LFC Requester:	Graeser

AGENCY BILL ANALYSIS
2024 REGULAR SESSION

WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO:

AgencyAnalysis.nmlegis.gov

{Analysis must be uploaded as a PDF}

SECTION I: GENERAL INFORMATION

{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}

Check all that apply:

Original x **Amendment** ____
Correction ___ **Substitute** ____

Date January 27, 2024
Bill No: HB 219

Sponsor: Harper
Short Title: Reduce Gross Receipts Tax Rate

Agency Name and Code Number: Municipal League/ML
Person Writing Alison Nichols
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SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY24	FY25		

(Parenthesis ( ) Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY24	FY25	FY26		

(Parenthesis ( ) Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY24	FY25	FY26	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total						

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to:
Duplicates/Relates to Appropriation in the General Appropriation Act

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis:

FISCAL IMPLICATIONS

This expanded deductions for professional services included in this bill would have a significant negative fiscal impact on local governments. The overall cost of the deduction is very uncertain, as is the impact to individual municipalities and counties. The analysis for HB367 in 2023, a similar bill, showed a total impact for local governments of over $ 50 million in FY 2025 and growing in future years. This level of revenue loss would seriously undermine local revenue stability, affecting cities' ability to provide essential public services. public safety, and employee wage increases, among other needs.

Additionally, the proposed deductions could negatively impact municipal debt service coverage ratios, in turn affecting municipal bond ratings. Bond ratings could be affected by both a reduction in revenue, as well as the negative impact revenue reduction would have on city budgets.

Municipalities would not see a fiscal impact from the GRT rate reduction provision in HB 219, as a reduction to the state GRT rate would not affect the 1.225 percent local share of state GRT.

SIGNIFICANT ISSUES

This bill would erode the local gross receipts tax base of municipalities, which is contrary to the policy principles adopted by the New Mexico Municipal League.

It also adds greater uncertainty to current and future revenue amounts for all cities. The fiscal impact estimates are based on industry NAICS codes, which are unreliable because they are self-reported by taxpayers. Further, taxpayers outside the identified NAICs codes may be legitimately eligible for the deduction, increasing the costs. In addition, estimating the share of business-to-business transactions within affected industries is challenging, with no reliable data source developed for this information in spite of several years of discussions surrounding this issue.

By providing the deduction to a limited number of named professional and other services, the bill raises questions about the fairness of the legislation as it applies to other professional and nonprofessional services taxed as business inputs. It creates an incentive for future expansion of the deduction to address this fairness issue.