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FISCAL IMPACT REPORT

ORIGINAL DATE 02/01/10

SPONSOR Garcia, T. LAST UPDATED _____ HB 202

SHORT TITLE Municipal Environmental Service Gross Receipts Rate SB _____

ANALYST Gutierrez

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY10	FY11	FY12		
	\$0.0 - \$696.0	\$0.0 - \$735.0	Recurring	Angel Fire

(Parenthesis () Indicate Revenue Decreases)

Relates to HB30 and HB42

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 202 amends Section 7-19D-10 NMSA 1978 to allow the governing body of a municipality in a class B county with a population of more than 1,040 but less than 1,050 to enact an ordinance imposing an excise tax not to exceed 1.0 percent which shall be imposed in 1/16 percent increments. This bill also states that having once qualified to impose the municipal environmental services gross receipts tax, a municipality shall remain qualified despite a change or update in census data.

The effective date of this bill's provisions is July 1, 2010.

FISCAL IMPLICATIONS

The fiscal impact of this bill depends on if and when the eligible municipality (Angel Fire) chooses to impose the environmental services gross receipts tax. To illustrate the potential fiscal impacts of the bill, the table below shows the amount of revenue that could be generated by the eligible municipality if the newly allowed 1 percent environmental services gross receipts tax is

imposed in FY11. Eighty-one municipalities already impose the tax (at 1/16 percent) and this estimate assumes Angel Fire will impose the full 1 percent increment of the tax. About \$696 thousand could be generated by Angel Fire if it fully imposes the tax in FY11.

The food and medical gross receipts tax deductions enacted in 2004 include “hold harmless” provisions to protect local governments from associated revenue losses. In 2007, legislation froze the tax rate at which some local governments are held harmless from the food and medical deductions. Since Angel Fire’s rates were frozen in 2007, there is no impact to the general fund from this bill.

**Illustration of Potential Revenue from Additional Municipal
Local Option Increments - Fiscal Year 2011**

Municipality	Potential Revenue: 1% Municipal Environment GRT Increment	Potential General Fund Loss Due to Hold Harmless Distribution: 1% Municipal Environment GRT Increment
Angel Fire	696,304	Hold Harmless Rate Frozen
TOTAL ALL MUNIS	\$696,304	\$0

Source: Taxation and Revenue Department, Reports 500 and Reports 80

During the 2000 decennial census, Carrizozo had a population of 1,036. It is possible that Carrizozo may qualify based on the results of the 2010 federal decennial census.

SIGNIFICANT ISSUES

New Mexico’s municipalities and counties are authorized to impose over 4 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 2.07 percent was imposed by local governments statewide in FY09. Combined with the state gross receipts tax of 5 percent, the weighted average statewide tax rate is therefore 7.07 percent.

Under current law, the municipalities of Ruidoso and Ruidoso Downs can impose a maximum municipal environmental services gross receipts tax of 0.5625 percent, whereas the maximum for all other municipalities is 0.0625 percent (Laws 2009, Chapter 284).

ADMINISTRATIVE IMPLICATIONS

The administrative impact on TRD will be minimal.

RELATIONSHIP

This bill relates to HB42 which is amending Section 7-19D-10 NMSA 1978 to allow all municipalities to impose the environmental services gross receipts tax at a rate not to exceed 0.5 percent.

This bill relates to HB30 which is amending Section 7-19D-12 NMSA 1978 to allow all municipalities to impose the capital outlay gross receipts tax regardless of whether the municipal gross receipts tax and infrastructure gross receipts tax have been fully imposed.

OTHER SUBSTANTIVE ISSUES

Out of state vendors pay tax at a 5 percent rate. As local rates increase, this increases the tax advantage of shopping out of state thereby decreasing state and local revenue (sometimes to zero revenue if there is no nexus).

BLG/svb

The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:

- 1. Adequacy:*** revenue should be adequate to fund government services.
- 2. Efficiency:*** tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.
- 3. Equity:*** taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.
- 4. Simplicity:*** taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.
- 5. Accountability/Transparency:*** Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.

More information about the LFC tax policy principles will soon be available on the LFC website at www.nmlegis.gov/lcs/lfc