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

ORIGINAL DATE 1/31/08
SPONSOR Silva **LAST UPDATED** 2/07/08 **HB** 445/aHBIC

SHORT TITLE Benefits Admin. Services Gross Receipts **SB**

ANALYST Schardin

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY08	**FY09**	**FY10**		
	($20.7)	($29.8)	Recurring	General Fund
	($37.8)	($79.3)	Recurring	Local Government (Mesa del Sol TIDD)
	($21.3)	($33.6)	Recurring	Local Governments (All Other)

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Health Policy Commission (HPC)
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of HBIC Amendment

The House Business and Industry Committee amendment to House Bill 445 replaces the original definition of “benefits administration services” that will be eligible for the proposed gross receipts tax exemption. The original bill applied to receipts from human resources management and customer support services, including providing investment account information, benefits expertise, retirement planning, performance-improvement consulting, and workforce administration. The amended definition will apply to receipts from providing human resources outsourcing administration and services, including payroll, performance improvement consulting, benefits expertise and comprehensive benefit management services.

Synopsis of Original Bill

House Bill 445 creates a gross receipts tax exemption for receipts from benefits administration services provided by a business located in New Mexico if at least 95 percent of benefits administration services performed in New Mexico are provided to clients located outside New Mexico, and less than 5 percent of the total revenue of the business located in New Mexico is attributable to clients in New Mexico.

The effective date of the proposed exemption is July 1, 2008.

FISCAL IMPLICATIONS

Based on tax return information, TRD estimates that taxpayers already located in New Mexico that will be exempt due to the proposal paid about $86 thousand in gross receipts taxes in FY07. Under the amended definition of "benefits administration services" provided in the bill, it is assumed that 25 percent of this activity will be eligible for the proposed exemption. Receipts from these businesses already located in New Mexico are expected to grow by 5 percent per year.

Fidelity Investments recently announced it will locate a human resources center at Mesa del Sol in Albuquerque. The company is expected to generate receipts of $125 million in FY09 while it is still in the process of relocating and $262.5 million in FY10 once its operations are fully in place. Based on the ratio of New Mexico's population to that U.S. population, it is assumed that 99.4 percent of these receipts will be provided to clients outside of New Mexico, making them eligible for an existing deduction provided in Section 7-9-57 NMSA 1978. The remaining 0.6 percent of receipts will total $816.4 thousand in FY09 and $1.7 million in FY11. Taxed at an Albuquerque tax rate of 6.875 percent, the proposed exemption will decrease revenue from Fidelity by an estimated $56.1 thousand in FY09 and $117.9 thousand in FY10. The exemption is expected to grow by 5 percent per year. Because Fidelity is locating in the tax increment finance district (TIDD) of Mesa del Sol, 75 percent of what would be the general fund revenue loss and 67 percent of what would be the general fund revenue loss to the city of Albuquerque will accrue to the TIDD.

The combined impacts of businesses already existing in New Mexico and Fidelity is expected to be a gross receipts tax loss of $79.8 thousand in FY09 and $142.8 thousand in FY10. The table on page one of this analysis illustrates how these revenue impacts will affect the general fund, local governments, and Mesa del Sol TIDD.

SIGNIFICANT ISSUES

On January 17, 2008, New Mexico economic development officials announced plans for Fidelity Investments to open a human resources services division at Mesa del Sol in Albuquerque. The company will begin its expanded operations around the beginning of FY09. The proposed exemption appears to be targeted to the receipts of this company.

LFC notes that while individual credits, deductions and exemptions 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.

ADMINISTRATIVE IMPLICATIONS

The administrative impact on TRD will be minimal.

TECHNICAL ISSUES

LFC recommends amending the bill to make the proposed provision a deduction. Because exemptions do not require a tax return to be submitted, they are much more difficult to audit. The cost of exemptions is also virtually impossible to estimate.

TRD notes that Section 7-9-57 NMSA 1978 already contains a deduction for services performed in New Mexico where initial use is out of state. The majority of receipts for businesses who would qualify for the proposed exemption could already be deducted under current law.

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