Summary of Economic Impacts of HB-641 (Omnibus Tax Reform)

Presentation to

Economic and Rural Development Committee

by

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Senate Floor Substitute for HB-641

[Chapter 160]

Sponsor: Rep. Antonio "Moe" Maestas

Omnibus Tax Policy Legislation

HB-641 Corporate Income Tax Rate Reduction and Combined Reporting

Effective Date:
January 1, 2014 (Section 7-2A-5);
July 1, 2013 (Section 7-2A-8.3)

- Decreases the highest corporate income tax rate from 7.6% to 5.9% over five years, beginning in tax year 2014 [amends §7-2A-5]
- Requires mandatory combined reporting for corporations with retail facilities exceeding 30,000 square feet [amends §7-2A-8.3]
  - Provides an exclusion from requirements for combined reporting with the provision that the corporation also employ 750 people in "non-retail" business activities.

HB-641 Single Weighted Sales Factor Apportionment for Manufacturers

Effective Date: January 1, 2014 (app. to tax years ≥ 1/1/14)

- Allows a taxpayer whose principal business activity is "manufacturing" [as defined in §7-4-10] to elect to have their business income apportioned to New Mexico using a single weighted sales factor [amends §§7-4-10 and 7-4-17].
- Apportionment change phased-in over a period of five years.

Forecasted Impacts to Corporate Income Tax Receipts

Corporate Income Tax Rate Reduction ($1,000's)

	FY2013	FY2014	FY2015	FY2016	FY2017
Forecast Gross CIT	330,000	377,000	433,000	450,000	460,000
Fiscal Impact, Rate Changes	0	(8,368)	(28,833)	(48,832)	(70,496)

Single Sales Factor Apportionment ($1,000's)

	FY2013	FY2014	FY2015	FY2016	FY2017
Fiscal Impact, Manufacturing Sales Factor Apportioning	0	(80)	(10,949)	(28,761)	(45,313)

Mandatory Combined Reporting for Certain Unitary Corporations ($1,000's)

	FY2013	FY2014	FY2015	FY2016	FY2017
Fiscal Impacts, Combined Reporting	0	1,200	7,500	5,800	4,200

HB-641 Municipal and County Hold Harmless Distribution Changes

Effective Date: July 1, 2013

- Amends the hold harmless distributions to political subdivisions [§§7-1-6.46 and 7-1-6.47].
- Phases-out the food and medical gross receipts tax deduction-related hold harmless distributions over fifteen years:
  - Phase-out will be in 6% increments beginning in FY15 through FY20,
  - then in 7% increments through FY30.
- Exempted from this phase-out are political subdivisions that do not adopt the new "hold harmless gross receipts tax," and are either a municipality with a population of less than 10,000, or a county with a population of less than 48,000. These small communities will continue to receive hold harmless distributions from the General Fund.

HB-641 Municipal and County Hold Harmless Gross Receipts Tax

Effective Date: July 1, 2013

- Allows discretionary imposition by individual political subdivisions of up to an additional 3/8^{ths} percent local option gross receipts tax through implementation of one or more ordinances.
- Tax increments are to be known as the "municipal hold harmless gross receipts tax," and the "county hold harmless gross receipts tax."
- Intended to offset the funds that will no longer be received by municipalities and counties as a result of the hold harmless distribution phase-out.

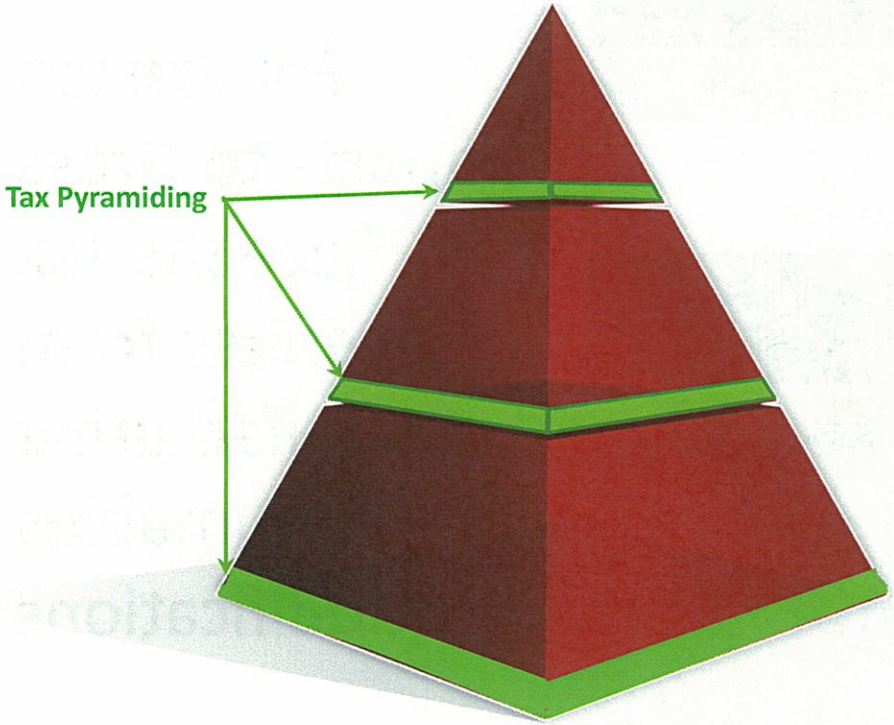
Forecasted Impacts to Hold Harmless Distributions from General Fund Revenues

Forecasted Hold Harmless Revenue Flow from General Fund Under Prior Law ($1,000's)

Prior (FY2012) Law Distributions	FY2013	FY2014	FY2015	FY2016	FY2017
Food Hold Harmless	(105,450)	(105,554)	(107,066)	(108,589)	(110,009)
Medical Hold Harmless	(35,111)	(36,734)	(38,068)	(39,735)	(40,995)
Total Disbursements — General Fund	(140,561)	(142,287)	(145,134)	(148,324)	(151,004)
Municipalities — Revenue	111,912	113,289	115,557	118,099	120,233
Counties — Revenue	28,648	28,998	29,577	30,226	30,770

Forecasted Changes in Hold Harmless Distributions Under HB-641 ($1,000's)

Impacts of Hold Harmless Provisions	FY2013	FY2014	FY2015	FY2016	FY2017
General Fund Distribution	0	0	0	7,689	15,656
Municipalities	0	0	0	(6,151)	(12,525)
Counties (& "others")	0	0	0	(1,538)	(3,131)
Total	0	0	0	0	0



HB-641 Definition of "Consumables" for Manufacturers

Effective Date: January 1, 2013

- Defines real property "consumable" for purposes of deduction from GRT.
  - The definition of "consumable" includes electricity, fuels, water, manufacturing aids and supplies, chemicals, gases, repair parts, spares and other tangibles used to manufacture a product.
- Excludes tangible personal property used in the generation of power, the processing of natural resources, and the preparation of meals for immediate consumption on- or off-premises.

Forecasted Impacts to Gross Receipts Tax Revenues from Manufacturing Consumables Modifications

Forecasted GRT Revenue Losses Under Current Law ($1,000's)

Current Law Deduction	FY13	FY14	FY15	FY16	FY17
Total	(16,545)	(30,748)	(53,304)	(77,846)	(104,324)

"Benefits" of HB-641 Restriction of Deduction ($1,000's)

Fiscal Impacts — Manufacturing Consumables	FY13	FY14	FY15	FY16	FY17
General Fund GRT	0	10,378	18,020	26,050	34,501
General Fund Comp	0	79	159	215	295
Local Governments	0	6,444	11,187	16,174	21,419
Small Counties Assistance	0	11	23	31	42
Small Cities Assistance	0	17	34	46	63
Muni Equivalent on Comp	0	6	11	15	21
Total	**0**	**16,935**	**29,434**	**42,531**	**56,341**

HB-641 High Wage Jobs Tax Credit Definitions and Extension

Effective Date: June 14, 2013

- Clarifies and imposes additional limitations on the application of the high-wage jobs tax credit [amends §7-9G-1].
- Extends the credit for an additional five years.
  - Modifies the threshold in the definition of a municipality, (increasing to a population of at least 60,000) and extending to include areas within ten miles of the boundaries of municipality.
  - Raises threshold for new high wage jobs (created after 7/1/2015) to $40,000 outside a municipality, and $60,000 within a municipal area.
  - Excludes job from eligibility if the result of various conditions relating to a business merger, acquisition or other change in organization.

Forecasted Impacts to General Fund from High Wage Jobs Tax Credit Modifications

Forecasted Changes to General Fund Revenue from HWJTC Modifications ($1,000's)

	FY2013	FY2014	FY2015	FY2016	FY2017
General Fund Impact	0	6,447	19,572	(9,520)	(9,711)
Local Government Impact	0	2,025	6,147	(2,990)	(3,048)
Net Fiscal Impacts, HWJTC Changes	0	8,471	25,718	(12,510)	(12,759)

HB-641 Film Tax Credit Changes

Effective Date: June 14, 2013

- Allows an additional five percent to be added to the calculation of the film production tax credit for television shows, subject to certain requirements [amends §7-2F-1].
- Allows for an annual film credit that is unused under the $50 million cap, up to a maximum of $10 million, to be carried forward and added into the subsequent fiscal year's cap.
- Allows in a year that the $50 million cap is not reached, the next scheduled payment for multi-year credit claims can be made in that year.
- Provides more specific requirements for withholding taxes related to services provided by artists under the "direct production expenditures" provisions of the credit.
- Specifically defines "qualified production facility."
- Clarifies tax obligations for non-resident vendor services.

Total Estimated Revenue Impacts of HB-641

Summary of HB-641 Estimate Recurring Revenue Impacts ($1,000's)

FY2013	FY2014	FY2015	FY2016	FY2017	
-	9,656	5,469	(47,359)	(70,868)	General Fund
-	8,469	17,334	5,495	2,715	Local Governments
-	11	23	31	42	Small County Assistance Fund
-	17	34	46	63	Small City Assistance Fund
-	6	11	15	21	Municipal Equivalent Distribution
-	18,158	22,870	(41,772)	(68,027)	Total