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

ORIGINAL DATE 2/27/07
SPONSOR Smith **LAST UPDATED** **HB**

SHORT TITLE Food & Health Care Tax Deduction Distribution **SB** 1182

ANALYST Schardin

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	$300.0	$651.0	Recurring	General Fund
	(300.0)	($651.0)	Recurring	Local Governments

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to SB 530

SOURCES OF INFORMATION
LFC Files

Responses Received From
New Mexico Municipal League (NMML)
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 1182 amends Sections 7-1-6.46 and 7-1-6.47, which were enacted in 2004 as part of the legislation to create gross receipts tax deductions for food and medical services (HB 625). Those sections hold counties and municipalities harmless from the food and medical service deductions by requiring TRD to distribute to each local government an amount equal to what would have been received if the deductions did not exist.

Senate Bill 1182 freezes the hold harmless distributions to local governments at the rate of the local option tax imposed as of January 1, 2007 rather than the current local option tax rate imposed at the time of the distribution.

FISCAL IMPLICATIONS

The bill will cause a gradual shift of revenue from local governments to the general fund as local option tax rates gradually creep higher. TRD reports that in the recent past, the local option gross receipts tax rate have increased by about 0.01 percent per year. Statewide, food and medical deductions are expected to total $3.1 billion in FY08. An additional 0.01 percent tax would cause a shift of about $310 thousand ($3.1 billion X 0.0001). The fiscal impact will grow over time as local option tax rates creep higher and the size of the deductions grows. The table above assumes rates continue to increase by 0.01 percent per year and that the deductions grow by 5 percent per year.

SIGNIFICANT ISSUES

Current law requires TRD to transfer to each county and municipality an amount equal to what would have been received if the food and medical service deductions enacted in 2004 did not exist. That amount is calculated by multiplying deductions by the local option tax rate imposed in the area. These distributions are meant to hold local governments harmless from any revenue loss associated with the food and medical deductions.

As local option tax rates creep higher, the size of the hold harmless distributions the state pays local governments grow larger. The bill protects the state general fund from losing additional revenue as local governments impose higher local option gross receipts taxes.

Alternatively, the bill limits local governments' ability to raise revenue through imposing higher local option gross receipts taxes. All increments imposed after January 1, 2007 would generate less revenue due to the provisions of the bill. Therefore, the bill reduces the state's 2004 commitment to hold local governments harmless to the food and medical deductions.

Medical service receipts tend to grow faster than the rest of the gross receipts tax base, and food receipts are one of the more stable parts of the tax base. The bill will therefore slightly reduce the rate of growth in local government gross receipts tax revenues and slightly increase revenue volatility.

Currently, New Mexico's local governments are authorized to impose up to 4.6875 percent of local option gross receipts taxes (that figure excludes several additional local option taxes that have been authorized for selected local governments). On average, a local option gross receipts tax of about 1.6 percent is actually imposed by local governments statewide. Combined with the state gross receipts tax of 5 percent, the statewide tax rate is therefore 6.6 percent.

ADMINISTRATIVE IMPLICATIONS

The administrative impact on TRD will be minimal.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Senate Bill 1182 relates to Senate Bill 530 as amended by the Senate Finance Committee. Senate Bill 530 expands the definition of a retail food store eligible for the gross receipts tax deduction for food to establishments with over 75 percent of sales attributable to water, ice and coffee. The Senate Finance Committee amendment to Senate Bill 530 inserted language identical to that found in Senate Bill 1182.

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