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

SPONSOR: Knauer DATE TYPED: 02/11/01 HB 490

SHORT TITLE: Clothing and Footwear Tax Deduction SB

ANALYST: Eaton

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY01	FY02			
	$ (970.0)	$ (970.0)	Recurring	General Fund
	$ (670.0)	$ (670.0)	Recurring	Local Govt.

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates Senate Bill 62

SOURCES OF INFORMATION

Taxation and Revenue Department (TRD)
Legislative Finance Committee (LFC) files

SUMMARY

Synopsis of Bill

This bill provides an annual gross receipts tax holiday for sales of qualified clothing and footwear during a three-day period in August prior to the beginning of each school year. This holiday is accomplished through a gross receipts tax deduction. To qualify for the deduction, individual items must be purchased at a price of less than $100. The provisions of the bill are not meant to apply to sales of specialized athletic/protective gear or accessories. The proposed tax holiday is similar to programs currently administered in several other states including Florida, New York, and Texas.

The bill would take effect July 1, 2001.

FISCAL IMPLICATIONS

By examining reports from the Texas State Comptroller's Office and the U.S. Bureau of Labor Statistics' 1998 Consumer Expenditure Survey as well as TRD sources, New Mexico may have a 75% increase in sales due to the deduction. It is estimated that this proposal will reduce New Mexico state and local gross receipts tax collections by approximately $1.64 million.

ADMINISTRATIVE IMPLICATIONS

Administrative impact on the Department would be significant. Extensive regulations must be developed. Taxpayer instructions, including itemized lists detailing the taxable status of equivocal clothing/footwear, must be written and promulgated.

SUBSTANTIVE ISSUES

State Sales Tax Holidays as of August, 2000.

	Days	Items Included	Maximum Cost	1st Year	2000 dates
New York (1)	all	clothing	$500	1997	N/A
Florida	9	clothing and accessories	$100	1999	July 31-Aug. 8
Texas	3	clothing and footwear	$100	1999	Aug. 4-6
Connecticut	7	clothing and footwear	$300	2000	Aug. 20-26
South Carolina	3	clothing, computers, supplies	N/A	2000	Aug. 4-6
Pennsylvania. (2)	14	computers	N/A	2000	Aug. 6-13, Feb. 18-25
Iowa	2	clothing and footwear	$100	2000	Aug. 4-5
Maryland	7	clothing	$100	2001	Aug. 10-16

1. The sales tax holidays differed; one was for clothing only, while the others were for both clothing and footwear. New York's holiday has since become a permanent exemption for items priced under $110

2. Pennsylvania has two one-week holidays.

Source: Federation of Tax Administrators, Washington, D.C., August 16, 2000.

Sales tax holidays are becoming increasingly common tax policy tools for state lawmakers. Research suggests a typical family spends around $250 on back-to-school clothes. However, not every state has embraced the program. Most recently legislatures in Kansas, Michigan, Ohio, Oklahoma and Virginia rejected the idea, for the most part because of the considerable expense and administrative burdens involved. There was also thought that, in some geographic areas, a holiday would not lure shoppers from other states and thus would not actually increase sales for state merchants.

JBE/ar