i.e. multiple taxation of the same product or service. The GRT has been modified to limit pyramiding on sales of tangible items by providing deductions of sales for re-sale. In the case of services, the analogous deductions are limited to those cases where the next sale is taxable. In addition, many business services are not "for re-sale," but rather are "consumed" by the purchasing business. Thus, there exists a significant degree of multiple taxation of services within the GRT. The current system could be viewed as unfair to businesses that, due to the nature of their purchases, are subject to higher overall tax burdens than their competitors in New Mexico and in other states.
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> The proposal would address the pyramiding of tax on services to a limited extent. By removing a portion of tax from the sale of services for re-sale, the cumulative imposition of tax on re-sold services decreases. This would benefit, for example, a business re-selling services in interstate commerce. In such a case, the re-sale would not be subject to gross receipts tax, but under present law, the initial sale would have been taxable.

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