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FISCAL IMPACT REPORT

ORIGINAL DATE 01/30/14
LAST UPDATED 01/31/14 **HB** 114

SPONSOR Lundstrom

SHORT TITLE Reduction in Hold Harmless Gross Receipts **SB** _____

ANALYST van Moorsel

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY14	FY15	FY16	FY17	FY18		
		(\$200.0)	(\$410.0)	(\$620.0)	Recurring	General Fund Total
		\$200.0	\$410.0	\$620.0	Recurring	Local Governments
		\$0.0	\$0.0	\$0.0	Recurring	Total

(Parenthesis () Indicate Revenue Decreases)

Duplicates SB 171 – Local Government Hold Harmless Gross Receipts
 Relates to HB 132 - Local Government Hold Harmless Gross Receipts, SB 87 – Local Gov’t
 Hold Harmless Gross Receipts

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 114 amends the Tax Administration Act amend the food and medical hold-harmless distribution. The bill creates a maximum distribution (see below) and provides that a municipality with a population greater than 10 thousand will not be automatically subject to the food and medical hold harmless distribution phaseout if the total of the state and local option gross receipts taxes is higher than 8.25 percent, and the tax revenue from a 3/8 percent municipal hold harmless gross receipts tax would be less than the maximum distribution for the municipality.

The maximum distribution is defined as:

- For municipalities with populations less than 10 thousand, the total food and medical deductions for the month by taxpayers from business locations attributable to the municipality multiplied by the sum of the combined rate of all municipal local option gross receipts taxes in the municipality for the month plus 1.225 percent.

- For municipalities with populations 10 thousand or greater, the total food and medical deductions for the month by taxpayers from business locations attributable to the municipality multiplied by the sum of the combined rate of all municipal local option gross receipts taxes in effect in the municipality on January 1, 2007 plus 1.225 percent.

The effective date of this bill is July 1, 2015.

FISCAL IMPLICATIONS

Given current local option tax rates, TRD notes the bill would primarily affect the city of Gallup. However, the portion of Española that is within Santa Fe County would also qualify. This portion of Española represents about 12 percent of Española’s total hold harmless distribution.

The fiscal impact is based on the municipalities that would *currently* qualify, and is calculated as the difference between the phased out hold-harmless distribution under current law, and the hold-harmless distribution without the phase-out proposed in the bill.

However, the potential impact could be much greater – see “Significant Issues,” below – if other qualifying municipalities raise their GRT rates to become exempt from the phase-out.

SIGNIFICANT ISSUES

The date of the tax rate threshold for “high tax” municipalities presents a significant issue with the bill. The threshold is based on the total state and local option gross receipts rate on January 1, 2015, creating a situation where any municipality that meets the population criteria could raise its gross receipts tax rate above the 8.25 percent to avoid facing the hold-harmless distribution phaseout created in Laws 2013, Ch.160. A rate threshold date of July 1, 2014, would remove the incentive to raise local GRT rates.

Further, TRD notes nothing in the bill would prohibit a municipality from temporarily raising its GRT rate above 8.25 percent on January 1, 2015 to avoid the loss of hold harmless revenue and then lowering it again any time thereafter.

TECHNICAL ISSUES

TRD notes a technical issue with language stricken on page 6, lines 19 through 24. This language currently provides the hold harmless distribution to certain municipalities not be made on or after July 1, 2029. Without this language, no language exists to govern the hold-harmless distribution to municipalities subject to the phase-out after July 1, 2029.

Does the bill meet the Legislative Finance Committee tax policy principles?

1. **Adequacy:** Revenue should be adequate to fund needed government services.
2. **Efficiency:** Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity:** Different taxpayers should be treated fairly.
4. **Simplicity:** Collection should be simple and easily understood.
5. **Accountability:** Preferences should be easy to monitor and evaluate