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FISCAL IMPACT REPORT

SPONSOR Pope LAST UPDATED _____
ORIGINAL DATE 1/27/2025
BILL _____
SHORT TITLE Change Back-to-School GRT Weekend NUMBER Senate Bill 76
ANALYST Faubion/Gray

REVENUE* (dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
GRT	\$0	(\$720)	(\$740)	(\$760)	(\$790)	Recurring	General Fund
GRT	\$0	(\$480)	(\$490)	(\$510)	(\$520)	Recurring	Local Governments

Parentheses () indicate revenue decreases.

*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files

Agency Analysis Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Senate Bill 76

Senate Bill 76 changes the back-to-school sale gross receipts tax deduction from the first weekend of August to the last weekend in July and increases the sale price limits by 50 percent. The increase in the allowable sale price by 50 percent is likely to account for inflation.

The bill will first be effective when families purchase school supplies in July 2025.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns if enacted, or June 20, 2025.

FISCAL IMPLICATIONS

The Taxation and Revenue Department (TRD) used separately reported deductions by taxpayers in fiscal year 2024 to estimate the revenue loss. The fiscal impact used the gross receipts tax (GRT) revenue growth from the December 2024 Consensus Revenue Estimating Group forecast and is based on the effective statewide gross receipts tax rate.

The change in the allowable cost matches the allowable costs with inflation. The back-to-school holiday weekend was created in 2005. Since, average prices have increased by over 50 percent. By increasing the maximum allowable sales price by 50 percent, the bill effectively brings the costs level to when the tax holiday was originally established in 2005.

SIGNIFICANT ISSUES

This bill narrows the gross receipts tax base. Many New Mexico tax reform efforts over the last few years have focused on broadening the GRT base and lowering the rates. Narrowing the base leads to continually rising GRT rates, increasing volatility in the state's largest general fund revenue source. Higher rates compound tax pyramiding issues and force consumers and businesses to pay higher taxes on all other purchases without an exemption, deduction, or credit.

TRD notes:

Moving the tax holiday one week earlier each year, from the first Friday in August to the last Friday in July, aligns closer with the academic calendars for school districts. This deduction primarily helps alleviate the tax burden for families with school-age children in purchasing school supplies. The deduction was enacted in 2005, and the price caps have not been increased for inflation since that time. By adjusting the dollar amounts for the specific school items for inflation, the deduction maintains its effectiveness for families. The intent is to reduce the cost of school necessities, but taxpayers who do not have school-age children may also benefit from the tax-free weekend.

TECHNICAL ISSUES

TRD notes:

This bill does not have an effective date. It is always preferred that gross receipts tax (GRT) bills have an effective date of July 1 or January 1. This allows for the changes to match up with the release of the GRT Filer's Kit by TRD. This also allows for the GRT changes to match the gross receipts tax changes. This allows for smoother implementation for both taxpayer and TRD.

OTHER SUBSTANTIVE ISSUES

In assessing all tax legislation, LFC staff considers whether the proposal is aligned with committee-adopted tax policy principles. Those five principles:

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

In addition, staff reviews whether the bill meets principles specific to tax expenditures. Those policies and how this bill addresses those issues:

Tax Expenditure Policy Principle	Met?	Comments
<p>Vetted: The proposed new or expanded tax expenditure was vetted through interim legislative committees, such as LFC and the Revenue Stabilization and Tax Policy Committee, to review fiscal, legal, and general policy parameters.</p>	✘	
<p>Targeted: The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals.</p> <p style="padding-left: 40px;">Clearly stated purpose</p> <p style="padding-left: 40px;">Long-term goals</p> <p style="padding-left: 40px;">Measurable targets</p>	✘ ✘ ✘	
<p>Transparent: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies</p>	✔	
<p>Accountable: The required reporting allows for analysis by members of the public to determine progress toward annual targets and determination of effectiveness and efficiency. The tax expenditure is set to expire unless legislative action is taken to review the tax expenditure and extend the expiration date.</p> <p style="padding-left: 40px;">Public analysis</p> <p style="padding-left: 40px;">Expiration date</p>	✘ ✘	
<p>Effective: The tax expenditure fulfills the stated purpose. If the tax expenditure is designed to alter behavior – for example, economic development incentives intended to increase economic growth – there are indicators the recipients would not have performed the desired actions “but for” the existence of the tax expenditure.</p> <p style="padding-left: 40px;">Fulfills stated purpose</p> <p style="padding-left: 40px;">Passes “but for” test</p>	? ?	
<p>Efficient: The tax expenditure is the most cost-effective way to achieve the desired results.</p>	✔	
<p>Key: ✔ Met ✘ Not Met ? Unclear</p>		