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

| | | | | | |
|---|---|---|---|---|---|
| | | **ORIGINAL DATE** | 02/20/13 | | |
| **SPONSOR** | SFC | **LAST UPDATED** | 03/01/13 | **HB** | |
| **SHORT TITLE** | Public Peace, Health, Safety & Welfare - Qualifications for Imposing Some Taxes | | | **SB** | 593/SFCS |
| | | | | **ANALYST** | van Moorsel |

## REVENUE (dollars in thousands)

| **Estimated Revenue** | | | | | **Recurring or Nonrecurring** | **Fund Affected** |
|---|---|---|---|---|---|---|
| **FY13** | **FY14** | **FY15** | **FY16** | **FY17** | | |
| See Fiscal Implications | | | | | | |

(Parenthesis ( ) Indicate Revenue Decreases)

**SOURCES OF INFORMATION**
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

## SUMMARY

Synopsis of Bill

The Senate Finance Committee substitute for Senate Bill 593 (SB 593) creates a new section of the Tax Administration Act to clarify qualifications for imposing certain taxes.

The bill provides that once a tax has been imposed by a political subdivision, it shall not lose its qualifying status to continue to impose or reimpose that tax based upon any change in county classification, area, population, net taxable base for rate-setting purposes or other criteria set forth in statute; provided that the tax has not been repealed or terminated.

The provisions of this act apply to taxable years beginning on or after January 1, 2011, and the effective date of the bill is retroactive to January 1, 2011.

## FISCAL IMPLICATIONS

The TRD notes SB 593 has no direct revenue impact. If this bill resulted in higher local option gross receipts taxes in counties and municipalities, the General Fund would be negatively impacted because the required food and medical deduction hold harmless distributions would be made at an increased rate.

## SIGNIFICANT ISSUES

Among any other tax that political subdivisions are permitted to impose pursuant to Chapter 7, the provisions of SB 593 would apply to county property taxes, municipal local option gross receipts taxes, county local option gross receipts taxes, and local liquor excise taxes. The provisions of SB 593 do not apply to taxes imposed by special districts.

Under current law, a county or municipality may already continue to impose a local option gross receipts tax if they are initially qualified when they enacted the ordinance imposing the tax. They may not, however, reimpose the tax if they do not meet statutory requirements for imposing the tax at the time of reimposition.

The overall rate on New Mexico's combined state and local gross receipts tax (GRT) has increased steadily over time. The state GRT rate was increased by 0.125 percent on July 1, 2010, and both county and municipal governments have generally been increasing their local option GRT rates over time. The average combined state and local GRT rate is now over 7.2 percent inside municipalities and over 6.1 percent in the remainder of county areas. Even before recent increases, New Mexico relied on revenue from the GRT more than almost any other state. Relying too heavily on a single tax will increase the economic distortions caused by that tax. In general, taxes with a broad base <u>and</u> low rate do the least harm to a state's economic efficiency. If counties and municipalities enacted all local option gross receipts taxes currently available to them, the combined state and local rate could exceed 10 percent.

Currently the legislature uses identifying characteristics of a local government (such as population or county classification) to limit the imposition of certain taxes to a limited number of locations for a limited period of time. This bill may weaken the legislature's power to continue this practice.

Does the bill meet the Legislative Finance Committee tax policy principles?

1. **Adequacy**: Revenue should be adequate to fund needed government services.
2. **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity**: Different taxpayers should be treated fairly.
4. **Simplicity**: Collection should be simple and easily understood.
5. **Accountability**: Preferences should be easy to monitor and evaluate

PvM/blm:svb