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## FISCAL IMPACT REPORT

SPONSOR Ingle DATE TYPED 2/7/05 HB \_\_\_\_\_  
 SHORT TITLE Clothing & Footwear Gross Receipts SB 378  
 ANALYST Padilla-Jackson

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
	(\$1,700.0)	Similar	Recurring	General Fund
	(\$1,000.0)	Similar	Recurring	Local Governments

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Taxation and Revenue Department (TRD)

### SUMMARY

#### Synopsis of Bill

Senate Bill 378 proposes a temporary gross receipts tax deduction for receipts on sales of clothing and footwear that cost less than \$100 per article. The tax deduction would only apply to sales taking place during the first weekend in August each year and exclude clothing that is designed primarily for athletic or protective use and accessories, such as jewelry, handbags, luggage, umbrellas, wallets, and similar items, as well as clothing rentals.

The effective date of the provisions of this bill is July 1, 2005.

### FISCAL IMPLICATIONS

According to analysis provided by TRD, the total fiscal impact of the bill is -\$2.7 million, of which -\$1.7 million will impact the general fund and -\$1 million will impact local governments. Using data from the "Analysis of Gross Receipts Tax by Industrial Classification," TRD estimates that taxable gross receipts attributable to clothing will be approximately \$2 billion in

FY06. Based on the experience of Texas, which reportedly has a very similar statute to the proposal, TRD estimates that 2.5 percent of total annual sales (or \$50 million) would be eligible for the proposed deduction. Therefore, utilizing an average tax rate of approximately 5.4 percent, this bill would allow a total of \$2.7 million in gross receipts tax deductions (\$50 million x 5.4 percent).

#### **ADMINISTRATIVE IMPLICATIONS**

TRD notes that the department will have to do a significant amount of outreach to insure that the deduction is properly claimed and reported. They believe that the administrative costs would be minor unless there is a desire to track this deduction separately from other deductions, in which case, forms, systems and revenue processing would have to be modified.

OPJ/yr