F I S C A L I M P A C T R E P O R T

ORIGINAL DATE 02/02/10
SPONSOR HTRC **LAST UPDATED** **HB** 119/HTRCS/aHTRC

SHORT TITLE Temporary Gross Receipts Increase **SB**

ANALYST Gutierrez

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY10	FY11	FY12		
	$237,678.0	$188,528.0	Recurring	General Fund
	$788.0	$624.0	Recurring	Small Cities Assistance Fund
	$788.0	$624.0	Recurring	Small Counties Assistance Fund*
	$419.0	$346.0	Recurring	Tax Increment Development Districts
	$81.0	$64.0	Recurring	Aviation Fund

(Parenthesis ( ) Indicate Revenue Decreases)

*Increased revenue to the Small Counties Assistance Fund may revert to the general fund after necessary distributions to the counties (as calculated by DFA) are made.

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of HTRC Amendment

The House Taxation and Revenue Committee amendment for House Bill 119 makes the referendum requirements only apply to the fiscal years in which the state gross receipts tax and compensating tax will be raised, fiscal years 11 thru 14.

Synopsis of Original Bill

The House Taxation and Revenue Committee substitute for House Bill 119 amends Section 7-9-4 and Section 7-9-7 NMSA 1978 temporarily increasing the state gross receipts and compensating tax to 5.5 percent in FY11, 5.375 percent in FY12, 5.25 percent in FY13, 5.125 in FY14 and returning the tax to the current 5 percent rate in FY15 and beyond.

This bill also temporarily (FY11 – FY14) adds referendum requirements for the imposition of local option gross receipts taxes for those local taxes that do not already have a referendum requirement.

This bill also amends the county equalization distribution formula in order to hold the fund harmless.

This bill also amends the small counties assistance act to increase distribution amounts to counties based on the increase to the compensating tax.

This bill also creates a new section of the gross receipts and compensating tax act allowing a credit for receipts from pediatric dental services to Medicaid or state children's health insurance program recipients. An eligible Medicaid dental provider may claim a credit of 0.5 percent in FY11, 0.375 percent in FY12, 0.25 percent in FY13, 0.125 percent in FY14 and 0 percent in FY15 and beyond.

The effective date of this bill's provisions is July 1, 2010.

FISCAL IMPLICATIONS

This estimate used the December 2009 consensus estimate of taxable gross receipts (TGR). According to that estimate, TGR will be $46.32 billion in FY11, $48.99 billion in FY12, $51.26 billion in FY13 and $53.47 billion in FY14. The compensating tax base is estimated to be $1.58 billion in FY11, $1.66 billion in FY12, $1.75 billion in FY13, and $1.83 billion in FY14.

This estimate used data from the 2007 Mathmatica New Mexico Health Care Report to determine the credits allowed for the pediatric dental services to Medicaid or state children's health insurance program recipients. The eligible TGR to take the credit against in FY11 is estimated to be $25.9 million. It is assumed the annual growth rate for these services is 5 percent.

SIGNIFICANT ISSUES

<u>HISTORY OF STATE RATE</u>
July 1, 1990 to present - 5.0%
July 1, 1986 through June 30, 1990 - 4.75%
July 1, 1983 through June 30, 1986 - 3.75%
July 1, 1981 through June 30, 1983 - 3.5%
July 1, 1978 through June 30, 1981 - 3.75%
Before July 1, 1978 - 4.0%

In addition to the current state gross receipts tax rate of 5 percent, New Mexico's municipalities and counties are authorized to impose over 4 percent of local option gross receipts taxes (that figure excludes several additional local option taxes that have been authorized for selected local governments). Due to increasing imposition of local option taxes, the statewide gross receipts tax rate is increasing steadily. On average, a local option gross receipts tax of about 1.34 percent is imposed by municipalities and about 0.86 percent is imposed by counties in FY10. Combined with the state gross receipts tax of 5 percent, the statewide tax rate is therefore 7.2 percent. Assuming no other local option taxes are imposed during this time, this bill would increase the average statewide gross receipts tax rate to 7.7 percent in FY11, 7.575 in FY12, 7.45 in FY13, and 7.325 in FY14.

ADMINISTRATIVE IMPLICATIONS

This bill will have a low impact on TRD.

OTHER SUBSTANTIVE ISSUES

New Mexico's GRT is imposed on a wider array of goods and services than the sales taxes of most other states. One consequence is that many business-to-business transactions are taxed, a procedure often termed "pyramiding". This practice increases overhead for New Mexico businesses, and may put them at a disadvantage when competing with businesses in other states. In addition, small businesses that purchase more of their inputs from other firms will experience a larger tax burden, placing them at a disadvantage with larger businesses. Estimates have put the share of the GRT imposed on business-to-business transactions between one-third and one-half of the total tax base.

To the extent that the GRT is shifted forward to consumers in the form of higher prices, the incidence of the tax may fall more heavily on low income households than on higher income households. Evidence for this impact is limited, since the ultimate incidence of tax imposed on business-to-business transactions is difficult to predict or measure.

BLG/svb

The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:

1. ***Adequacy:*** *revenue should be adequate to fund government services.*
2. ***Efficiency:*** *tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.*
3. ***Equity****: taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.*
4. ***Simplicity***: *taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.*
5. ***Accountability/Transparency:*** *Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.*

More information about the LFC tax policy principles will soon be available on the LFC website at www.nmlegis.gov/lcs/lfc