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## Preliminary FISCAL IMPACT REPORT

SPONSOR: Hobbs DATE 10/31/03 TYPED: HB 14

SHORT TITLE: Tax Relief for Economic Development SB \_\_\_\_\_

ANALYST: Taylor, Neel, Valenzuela

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY04	FY05			
(27,200)	(86,300)	(85,300)	Recurring	General Fund
	(1,500)	(1,500)	Recurring	Local Gov't Funds

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

Agency analysis not received on HB 14. This preliminary analysis assumes sections are similar to comparable sections in SB 5 and HB 15.

NM Taxation and Revenue Department (TRD)

NM Department of Transportation (DOT)

NM Finance Authority (NMFA)

### SUMMARY

#### SYNOPSIS OF BILL

**Tax Administration Issues.** Sections 1 & 2 address tax administration matters. Section 1 allows taxpayers to elect the “Rules of Civil Procedures for the District Courts” in TRD administrative hearings. Section 2 provides taxpayers with the right to designate certain refund claims as a protective claim. A protective claim is a claim for refund filed by someone based upon the arguments advanced by another person in a previously filed claim that has not been resolved. TRD would not take action on the protective claim until the previously filed claim is resolved.

**Tax Exemption on Income of Persons 65 and Older.** Section 3 and 4 extends the exemption of retirement income so that all persons aged 65 and older would be able to exempt at least \$2,500 of income. Currently, the exemption starts at \$8,000, gradually decreases at higher in-

come levels, and ends completely at incomes over \$51,000 for married persons and \$28,500 for single persons.

**Income Tax Filing Categories Reduced.** Sections 5 through 7 eliminate the separate personal income tax tables for heads of household and roll the head of household category into the tax tables covering surviving spouses and married persons filing joint returns. The separate tables for head of households imposed higher taxes on that group compared with the married individuals table.

**Low Income Rebates Renamed; Rebate Amounts Increased.** Section 8 changes the name of the “Low Income Comprehensive Rebate” to the “Family and Individual Rebate”, expands the table to increase the number of exemptions from 6 to 7, broadens the income groupings, lengthens the table so that larger families with incomes between \$22,000 and \$39,000 receive rebates (as income increases, family size must also increase to be eligible) and increases the rebate amounts. The definition of modified gross income is amended to include the value of food stamp benefits. .

**Additional Exemption Amounts.** Section 9 increases the value of the personal exemption amount for low and moderate income taxpayers up to a maximum of \$3,000 per exemption. The value of the exemption is reduced as income increases up to a maximum amount at which point it goes to zero. The rate of the phased reductions is adjusted for the number of exemptions. Single individuals with adjusted gross income less than \$8,000 receive the full \$3,000 exemption; the value of exemption is gradually reduced for greater incomes, completely phasing out at \$28,000. Married individuals filing joint returns with adjusted gross income less than \$18,000 receive the full \$3,000 exemption; the value of the exemption is gradually reduced at greater incomes, ending at \$48,000. Heads of households with adjusted gross income less than \$15,000 receive the full \$15,000 exemption; it is gradually reduced at greater incomes and fully phased-out at \$40,000. .

**Business Services Tax Credit.** Section 10 provides a new business services tax credit which may be claimed against the state gross receipts tax, state compensating tax and withholding tax liabilities. The credit is equal to 0.625 percent of the value of qualified business service expenditures, which excludes entertainment, janitorial, repair and maintenance and any other services for which a taxpayer receives another credit. The credit may be claimed within three years of when the expenditure was made.

**High Wage Jobs Tax Credit.** Section 11 provides “high wage jobs tax credit” equal to 10 percent of wages and benefits paid to an eligible employee in a new high-wage job up to a maximum of \$12,000. To qualify, a job must pay more than \$40,000 per year in municipalities with a population greater than 40,000, and \$28,000 per year in a municipality with a population below 40,000. Also, to qualify a business must be growing, with employment greater on the last qualifying day of the credit than the day when the new positions were created. The credit may be claimed for the year in which the job is created and for three years thereafter. It can be taken against the taxpayer’s modified combined tax liability (gross receipts tax, compensating tax and others), personal income tax liability or corporate income tax liability. The credit is refundable.

**Research and Development Small Businesses Gross Receipts Deduction.** Section 12 and 13 enact a new section of statute to provide a GRT/compensating “tax holiday” for small, high tech research businesses. Qualifying businesses are small firms (no more than 25 employees with revenue of \$10 million or less in the prior fiscal year) that have made qualified research expendi-

tures in the last 12 months. Qualified research expenditures exclude expenditures funded with grants, expenditures on property associated with Industrial Revenue Bonds, or property received as part of the Capital Equipment Tax Credit Act, the Investment Credit Act or the Technology Jobs Tax Credit Act.

**Gross Receipts Deduction for Certain Receipts From Services Provided by Licensed Health Care Practitioners.** Section 14 provides a gross receipts tax deduction for receipts of licensed health practitioners from payments by a managed care provider for Medicare Part C services or commercial contract services. Commercial contract services are services provided through a contract with a managed care organization other than those provided to Medicare and Medicaid patients. Licensed health care practitioners include physicians, physician assistants, osteopathic physicians, chiropractic physicians, doctors of oriental medicine, dentists, dental hygienists, podiatrists, psychologists, registered nurses, licensed practical nurses, midwives, physical therapists, optometrists, occupational therapists, respiratory care practitioners and speech pathologists.

**Gross Receipts Exemption for Certain Athletics Contests, Sporting Events and Concerts.** Section 15 exempts receipts from ticket sales and admission fees to boxing, wrestling, auto racing, one-time sporting events and live concerts held at a venue capable of holding at least 2,500 persons.

**Gross Receipts and Compensating Taxes on Motor Vehicles.** Sections 16 and 18 exempt new alternative fuel cars from the gross receipts and compensating tax. This section relates to the motor vehicle excise tax exemption provided for these vehicles. Absent this exemption, cars provided the motor vehicle excise tax exemption would fall under the gross receipts and compensating tax provisions.

**Tax Administration—Request for Regulations.** Section 19 allows taxpayers or other interested parties to request TRD regulations.

**Regulatory Fees on Promotions.** Sections 20 to 25 deal with fees on athletic promotions. Section 20 strikes the 4 percent privilege tax on promotions and replaces it with a regulatory fee. The fee is to be established at an amount that covers the cost of regulating the contest, with a maximum set at four percent of total gross receipts. Section 21 directs regulatory and supervisory fee revenues to the athletic commission fund. Section 23 strikes the five percent tax on exhibiting live professional contests on closed-circuit telecast or motion picture. It replaces the tax with a “supervisory fee” in amount necessary to cover the cost of supervising the exhibition, but capped at five percent of gross receipts.

**Emergency Clause.** The act takes effect immediately.

## SIGNIFICANT REVENUE ISSUES

**Tax Exemption on Income of Persons 65 and Older.** The benefit from this reduction is targeted to those persons with income too high to qualify for the current exemption.

**Income Tax Filing Categories Reduced.** According to TRD, this provision would provide tax relief to 13,000 of the 140,000 families filing taxes under the head of household option. Families in this category pay higher income taxes than two-parent families.

**Low Income Tax Rebates.** The BRTC recommended changing the name to FAIR and increasing rebate amounts as a means of targeting relief against gross receipts taxes on food to low and moderate income families, particularly large families. The rebates are increased to a level sufficient to offset food taxes. The change in the definition of income to include the value of food stamps could prove to be a disincentive for the use of food stamps. This would effectively shift some of the burden of supporting those low-income persons from the federal government to the state.

**Additional Income Tax Exemptions.** The BRTC recommended increasing income tax exemptions for low and moderate income persons and families as a means of providing income tax relief for income groups that did not benefit from the income tax cut passed in last year’s session.

**Gross Receipts Tax Exemption for Certain Athletic Contests, Sporting Events and Concerts.** TRD notes that this exemption may level the playing field for venues competing with Indian pueblos and tribal lands that also host such activities.

**High Wage Tax Credit.** The fiscal impact reported in the table reflects TRD assumptions on how many high wage jobs would be created. This estimate is based on information regarding the number of such jobs created in a recent year. Economic forecasts suggest that the state may experience stronger job growth in the future. Also, an assumption that the jobs created will be similar to activity in a prior year (which may be quite accurate given all the uncertainty) implies that the incentive does not result in additional jobs being created. Should the incentive prove effective, the fiscal impact (reduced general fund revenues) would be higher.

**Motor Vehicle Tax Exemption.** The fiscal impact of this legislation is relatively muted in near future. Technological breakthroughs could make such cars more competitive and available later on, however. A sunset provision may be in order. TRD suggests another alternative to dealing with the risks would be to provide a cap on the value of the exemption.

**FISCAL IMPLICATIONS BY FUND AND GOVERNMENT ENTITY**

The Fiscal Implications are summarized in table below.

Provision	General Fund			OSF	Road Fund		Local Govern	
	FY04	FY05	FY06		FY04	FY05	FY05	Out-year
1 Income Tax Filing Categories Reduced	(1.2)	(3.2)	(2.0)					
2 Low Income Rebates Renamed; Rebate Amounts increased		(22.0)	(22.0)					
3 Personal Exemption Increases	(8.5)	(22.2)	(22.4)					
4 Tax Exemption on Income of Persons 65 and Older	(5.0)	(10.3)	(8.3)					
5 Business Service Tax Credit	(12.5)	(25.0)	(25.0)					
6 Gross Receipts Exemption for Certain Athletics Contests, Sporting Events and Concerts		(1.5)	(1.5)				(1.0)	(1.0)
7 High Wage Jobs Tax Credit		(0.7)	(2.5)				0.1	0.3
8 Research and Development Small Businesses Gross Receipts Deduction		(1.0)	(1.1)				(0.6)	(0.8)
9 Gross Receipts and Compensating Taxes on Motor Vehicles		(0.4)	(0.5)					
<b>Total</b>	<b>(27.2)</b>	<b>(86.3)</b>	<b>(85.3)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1.5)</b>	<b>(1.5)</b>