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

SPONSOR Smith **ORIGINAL DATE** 1-27-2006 **LAST UPDATED** 2-5-06 **HB**

SHORT TITLE Managed Tax Audit Payments & Reporting **SB** 319/aSFC

ANALYST Dearing

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
	($0.1)*		Recurring	General Fund
	*Please See Narrative			

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates HB384
Conflicts HB380

House Bill 380 also contains an amendment to Section 7-1-71.2, setting up a possible conflict if both bills are passed.

SOURCES OF INFORMATION
LFC Files

Responses Received From
Department of Health (DOH)
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of SFC Amendment

Senate Finance Committee has amended Senate Bill 319 such that:

1. On page 7, lines 3 & 4, strike Section 4 in its entirety and insert in lieu thereof the following new section:

   "Section 4. APPLICABILITY.—The provisions of this act apply to taxes for which returns are due on or after January 1, 2006.

As amended, the applicability of the provisions of this bill will apply to those taxes for which tax returns are due on or after January, 1, 2006 (i.e. 2005 tax returns) and as such, *AS AMENDED,*

PREVIOUSLY MENTIONED TECHNICAL ISSUE, WITHIN TECHNICAL ISSUES SECTION OF FIR IS NOW INVALID.

Synopsis of Original Bill

Senate Bill 319 proposes technical changes that would increase time frames relating to taxpayer payment extension of time, tax payment due dates and exemption from tax penalty for a taxpayer participating in a managed audit.

Three changes are proposed to the Tax Administration Act:

1. The Secretary of Taxation and Revenue would be authorized to extend the due date for payment of income tax or filing of the return by up to six months rather than four months under present law.

2. The interest-free period for payment of tax liability identified through a managed audit would be extended from 30 days to 180 days.
3. The double local option penalty for misreporting of food and medical services deductions under the gross receipts tax would not apply to taxpayers who participate in a managed audit.

FISCAL IMPLICATIONS

SB 319 is a proposal that came out of the interim work of the Legislative Revenue Stabilization and Tax Policy Committee. SB 319 contains technical changes that could have a minimal impact on revenues. The legislation extends the penalty free time-frame that those taxpayers within a managed-audit are allowed from thirty to one-hundred and eighty days. Additionally this bill extends the automatic extension in Section 7-1-13 e.) NMSA 1978 from four months to six months.

In general, those taxpayers that have entered into a managed-audit agreement, under certain circumstances, will accrue no interest on some tax deficiencies. Accordingly, there could be a minimal, indeterminate fiscal impact, due to lost interest on these delinquent tax accounts. The level of lost revenue associated with this interest could be substantial however, depending on the number of those taxpayers who enter into a managed-audit agreement.

SIGNIFICANT ISSUES

According to the Taxation and Revenue Department, enactment of this bill should incur no significant impacts on state or local revenues. Although the extension of an interest-free period for managed audits has potential to reduce revenue, this could be offset by encouraging more managed audits, which encourage taxpayers to identify liabilities that the Department has not yet identified and therefore increasing revenue.

ADMINISTRATIVE IMPLICATIONS

1. Allowing the Secretary to extend the due date for income tax returns will enable state taxpayers to file state income tax returns at the same time as they file their federal income tax returns.
2. Extending the period in which a person must pay tax assessed in a managed audit from

30 days to 180 days and eliminating the penalty for misreporting food and medical deductions for persons in a managed audit, should encourage more managed audits. Managed audits provide taxpayers an opportunity to identify and report liabilities that have not yet been identified by the Department. Thus, they encourage payment of taxes that might otherwise not be paid.

TECHNICAL ISSUES

Because the effective date is July 1, 2006, taxpayers filing a 2005 return will be limited to 4 months. It would be best to make this effective for returns due on or after January 1, 2005, so the provision will apply to the tax year 2005 returns being processed this year.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Deadlines and penalties during tax audits will remain the same.

PD/yr