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FISCAL IMPACT REPORT

ORIGINAL DATE 1/22/08
 SPONSOR Campos LAST UPDATED 2/09/08 HB 111
 SHORT TITLE Municipal Income Tax Distribution SB _____
 ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY08	FY09	FY10		
	(\$9,077.0)	(\$17,040.0)	Recurring	General Fund
	\$9,077.0	\$17,040.0	Recurring	Local Governments

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files
 Taxation and Revenue Department (TRD)

Responses Received From
 New Mexico Municipal League
 Taxation and Revenue Department (TRD)
 Department of Finance and Administration (DFA)

SUMMARY

Synopsis of Bill

House Bill 111 amends the Tax Administration Act to allow for an alternative distribution to the state shared gross receipts tax (GRT) revenue. Current law requires the state to share 1.225 percent of the state's share of GRT with municipalities. This bill would change that share to one percent of state GRT plus the greater of 0.225 percent multiplied by a municipality's tax rate multiplied by the net receipts generated within and by the municipality or 1/12th of 0.275 percent of adjusted gross income reported two years prior to any distribution.

Each month the two values would be compared and the higher would be the distribution. The provisions intended to hold municipalities harmless for the food and medical deduction would reflect whether the GRT or income based calculation.

The bill also requires the department of finance and administration (DFA), taxation and revenue department (TRD) and the New Mexico Municipal League (NMML) to report annually to the

revenue stabilization and tax policy committee on the distributions and any recommendations for changes in the distribution formula or revenue sources. Additionally, TRD must develop a method of determining the accurate residence of income tax payers in calendar year 2009.

HB111 provisions would be effective January 1, 2009. Because of modified accrual, the new distribution will include business activity in November and December of 2008.

FISCAL IMPLICATIONS

TRD estimated that the impact will be a \$17.0 million reduction in general fund revenue in calendar year 2008 and grow 5 percent each year, all of which will be redistributed to municipalities. Since the effective date is January 1, 2009, eight months of a full year impact is accrued to FY09. The impact is estimated using current zip codes from personal income tax returns.

SIGNIFICANT ISSUES

The intent is to diversify revenues for the municipality and capture some portion of economic activity that the municipalities “export” to other municipalities. There are two main beneficiaries: very small rural municipalities that do not have the economic base to raise GRT revenues and municipalities near a large commercial center.

TRD also reports that, due to the way the food and medical hold harmless is addressed in the bill, some municipalities may actually have a lower distribution than what is expected in CY08:

The NM Municipal League, an association that represents the state’s municipalities, reports that the municipalities are too dependent on gross receipts tax for general purpose revenue and suffer during recessions. Including a distribution on personal income taxes, according to NMML, would diversify municipal revenues. TRD concurs that “if a municipality receives a distribution based on AGI their revenue would be much more stable over a calendar year than under current law; however, especially for small towns AGI can sometimes vary considerably from year to year. Currently municipalities can individually decide to make their revenues more stable through higher property taxes, or make their revenues higher through additional local option gross receipts taxes.”

ADMINISTRATIVE IMPLICATIONS

TRD:

Distribution schedules, processing, and reports would change. To accurately determine the site of residence the PIT forms would need to change; this cannot be done for the tax year 2007. Although the proposal authorizes the Department to come up with an alternative means of determining local distribution in 2009, the lack of accurate residence information will make it difficult for the Department to do so. The costs could be minimal or extensive based on the accuracy demanded determining municipal distributions.

TECHNICAL ISSUES

TRD:

The requirements in this proposal will increase the filing complexity for all New

Mexicans filing a personal income tax return. If a taxpayer moves their income must be apportioned between one or more residences. If spouses live apart in a tax year or a portion of one then their income must be apportioned between residences.

Taxpayers who recognize losses in a given year often report negative figures for adjusted gross income. In tax year 2004, total adjusted gross income in one municipality – Causey-- summed to a negative amount. The proposal should probably be amended to specify that AGI totals on which the proposed distributions would be based would exclude returns which report negative AGI. The fiscal impact estimates shown above are based on this presumption.

The proposal does not specify what revenue source TRD is to use in making the required distribution. The bill should specify the intended source. Distributions based on AGI would presumably be from individual income tax revenues. The largest component of income tax payments is made through the Withholding Tax. This would be an appropriate source for the proposed distributions.

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