LFC Requester:	

AGENCY BILL ANALYSIS - 2025 REGULAR SESSION

WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO
AgencyAnalysis.nmlegis.gov and email to **billanalysis@dfa.nm.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}

Date Prepared: *2.10.25* *Check all that apply:*
Bill Number: *H237-341* Original _x Correction __
Amendment __ Substitute __

Sponsor: Rep. Mirabal Moya
Short Title: GROSS RECEIPTS CREDIT FOR CERTAIN BUSINESSES

Agency Name and Code Number: DFA-341
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SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY25	FY26		

(Parenthesis ( ) indicate expenditure decreases)

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY25	FY26	FY27	FY28	FY29		
	($171,200)	($176,600)	($181,200)	($187,100)	R	General Fund: GRT
	($43,000)	($44,400)	($45,500)	($47,000)	R	General Fund: GRT Reimbursement to Locals
	($214,200)	**($220,900)**	**($226,700)**	**($234,100)**	**R**	**Total General Fund: GRT**

(Parenthesis ( ) indicate revenue decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY25	FY26	FY27	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

House Bill 237 aims to provide a gross receipts tax credit to eligible taxpayers. The bill specifies criteria for the credit, outlines how it can be claimed, and includes details regarding its implementation, particularly concerning municipal funding and tax liabilities.

Key Points:

- **Eligibility Criteria:**
  - Tax credit available to businesses with no more than $1,000,000 in gross receipts in the prior calendar year.
- **Credit Structure:**
  - Credit amount: 25% of the taxpayer's gross receipts tax liabilities.
  - Maximum credit threshold: $20,000 per taxpayer per calendar year.
- **Exclusions:**
  - Taxpayers claiming any other gross receipts tax credit are ineligible for this credit in the same taxable period, ensuring exclusivity in claims.
- **Carryforward Provision:**
  - Unused credit amounts may be carried forward to subsequent tax periods to mitigate tax liability in future years.
- **Application Process:**
  - Taxpayers are required to submit applications to the department in a prescribed manner, utilizing specified forms.
- **Reporting Obligations:**
  - Taxpayers must report the amount of credit claimed to the department, ensuring transparency and proper tracking of the tax incentive's impact.
- **Effective Date and Applicability:**

    - The provisions of the bill are effective from July 1, 2025, and apply to tax liabilities beginning on or after this date, creating a forward-looking framework for fiscal planning.

- **Municipal Revenue Implications:**
    - The bill modifies Section 7-1-6.4 NMSA 1978 to recognize credits when calculating municipal distributions, thus safeguarding municipal revenue streams while administering the tax credit.

FISCAL IMPLICATIONS

Estimating the fiscal impact of HB237 is challenging due to the lack of current gross receipts data by business size. To approximate the impact, this analysis assumes that businesses with 100 or fewer employees are the primary beneficiaries of the legislation. Additionally, employment size is used as a proxy for gross receipts.

This analysis relies on 2021 U.S. Census County Business Patterns data for businesses with 100 or fewer employees. According to the Census, these businesses represented 92.56% of all firms in New Mexico. Assuming gross receipts are proportional to employment size, this percentage is applied to historical total gross receipts data to estimate the amount collected by these firms.

Furthermore, a 2018 Ernst & Young, LLP, and Georgia State University report estimated that 14.1% of New Mexico's Gross Receipts Tax (GRT) revenue was contributed by firms with less than $1 million in annual gross receipts. This percentage was used to estimate the Matched Gross Receipts Tax (MTGR) revenue generated by businesses with up to $1 million in annual gross receipts. Lastly, the latest consensus revenue estimates for gross receipts were used to project MTGR growth through FY29. The 25% credit, the state GRT rate of 4.875%, and the local GRT rate of 1.225% were applied to estimate both the direct cost to the General Fund and the state's cost to reimburse local governments for the impact on local GRT revenue.

The table below estimates the cost to the General Fund at approximately $214 million in FY26, $220 million in FY27, $226 million in FY28, and $234 million in FY29.

	FY26 est.	FY27 est.	FY28 est.	FY29 est.
Dec 2024 CREG growth rates	4.52%	3.14%	2.64%	3.26%
Matched Taxable Gross Receipts (MTGR)	$ 107,621,661,957	$ 111,004,800,276	$ 113,933,185,345	$ 117,649,855,877
Adjusted MTGR (92.56%)	$ 99,609,267,468	$ 102,740,532,341	$ 105,450,900,182	$ 108,890,865,913
Est GRT revenue from business that contribute up to $1m in gross receipts (14.1% of adjusted total MTGR)	$ 14,044,906,713	$ 14,486,415,060	$ 14,868,576,926	$ 15,353,612,094
Cost to GF of 25% credit	$ (171,172,301)	$ (176,553,184)	$ (181,210,781)	$ (187,122,147)
Cost to GF to reimburse locals	$ (43,012,527)	$ (44,364,646)	$ (45,535,017)	$ (47,020,437)
Total Cost to GF	$ (214,184,827)	$ (220,917,830)	$ (226,745,798)	$ (234,142,584)

Notes:

Credit amount: 25% of the taxpayers grt liabilities	25.00%
State GRT rate	4.875%
Local GRT rate to reimburse locals	1.225%
December 2024 CREG MGRT growth rates	

While small businesses play a vital role in New Mexico's economy, HB237 not only reduces the tax burden on these businesses but also significantly decreases the state's gross receipts tax base.

SIGNIFICANT ISSUES

PERFORMANCE IMPLICATIONS

ADMINISTRATIVE IMPLICATIONS

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

TECHNICAL ISSUES

OTHER SUBSTANTIVE ISSUES

ALTERNATIVES

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

If HB237 is not enacted, the 25% tax credit for businesses with gross receipts of $1,000,000 or less will not be implemented, and the gross receipts tax base will remain unaffected.

AMENDMENTS