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

SPONSOR Muñoz **ORIGINAL DATE** 02/06/14 **LAST UPDATED** **HB**

SHORT TITLE Local Gov't Hold Harmless Gross Receipts **SB** 171

ANALYST van Moorsel

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY14	**FY15**	**FY16**	**FY17**	**FY18**		
$0.0	$0.0	($280.0)	($570.0)	($880.0)	Recurring	General Fund
$0.0	$0.0	$280.0	$570.0	$880.0	Recurring	Local Governments
$0.0	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**Recurring**	**Total**

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to HB 114 – Reduction in Hold Harmless Gross Receipts; HB 132 - Local Government Hold Harmless Gross Receipts, SB 87 – Local Gov't Hold Harmless Gross Receipts; SB 170 – Local Government Hold Harmless Gross Receipts;

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 171 amends the Tax Administration Act to amend the food and medical hold-harmless distribution. The bill creates a maximum distribution for counties and municipalities and exempts certain municipalities and counties from the hold harmless phaseout.

Specifically, 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, the tax revenue from a 3/8 percent municipal hold harmless gross receipts tax would be less than the maximum distribution for the municipality, and is located in a class B county that has a population of 70 thousand or more and a property valuation between $730 million and $1 billion.

The bill also exempts from the phaseout a county with a population more than 70 thousand that does not have in effect a county hold harmless GRT and that has a property valuation between

$730 million and $1 billion.

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.
- For counties with populations less than 48 thousand, the total food and medical deductions for the month by taxpayers from business locations attributable to the county multiplied by the sum of the combined rate of all county local option gross receipts taxes for the month.
- For counties with populations 48 thousand or greater, the total food and medical deductions for the month by taxpayers from business locations attributable to the county multiplied by the sum of the combined rate of all county local option gross receipts taxes for the month in effect on January 1, 2007.

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 and McKinley County. The effects on city and county revenue and the general fund are shown in the revenue table on page 1.

The fiscal impact is based on the counties and municipalities that would 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.

TECHNICAL ISSUES

Several technical issues exist with language stricken on page 6, lines 18 through 23, and page 17, line 15 through 20. This language currently provides the hold harmless distribution to certain municipalities and counties not be made on or after July 1, 2029. Without this language, no language exists to govern the hold-harmless distribution to municipalities and counties 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

PvM/ds