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## FISCAL IMPACT REPORT

**ORIGINAL DATE** 03/04/19  
**LAST UPDATED** 03/11/19     **HB** \_\_\_\_\_

**SPONSOR** Tallman

**SHORT TITLE** Distribution of GRT or Income Tax     **SB** 348

**ANALYST** Iglesias/Graeser

### REVENUE (dollars in thousands)

Estimated Revenue*					Recurring or Nonrecurring	Fund Affected
FY19	FY20	FY21	FY22	FY23		
0.0	(\$7,260.0) or more	(\$14,640.0) or more	(\$14,860.0) or more	(\$15,080.0) or more	Recurring	General Fund
0.0	\$7,260.0 or more	\$14,640.0 or more	\$14,860.0 or more	\$15,080.0 or more	Recurring	Municipal Governments

Parenthesis ( ) indicate revenue decreases

\*See fiscal and administrative implications.

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY19	FY20	FY21	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>	Likely high budgetary impact				Recurring	Taxation and Revenue Department

Parenthesis ( ) indicate expenditure decreases

### SOURCES OF INFORMATION

LFC Files

Responses Not Received From

Taxation and Revenue Department (TRD)

New Mexico Municipal League

### SUMMARY

#### Synopsis of Bill

Senate Bill 348 creates a mechanism for municipalities to share personal income tax revenues in exchange for some gross receipts tax revenues. The bill changes the current 1.225 percent municipal distribution of gross receipts tax (GRT) revenues to equal 1 percent, then allows municipalities to receive the greater of 0.225 percent of GRT revenues or one-twelfth of a calculated amount prepared annually by the Taxation and Revenue Department (TRD). The calculated amount is the product of all net income generated within a municipality and the ratio

of the municipal gross receipts share to the municipal income base. The effective date of this bill is January 1, 2020.

## **FISCAL IMPLICATIONS**

LFC staff estimate the fiscal impact of this bill to be about \$14.5 million to \$15 million over the reporting period, the first year impact at about half since the effective date of the bill is January 1, 2020. This estimate is derived from downloading household income data for all municipalities in the state for the period 2013 through 2017 from the American Community Survey. This is probably an overestimate of income, since it includes sources of income that are not taxable and, therefore, not reported to TRD on the PIT-1 form. The value of the .225 percent in the formula, however, was determined from the LFC “Conundrum” worksheet. If the income total is less, then the “greater of” amount will then be greater. Thus, the \$14.5 to \$15 million estimate is probably the minimum. A municipality by municipality estimate of the impact of this bill is included as an appendix to this review.

Alternatively, LFC staff confirmed this analysis using a different method. This alternative estimate was derived from apportioning personal income tax revenues by municipal population, comparing this amount to GRT distributions for 0.225 percent of the GRT base, and calculating the difference – since the bill calls for municipalities to receive the greater of the GRT or the income tax distribution. The fiscal impact will grow over time as GRT and income tax bases grow. The methodology is imprecise, as the bill calls for a more complex calculation to be performed by TRD; however, an annual cost to the state of about \$16 million should be considered a reasonable ballpark. Additional input from TRD is needed to analyze and more precisely determine the fiscal impact of this bill.

Currently, the state’s GRT rate is 5.125 percent, of which 1.225 percent is distributed back to municipalities. This distribution totaled about \$463 million in FY18. The distribution amount in question, 0.225 percent of the state GRT base, is about \$85 million. The changes contemplated by this bill could potentially increase or decrease this amount, depending on whether the calculations in this bill would result in greater distributions to municipalities.

There was some concern in SFC that there might be an interaction between the provisions of this bill and the food and medical hold harmless distributions. LFC have reviewed this concern and determined that there would be no interaction. The food hold harmless distribution at 7-1-6-46 NMSA 1978 has a fixed instruction that the municipal hold-harmless food distribution is the food deductions multiplied by 1.225 percent plus any local option municipal gross receipts tax rates. This 1.225 percent addition is not referenced to the 7-1-6.4 amount amended in this bill. 7-1-6.46 also provides a phase-down for the larger municipalities. Because this food hold harmless distribution is set in statute, there will be no interaction with SB-348.

## **ADMINISTRATIVE IMPLICATIONS**

The bill changes a relatively simple municipal distribution (0.225 percent of the state GRT base) to a relatively complicated calculation to be determined for over 100 municipalities each year. This is expected to have a high administrative cost to TRD to produce this information required in the bill, including potentially requiring significant changes to the GenTax system. TRD has previously reported to LFC an inability of its systems to determine total income generated within a municipality.

Additionally, introducing this level of complexity to the municipal distribution could lend itself to potential mistakes in administration. Several municipal governments are currently suing the state, alleging TRD made incorrect calculations related to local government distributions of gross receipts tax revenues.

**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

DI/sb

FY20 Additional Amount	
Alamogordo	\$601,251
Albuquerque	\$5,321,887
Angel Fire	\$0
Anthony	\$125,220
Artesia	\$0
Aztec	\$139,465
Bayard	\$61,238
Belen	\$0
Bernalillo	\$42,885
Bloomfield	\$44,336
Bosque Farms	\$177,340
Capitan	\$40,651
Carlsbad	\$0
Carrizozo	\$0
Causey	\$4,528
Chama	\$0
Cimarron	\$26,591
Clayton	\$0
Cloudcroft	\$0
Clovis	\$532,338
Columbus	\$0
Corona	\$3,882
Corrales	\$902,965
Cuba	\$0
Deming	\$12,840
Des Moines	\$0
Dexter	\$1,696
Dora	\$8,173
Eagle Nest	\$0
Edgewood	\$1,718
Elephant Butte	\$43,597
Elida	\$0
Encino	\$0
Espanola	\$0
Estancia	\$26,662
Eunice	\$0
Farmington	\$0
Floyd	\$1,527
Folsom	\$0
Ft Sumner	\$18,393
Gallup	\$0
Grady	\$4,818
Grants	\$0
Grenville	\$0
Hagerman	\$0
Hatch	\$0
Hobbs	\$0
Hope	\$0
House	\$2,010
Hurley	\$56,606
Jal	\$0
Jemez Springs	\$0
Kirtland	\$0

FY20 Additional Amount	
Lake Arthur	\$16,788
Las Cruces	\$0
Las Vegas	\$0
Logan	\$2,389
Lordsburg	\$36,415
Los Lunas	\$0
Los Ranchos de Albuquerque	\$512,025
Loving	\$0
Lovington	\$0
Magdalena	\$645
Maxwell	\$4,421
Melrose	\$22,762
Mesilla	\$100,744
Milan	\$0
Moriarty	\$0
Mosquero	\$2,191
Mountainair	\$24,003
Pecos	\$34,456
Peralta	\$202,494
Portales	\$75,186
Questa	\$64,670
Raton	\$127,611
Red River	\$0
Reserve	\$4,659
Rio Communities	\$252,858
Rio Rancho	\$4,171,007
Roswell	\$84,678
Roy	\$657
Ruidoso	\$0
Ruidoso Downs	\$0
San Jon	\$0
San Ysidro	\$0
Santa Clara	\$54,176
Santa Fe	\$0
Santa Rosa	\$0
Silver City	\$0
Socorro	\$0
Springer	\$0
T or C	\$104,157
Taos	\$0
Taos Ski Valley	\$0
Tatum	\$12,681
Texico	\$34,838
Tijeras	\$0
Tucumcari	\$0
Tularosa	\$101,731
Vaughn	\$0
Viriden	\$8,846
Wagon Mound	\$9,517
Willard	\$4,617
Williamsburg	\$10,192
All Municipalities	\$14,528,233