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## FISCAL IMPACT REPORT

ORIGINAL DATE 1/18/2022

SPONSOR Trujillo LAST UPDATED \_\_\_\_\_ HB 32

SHORT TITLE Feminine Hygiene Products Gross Receipts SB \_\_\_\_\_

ANALYST Taylor/Torres

### REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY22	FY23	FY24	FY25	FY26		
-	(\$1,183.0)- (\$1,430.0)	(\$1,237.0)- (\$1460.0)	(\$1,293.0)- (\$1,490.0)	(\$1,353.0)- (\$1520.0)	Recurring	General Fund
-	(\$842.0)- (\$950.0)	(\$881.0)- (\$970.0)	(\$921.0)- (\$990.0)	(\$964.0)- (\$1,100.0)	Recurring	Local Governments

Parenthesis ( ) indicate revenue decreases

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

FY22	FY23	FY24	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
\$40.0	--	--	\$40.0	Nonrecurring	ITD-contractual services

Parenthesis ( ) indicate revenue decreases

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Department of Health (DOH)

Taxation and Revenue Department (TRD)

### SUMMARY

#### Synopsis of Bill

House Bill 32 provides a deduction from Gross Receipts and Governmental Gross Receipts taxes from the sale of feminine hygiene products.

The effective date of this bill is July 1, 2022.

### FISCAL IMPLICATIONS

The fiscal impacts for this bill are presented as a range. The lower numbers were estimated by

LFC analysts while the higher numbers were presented by the Taxation and Revenue Department (TRD). Differences are relatively small.

**LFC analysis:**

The United States market for feminine hygiene products is \$4,310 million according to Statista, a provider of market and consumer data.<sup>1</sup> The United States estimated female population in 2020 is 166.24 million. The female population in New Mexico is 1.052 million, or 0.63 percent of the total female population. Assuming the New Mexico market for feminine hygiene products is proportional to its share of the female population, the New Mexico market is estimated to be \$27.15 million (\$4,310 X .0063).

The effective state gross receipts tax rate is 4.3 percent. Multiplying this rate by the \$27.15 million base indicates that the revenue loss for the state would be approximately \$1.183 million in 2022.

The effective gross receipts tax rate for local governments is 3.1 percent. Multiplying this rate by the \$27.15 million base implies that the revenue loss for local governments would be approximately \$842 thousand in 2022.

Statista projects the market for feminine hygiene products will grow by 4.6 percent per year from 2022 to 2026. This growth rate is used to project revenue losses after 2022.

**TRD analysis:**

TRD reports that its methodology is based on population, demographics, and average prices. Impacts in years after FY23 grow by a little over 2 percent. Presumably this represents inflationary impacts.

**SIGNIFICANT ISSUES**

This bill narrows the gross receipts tax (GRT) base. Many of the efforts over the last few years to reform New Mexico’s taxes focused on broadening the GRT base and lowering the rates. Narrowing the base leads to continually rising GRT rates, increasing volatility in the state’s largest general fund revenue source. Higher rates compound tax pyramiding issues and force consumers and businesses to pay higher taxes on all other purchases without an exemption, deduction, or credit.

**PERFORMANCE IMPLICATIONS**

The LFC tax policy of accountability is met with the bill’s requirement to report annually an analysis of the cost of the deduction to the revenue stabilization and tax policy and Legislative Finance Committee. The report is required to include the number of taxpayers that claimed the

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<sup>1</sup> Statista--<https://www.statista.com/outlook/cmo/tissue-hygiene-paper/feminine-hygiene/united-states#:~:text=Revenue%20in%20the%20Feminine%20Hygiene,%2412.87%20are%20generated%20in%202022.>

deduction and the total amount of deductions claimed.

**ADMINISTRATIVE IMPLICATIONS**

TRD reports the bill would have a small impact on its Information and Technology Division (ITD), requiring approximately 2,000 hours of contractual services costing \$40,000 in FY22.

**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

**Does the bill meet the Legislative Finance Committee tax expenditure policy principles?**

1. **Vetted:** The proposed new or expanded tax expenditure was vetted through interim legislative committees, such as LFC and the Revenue Stabilization and Tax Policy Committee, to review fiscal, legal, and general policy parameters.
2. **Targeted:** The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals.
3. **Transparent:** The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies.
4. **Accountable:** The required reporting allows for analysis by members of the public to determine progress toward annual targets and determination of effectiveness and efficiency. The tax expenditure is set to expire unless legislative action is taken to review the tax expenditure and extend the expiration date.
5. **Effective:** The tax expenditure fulfills the stated purpose. If the tax expenditure is designed to alter behavior – for example, economic development incentives intended to increase economic growth – there are indicators the recipients would not have performed the desired actions “but for” the existence of the tax expenditure.
6. **Efficient:** The tax expenditure is the most cost-effective way to achieve the desired results.

LFC Tax Expenditure Policy Principle	Met?	Comments
<b>Vetted</b>	✓	Considered and endorsed by LHHS
<b>Targeted</b>		
Clearly stated purpose	✗	Implicit purpose is to reduce price of feminine hygiene products by eliminating tax.
Long-term goals	?	Tax deduction is recurring, so implicit goal of price reduction and affordability are long-term.
Measurable targets	✗	None.
<b>Transparent</b>	✗	No reporting required.
<b>Accountable</b>		
Public analysis	✗	

House Bill 32 – Page 4

Expiration date	✘	The deductions are recurring.
<b>Effective</b>		
Fulfills stated purpose	✘	No stated purpose, but fulfills implicit purpose of reducing price for feminine hygiene.
Passes “but for” test	?	Not applicable.
<b>Efficient</b>	?	Assuming feminine hygiene products are price inelastic, the removal of the tax would have limited effect on quantities. Marginal benefit accrue to some who might have difficulty in affording these products.
Key:    ✓ Met    ✘ Not Met    ? Unclear		

BT/al