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

SPONSOR Martinez **ORIGINAL DATE** 02/07/07 **LAST UPDATED** 02/09/07 **HB**

SHORT TITLE Exclusion from Gross Receipts Definition **SB** 321

ANALYST Schardin

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	($960.0)		Recurring	General Fund
	($640.0)		Recurring	Local Governments

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Response Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 321 creates a new gross receipts tax exclusion for receipts of temporary staffing firms paid by customers for employee-related costs of services performed by employees of the temporary staffing firm including wages, salaries, bonuses, commissions, employee benefits, expense reimbursements, insurance, and employment taxes.

FISCAL IMPLICATIONS.

TRD estimates that GRT paid by temporary staffing companies is about $1.6 million per year, most of which will be excluded from GRT due to this bill. About 60 percent of this revenue loss will accrue to the general fund and the remaining 40 percent will accrue to local governments.

SIGNIFICANT ISSUES

Under current law, temporary employment agency services pay gross receipts tax on the wages earned by their employees. However, employee-leasing agencies, which are operationally the same as temporary employment agencies, only pay gross receipts tax on the commissions they earn, not on the wages earned by leased employees. This bill would level the playing field between these two similar types of businesses by taxing them equally.

LFC notes that while individual deductions from the gross receipts tax may have small fiscal impacts, their cumulative effect significantly narrows the gross receipts tax base. Narrowing the gross receipts tax base increases revenue volatility and requires a higher tax rate to generate the same amount of revenue.

The bill will reduce local government gross receipts tax collections. Many of New Mexico's local governments are highly dependent on gross receipts tax revenue.

ADMINISTRATIVE IMPLICATIONS

The bill will have a minimal administrative impact on TRD.

OTHER SUBSTANTIVE ISSUES

It should be noted that many temporary staffing agencies are nationwide companies located elsewhere doing business selling professional services in New Mexico.

ALTERNATIVES

In 2003, the final report of the Blue Ribbon Tax Reform Commission's included a proposal to make wages of employee leasing agencies taxable. This proposal also levels the playing field between two the two types of temporary employment agencies addressed in this bill but does so by making them both taxable instead of making them both exempt from taxation. This alternative proposal was expected to increase gross receipts tax collections by about $9 million. About 60 percent of that increase would benefit the general fund and the remaining 40 percent benefit local governments.

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