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FISCAL IMPACT REPORT

ORIGINAL DATE 02/09/10

SPONSOR Jennings LAST UPDATED _____ HB _____

SHORT TITLE Food Tax Distribution to Local Government SB 247

ANALYST Gutierrez

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY10	FY11	FY12		
(\$603.0)	(\$4,496.2)	(\$8,728.2)	Recurring	Counties
(\$2,697.2)	(\$20,110.2)	(\$39,038.8)	Recurring	Municipalities
\$3,300.2	\$24,606.4	\$47,767.0	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

Relates to SB10, SB31, SB236 and HB250

SOURCES OF INFORMATION

LFC Files

Responses Received From

New Mexico Association of Counties (NMAC)
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 247 phases out the “hold harmless” distributions to municipalities and counties that are based on the gross receipts food tax deduction as follows:

- FY11 – 20% reduction in distributions
- FY12 – 40% reduction in distributions
- FY13 – 60% reduction in distributions
- FY14 – 80% reduction in distributions
- FY15 & beyond – 100% reduction in distributions

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

FISCAL IMPLICATIONS

In fiscal year 2009, food deductions from gross receipts were \$2.97 billion and the average tax rate on food is 7.04 percent in fiscal year 2010. This analysis assumes food deductions grow roughly 3 percent in FY10 and an average of 5 percent in FY11 and beyond and the tax rate remains the same.

TRD:

There are two months of FY10 revenue impact because this bill affects distributions in July and August, which accrue to activity in May and June because of the two month accrual lag for the gross receipts tax.

SIGNIFICANT ISSUES

The bill will reduce local government gross receipts tax revenue distributions. Many of New Mexico's local governments are highly dependent on gross receipts tax revenue. However, whereas the food and medical deductions were initially projected to be revenue neutral, in fact the general fund is now down by more than \$100 million per year.

RELATIONSHIP

Senate Bill 247 relates to:

SB10 – narrows the food tax deduction by changing the definition of food to food that is eligible for the special supplemental nutrition program for New Mexico women, infants and children administered by the department of health or that is fresh or frozen meat, poultry or fish with no additional ingredients or only minimal additional ingredients

SB31 – narrows the food tax deduction by excluding food products commonly referred to as “soft drinks” from the gross receipts tax deduction and distributes the revenue from taxing soft drinks to the county-supported Medicaid fund

SB236 – phases out the gross receipts tax deduction for the sale of food at a retail store

HB250 – narrows the food tax deduction by excluding soft drinks, candy, chewing gum, certain snack foods, and pastries

ALTERNATIVES

Reinstate the gross receipts tax on food.

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