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FISCAL IMPACT REPORT

ORIGINAL DATE 2/09/07
 LAST UPDATED 3/05/07 HB 1038/aHTRC

SPONSOR Moore

SHORT TITLE Veterinary Medical Supplies Gross Receipts SB _____

ANALYST Schardin

REVENUE (dollars in thousands)

| Estimated Revenue | | | Recurring or Non-Rec | Fund Affected |
|-------------------|-----------|------|-------------------------|----------------------|
| FY07 | FY08 | FY09 | | |
| | (\$465.7) | | Recurring | General Fund |
| | (\$310.5) | | Recurring | Local Governments |

(Parenthesis () Indicate Revenue Decreases)

Duplicates SB 249

SOURCES OF INFORMATION

LFC Files

Responses Received From

Board of Veterinary Medicine

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of HTRC Amendment

The House Taxation and Revenue Committee amendment to House Bill 1038 restricts the gross receipts tax deduction created in the bill to receipts from the sale of veterinary medical services, medicine or medical supplies used to treat cattle. The deduction will not apply to veterinary treatment of any other animals.

Synopsis of Original Bill

House Bill 1038 creates a gross receipts tax deduction for receipts from the sale of veterinary medical services, medicine or medical supplies used in the medical treatment of livestock used or raised on New Mexico farms and ranches. Claiming the deduction will require the person purchasing the veterinary services to state in writing that they regularly engage in ranching or farming in New Mexico.

The bill defines livestock eligible for this deduction to include horses, asses, mules, cattle, sheep, goats, swine, bison, poultry, ostriches, emus, rheas, camelids (camels and llamas) and farmed cervidae (deer), but not to include cats or dogs.

Because no effective date is provided in the bill, its provisions will become effective 90 days after the 2007 legislative session adjourns on June 25, 2007.

FISCAL IMPLICATIONS

Based on LFC analysis of TRD's "Report 80: Analysis of Gross Receipts by Industry," veterinary services receipts are expected to be about \$29.4 million per year. Since that total includes veterinary services for livestock as well as domestic pets, it is assumed that only half of these receipts (\$14.7 million) are provided for livestock. The 2002 Census of Agriculture indicates that there were 1.6 million head of cattle in New Mexico in 2002 and less than 300 thousand head of other livestock. Assuming that treatment of cattle represents 80 percent of all livestock veterinary services, the deduction's tax base will be about \$Taxed at the statewide average tax rate of 6.6 percent, the new deduction will decrease revenue collections by about \$776.2 thousand. About 60 percent of this reduction will impact the general fund, and the remaining 40 percent will impact local governments.

SIGNIFICANT ISSUES

LFC notes that while individual deductions from the gross receipts tax may have small fiscal impacts, their cumulative effect significantly narrows the gross receipts tax base. Narrowing the gross receipts tax base increases revenue volatility and requires a higher tax rate to generate the same amount of revenue.

The bill will reduce local government gross receipts tax collections. Many of New Mexico's local governments are highly dependent on gross receipts tax revenue.

TECHNICAL ISSUES

TRD suggests amending the bill to become effective on July 1, 2007 to make administration easier.

TRD suggests adding language similar to that found in Section 7-9-43 NMSA 1978 to indicate a time limit on providing a written statement that a person is engaged in ranching or farming.

SS/mt