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FISCAL IMPACT REPORT

ORIGINAL DATE 02/22/11

SPONSOR Smith, J.A. LAST UPDATED _____ HB _____

SHORT TITLE Food & Healthcare Deduction Phase Out SB 452

ANALYST Golebiewski

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY11	FY12	FY13		
	\$0	(\$2,958.0)	Recurring	Counties
	(\$2,472.0)	(\$12,891.0)	Recurring	Municipalities
	\$2,472.0	\$15,849.0	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

Duplicates, Relates to, Conflicts with, Companion to

SOURCES OF INFORMATION

LFC Files

Responses Received From

Municipal League

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 452 provides for a 10 year phase-out of the hold-harmless distributions for food and medical deductions to municipalities and counties at a rate of 10 percent per year, beginning in FY13. The hold-harmless distributions are repealed entirely effective July 1, 2021.

The sections are also modified so that beginning in FY12, the local option receipts tax rate used to calculate the hold-harmless distributions are the lower of those in effect on January 1, 2007 or January 1, 2011 for all municipalities.

FISCAL IMPLICATIONS

TRD:

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2011	FY2012	FY2013	FY2014	FY2015		
0	0	(2,958)	(6,065)	(9,367)	R	Counties
0	(2,472)	(12,891)	(23,833)	(35,474)	R	Municipalities
0	2,472	15,849	29,897	44,841	R	General Fund

This estimate uses the December consensus forecast and the average FY10 hold harmless distribution rates and assumes all counties and municipalities grow at the same overall growth rate. The impact in FY12 is caused by using the lower of municipal local option gross receipts tax rates imposed January 1, 2007 or January, 1 2011 for all municipalities.

The estimates in FY13 and beyond reflect the same rate as that used in FY12.

See pages 4 and 5 for a detailed breakdown of the effect of SB 452 on individual municipalities and counties. Los Alamos is categorized as a county in the tables.

SIGNIFICANT ISSUES

Municipal League:

Revenue losses, especially in the Gross Receipts Tax have resulted in municipalities taking steps to balance their budgets. Municipalities have implemented hiring freezes, forced furlough days and reduced expenditures in a variety of areas.

This legislation, if adopted and signed by the Governor will result in significant contraction of revenues available to municipalities to defray the cost of providing basic services to citizens of the municipality. Any growth in tax receipts will likely be totally offset by the phase out of the hold harmless provision and result in a real loss of revenues to municipalities.

Though counties and municipalities have been negatively affected by the recent economic environment, they also have an extremely stable tax that is a major contributor to their overall budget. Between property tax years 2008 and 2010, the aggregate amount of property tax collected by counties and municipalities in New Mexico increased by \$200 million (from \$1.25 billion to \$1.45 billion), or approximately 16%.

ADMINISTRATIVE IMPLICATIONS

TRD:

This bill would have a low impact on the Department over FY12 rate freeze and then the 10 year phase-out period. After the distribution is completely removed, there would be a large reduction in the administrative burden on the Department. Insuring that taxpayers separately state the food deduction correctly and then identifying or correcting reporting errors has proven to be extremely difficult.

OTHER SUBSTANTIVE ISSUES

During the 2010 session, Senate Bills 10, 12 and 13 would have significantly revised the GRT on sales for home consumption. Rather than the deduction in present law, the state would have allowed a credit for its own 5 percent tax. Local option taxes would have applied to food sales (on average about 2 percent). Hold-harmless distributions to local governments to compensate them for foregone food tax collections would have no longer been made. All of these provisions were vetoed by Governor Richardson.

TRD:

The separate reporting requirement for the food and medical deductions (under Sections 7-9-92 and 7-9-93 NMSA 1978) could be eliminated after the hold harmless distribution is fully phased out, reducing compliance and administrative costs. Even though there has been relatively stable growth in underlying food and medical services sales, the hold harmless distribution has been erratic because of reporting problems.

Unlike the majority of deductions, the food and medical deductions must be reported separately by taxpayers in order to calculate the correct hold harmless distributions to counties and municipalities. After the hold harmless distribution is fully phased out in July of 2021, the requirement (in Section 7-9-92 and 7-9-93 NMSA 1978) that taxpayers must separately state the food deduction could be eliminated. This would reduce compliance costs for taxpayers and administrative costs for the Department.

Based on filing periods (the months when the sales occurred) the pattern of actual food sales qualifying for the food and medical deductions have proven to be relatively stable (and even continued to grow in FY10 when total taxable gross receipts fell). However, because large errors and subsequent amendments from taxpayers have been very common when separately stating the food and medical deductions, hold harmless distributions have been much more erratic than normal gross receipts tax revenue distributions.

JAG/mew