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FISCAL IMPACT REPORT

ORIGINAL DATE 2/2/16

SPONSOR Rehm LAST UPDATED _____ HB 264

SHORT TITLE Car Race Purse Gross Receipts SB _____

ANALYST Graeser

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY16	FY17	FY18	FY19	FY20		
	(\$80.0)	(\$80.0)	(\$80.0)	(\$80.0)	Recurring	General Fund (GRT)
	(\$60.0)	(\$60.0)	(\$60.0)	(\$60.0)	Recurring	Local Governments (GRT)

Parenthesis () indicate revenue decreases

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY16	FY17	FY18	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	0	0	0	0		TRD Operating

Parenthesis () indicate expenditure decreases

SOURCES OF INFORMATION

LFC Files

Responses Received From

SUMMARY

Synopsis of Bill

House Bill 264 allows an exemption from gross receipts tax for the receipts of racecar drivers from race purses at New Mexico motor vehicle racetracks.

The effective date of this bill is July 1, 2016. There is no delayed repeal date. The LFC recommends adding a delayed repeal date.

FISCAL IMPLICATIONS

There are approximately 20 motor vehicle race tracks in New Mexico (see partial listing below). The most active is Albuquerque National Dragway¹, which runs about 60 events a year. A typical driver fee for local events is \$20 with spectator fee of \$10 and spectator fee of \$20/\$25 for the Firecracker National event in July. The industry in New Mexico is assumed to gross \$10,000,000 a year, with 20% allocated to purses. Using a statewide effective tax rate of 7.0% (divided 4.1% for state and 2.9% for local government) yields the flat revenue estimate shown in the table.

This bill may be counter to the LFC tax policy principle of adequacy, efficiency and equity. Due to the increasing cost of tax expenditures revenues may be insufficient to cover growing recurring appropriations.

Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for a tax expenditure may be ambiguous, further complicating the initial cost estimate of the expenditure's fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures.

SIGNIFICANT ISSUES

There is no purpose statement attached to this bill. There may be an analogue with jockey's and trainer's fees exempt from the gross receipts tax. The argument is that horse racing is an industry with a special tax imposed that is at a somewhat higher rate than the gross receipts tax, so that the state and local governments are taxing horse racing as a distinguishable industry. The case with auto and motorcycle racing is different. Driver's fees, advertising and media income, spectator's fees, merchandise and other income is all taxable to the track operators. In addition, the racecar drivers and driving teams receive income from purses and endorsements. To the extent that is nexus, some or all of the driver's and team income are subject to the GRT. The industry cannot argue economic development, since the taxability or non-taxability of the purses will not affect the number of races held or the number or drivers or teams participating in the races.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is not met since TRD is not required in the bill to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the deduction and other information to determine whether the deduction is meeting its purpose.

It is difficult, if not impossible, for TRD to measure either costs or benefits of a GRT exemption.

ADMINISTRATIVE IMPLICATIONS

Minimal. Instructions and regulations would have to be developed.

¹ <http://www.abqdragway.com/#!schedule/cjg9>

TECHNICAL ISSUES

This bill does not contain a delayed repeal date. The LFC recommends adding a delayed repeal date.

OTHER SUBSTANTIVE ISSUES

The trend in all states is to tax the per game or per race income of non-residents under personal or corporate income tax. This bill would go against this trend. Nor is it inappropriate to tax the income under the gross receipts tax as a business privilege and the net income under the income tax.

ALTERNATIVES

Recast the provisions as a separately reported deduction and require TRD to report the use and benefits to an interim legislative committee.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

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

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Addendum: Listing of New Mexico Race Tracks

[Albuquerque National Dragway](#)

Location: Albuquerque, NM

Description: 1/4 mi Asphalt Drag Strip

[Arroyo Seco Raceway](#)

Location: Fairacres, NM

Description: 2 Asphalt Road Courses (1.1 & 1.4 mi), Motocross Track, and 1/4 mi drag strip

[Aztec Speedway](#)

Location: Aztec, NM

Description: 1/3 mi Clay Oval

[Cardinal Motor Speedway](#)

Location: Eunice, NM

Description: 1/4 mi Clay Oval

[Carlsbad Dragway](#)

Location: Carlsbad, NM

Description: 1/8 mi Asphalt Drag Strip

[Carlsbad Speedway](#)

Location: Carlsbad, NM

Description: 1/4 mi Clay Oval, *Operational Status Unclear, but potentially re-opening in 2015 per their facebook page (see link)*

[Four Corners Kart Club](#)

Location: Aztec, NM

Description: 1/5 mi Clay Oval

[Harvey Caplin Memorial Speedway](#)

Location: Albuquerque, NM

Description: 1/6 mi Clay Oval

High Plains Speedway

Location: Clovis, NM

Description: 3/8ths high banked oval

Hobbs Motorsports Park

Location: Hobbs, NM

Description: 1/4 mi Asphalt Drag Strip

Hollywood Hills Speedway

Location: San Felipe Pueblo, NM

Description: 3/8 mi Clay Oval

Lobo Speedway

Location: Artesia, NM

Description: 3/8 mi Clay Oval

NAPA Speedway

Location: Albuquerque, NM

Description: 1/4, and 1/2 mile Asphalt Oval, 3/8 mile dirt oval, and 1.7 mile Asphalt Road Course

Ned Houk Motorsports Complex

Location: Clovis, NM

Description: 3/8 mi Clay Oval

RoadRunner Quarter Midget Association of New Mexico

Location: Carlsbad, NM

Description: Two 1/20 mi Asphalt Oval

Roadrunner Speedway

Location: Carlsbad, NM

Description: 1/3 mile dirt oval

Roswell Dragway

Location: Roswell, NM

Description: 1/4 mi Asphalt Drag Strip

Sertoma Speedway

Location: Alamogordo (Tularosa), NM

Description: 3/8 mi Clay Oval and Dirt Motocross Track

Southern New Mexico Speedway

Location: Las Cruces, NM

Description: 5/16 mi Clay Oval

The Drag Club

Location: Carrizozo, NM

Description: 1/4 mi Asphalt Drag Strip, Club Racing at Municipal Airport

Tularosa Speedway (formerly White Sands)

Location: Tularosa, NM

Description: 1/4 mile dirt/clay track

Uranium Capital Speedway

Location: Milan, NM

Description: 3/8 mi Clay Oval

