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FISCAL IMPACT REPORT

ORIGINAL DATE 2/20/07
 LAST UPDATED 2/22/07 HB 833/aHBIC

SPONSOR Barela

SHORT TITLE Low-Income Housing Material Gross Receipts SB _____

ANALYST Schardin

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	(\$396.0)		Recurring	General Fund
	(\$264.0)		Recurring	Local Governments

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of HBIC Amendment

The House Business and Industry Committee amendment to House Bill 833 addresses a technical issue raised by TRD. The amendment requires the buyer to deliver a nontaxable transaction certificate to the seller for receipts to receive the deduction. The amendment also restricts the deduction to receipts for materials purchase by a non-profit entity that is directly related to its tax-exempt purpose.

Synopsis of Original Bill

House Bill 833 expands a gross receipts and governmental gross receipts deduction granted in Section 7-9-60 NMSA 1978 to allow receipts from selling construction material or metalliferous mineral ore to a 501(c) (3) organization organized to provide homeownership opportunities to low-income families to be deducted.

The effective date of these provisions is July 1, 2007.

FISCAL IMPLICATIONS

Based on information from federal tax returns filed by New Mexico non-profit entities TRD estimates that 20 to 30 non-profit entities operate in New Mexico each year to provide low-income homeownership opportunities. Total income of these entities is about \$30 million per year TRD assumes that \$10 million of that income is spent on construction materials and would be eligible for the proposed deduction. Taxed at a statewide rate of 6.6 percent, the proposal would reduce gross receipts tax collections by about \$660 thousand. About 60 percent of that revenue decrease would accrue to the general fund and the remaining 40 percent would accrue to local governments.

SIGNIFICANT ISSUES

LFC notes that while individual deductions from the gross receipts tax may have small fiscal impacts, their cumulative effect significantly narrows the gross receipts tax base. Narrowing the gross receipts tax base increases revenue volatility and requires a higher tax rate to generate the same amount of revenue.

The bill will reduce local government gross receipts tax collections. Many of New Mexico's local governments are highly dependent on gross receipts tax revenue.

ADMINISTRATIVE IMPLICATIONS

The bill has no major administrative impacts on TRD.

TECHNICAL ISSUES

TRD notes that the term "low-income" should be defined, possibly in the same way low-income is defined in federal statutes governing the low-income housing tax credit.

SS/mt:nt