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

ORIGINAL DATE 01/23/13
SPONSOR Smith **LAST UPDATED** 03/05/13 **HB**

SHORT TITLE Liquor Tax Small Winegrower Volume Limit **SB** 116/aSFC

ANALYST Smith

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY13	**FY14**	**FY15**	**FY16**	**FY17**		
$0.0	($85)	($178.0)	($379.0)	($384.0)	Recurring	General Fund
$0.0	($60)	($126.0)	($269.0)	($272.0)	Recurring	DWI Grant Fund
$0.0	($145)	($304.0)	($648.0)	($656.0)	Recurring	Total

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue (TRD)

SUMMARY

Synopsis of SFC Amendment

The Senate Finance Committee Amendment changes the effective date of the bill from July 1, 2013 to January 1, 2014. This has the effect of halving the first year impact.

Synopsis of Original Bill

This bill amends Section 7-17-2 NMSA 1978, to increase the production cap for small winegrowers from 950 thousand liters to 1.5 million liters annually. SB 116 also adds a new subsidized rate of 30 cents per liter for production over 975 thousand liters to 1.5 million liters. Production over this cap would be taxed at the unsubsidized rate of 45 cents per liter.

FISCAL IMPLICATIONS

TRD notes that the state would lose revenue from the expanded volume definition for small winegrowers. Impacts were calculated based on the effect of the tax change on the demand decrease for wine and increase for wine manufactured or produced by small winegrowers.

According to industry information, one current winegrower produces over 950,000 liters but not over than 1,500,000 liters each year, and the second winegrower could produce more than 950,000 liters a year in next 5 years. Taxation and Revenue Department (TRD) Monthly Liquor Volume Reports show that an average growth rate of wine produced by small winegrowers and sold in New Mexico under current law is approximately 8%.

SIGNIFICANT ISSUES

According to the New Mexico Wine Growers Association, New Mexico now has about 42 wineries and tasting rooms producing about 700,000 gallons of wine each year. This incentive is intended to assist and grow this local industry. This bill could be a boon for the small winery industry as consumers substitute consumption of the higher taxed liquids for the lower taxed ones.

Unlike the production of other alcoholic beverages, there is a significant agricultural component in the production of wine which is extremely labor-intensive. According to a study by the University of California-Davis, a vineyard will require 172 hours of labor before harvest- a manual process.

A producer who would be affected by this bill volunteered the following information:

- For 2012 the producer closed the year at approximately 275 full time employees with approximately another 100 part-time employees used annually.
- All of its employees are in the state of NM and its total annual payroll dollars is approximately $4,500,000.
- It pays approximately $600,000 annually in CRS taxes to the state.
- Its annual tax bill is approximately $50,000 in income taxes, $20,000 in property taxes and $150,000 in liquor taxes.
- It plans to add an additional 75 to 100 jobs locally over the next 3 to 5 years.

PERFORMANCE IMPLICATIONS

TRD is upgrading its data systems relating to GenTax, requiring that the systems be “locked-down” to any modification until July 1, 2013. The department’s IT resources are fully engaged with contractors during this period to test and validate the systems’ upgrades, and pursuant to contractual agreements and best-practice standards may not undertake systems changes until system upgrade verifications are completed. TRD’s IT personnel are unavailable to begin to develop systems modifications (e.g., new deductions, data reporting, functionality, etc.) until after July 1st, and therefore NO SYSTEMS CHANGES CAN BE IMPLEMENTED UNTIL OCTOBER 1, 2013 to allow adequate time for development, testing and verification of any new system requirements. As a result TRD will not be able to implement the GenTax modifications necessary to record and claim the tax credit until at least October 1, 2013, after the effective date of the legislation.

ADMINISTRATIVE IMPLICATIONS

TRD reports a moderate to high impact. Minor revisions would be needed to forms, instructions and publications. Taxpayer and department personnel education will be needed. GenTax would need modification to allow the new rate. The effective date does not give much time to implement these changes due to the current upgrade to GenTax.

TECHNICAL ISSUES

TRD recommends the following:

- Page 3, line 8, “a year” should be defined.

- Page 3, lines 7-8 and page 5, lines 3-4 should be amended to be consistent on volume limits. Page 3, lines 7-8 state “less than one million five hundred thousand liters”. However, page 5, lines 3-4 state “but not over one million five hundred thousand liters” which includes one million five hundred thousand.

This bill does not contain a sunset date. The LFC recommends adding a sunset date.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

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

SS/blm