BILL ANALYSIS AND FISCAL IMPACT REPORT
Taxation and Revenue Department

March 10, 2025

Bill: HB-460 **Sponsor:** Representative John Block

Short Title: Repeal Liquor Taxes

Description: This bill repeals the liquor excise tax and amends various sections of law to remove mention of the liquor excise tax.

Effective Date: July 1, 2025

Taxation and Revenue Department Analyst: Lucinda Sydow

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2025	FY2026	FY2027	FY2028	FY2029		
	($22,480)	($22,730)	($22,950)	($23,190)	R	Local DWI Grant Fund
--	($249)	($249)	($249)	($249)	R	Municipality – Class A County (Farmington)
--	($2,500)	($2,530)	($2,550)	($2,580)	R	Drug Court Fund
--	($24,730)	($25,010)	($25,260)	($25,500)	R	General Fund

* In thousands of dollars. Parentheses ( ) indicate a revenue loss. ** Recurring (R) or Non-Recurring (NR).

Methodology for Estimated Revenue Impact: The Taxation and Revenue Department (Tax & Rev) calculated the loss of revenue from the repeal of the Liquor Excise tax based on the Consensus Revenue Estimating Group's (CREG) December 2024 forecast for Liquor Excise Tax.

Policy Issues: The taxing nationwide of liquor products through an excise tax occurs at many different government levels: federal, state and local; and at differing points of the supply chain: manufacturer, wholesaler and retailer. Tax rates tend to differ based on the alcohol content of the liquor category. Like other states, New Mexico taxes spirituous liquors at a higher rate than wine and beer as they contain a higher alcohol content. Similarly, wine is taxed at a higher rate than beer. And as in many other states, the current excise tax is based on the volume of liquor sold, not on the wholesale or retail value of the product. New Mexico's Liquor Excise Tax is imposed on wholesalers and on average brings in $50 million in revenue annually with half of the revenue currently distributed to the General Fund and the majority of the remainder distributed to the Local DWI Grant Fund. At the retail level, liquor sales are also subject to the Gross Receipts Tax (GRT). This bill proposes to repeal the tax at the wholesale level leaving only a retailers tax through GRT and the local liquor excise tax option under 7-24 NMSA 1978.

With the repeal of the Liquor Excise Tax, New Mexico will be the only state that does not impose some statewide excise tax at the manufacturer, wholesale or retail level or that controls sales of alcohol as does Utah. Table 1 below compares New Mexico's current ranking by liquor category and lists New Mexico as 50th under the proposed bill with no excise tax at all.

Table 1: State Rankings by state level liquor excise taxes [3]

Liquor Category	New Mexico - Proposed Rates	New Mexico - Current Rates	Surrounding States				
			Arizona	Utah	Colorado	Oklahoma	Texas
Beer [1]	50 (no tax)	14	36	13	46	15	31
Spirits [1]	50 (no tax)	24	43	6	47	27	46
Wine [2]	50 (no tax)	5	26	*	40	29	44

Source: Tax Foundation, Tax & Rev calculations

Notes: 1. As of January 1, 2024; 2. As of January 1, 2021; 3. Comparable state ratings based on dollars per gallon, include local rates, state-controls, differing rates by alcohol content.

* Utah is one of five states where the government controls sales of wine.

The repeal of the liquor excise tax on wholesalers will decrease the administrative burden for these taxpayers. As listed in Table 2 below, there are approximately 1,220 taxpayers who will no longer need to file monthly returns with Tax & Rev. It also decreases Tax & Rev's administrative responsibilities for return processing, revenue distribution and audit and compliance.

Table 2: Liquor Excise Tax Taxpayers

	Liquor Excise Tax at Distributor Level
# Taxpayers	1,220
# Returns due per year	20,052

Increasing excise taxation of alcoholic beverages is considered optimal in alcohol control policy as increasing taxation has proven to be an effective and cost-efficient method for reducing social and health alcohol-related harms. This proposal proposes the opposite by eliminating the excise taxation on alcohol. In addition to preventing attributable harms associated with alcohol use, there are economic reasons for implementing excise taxation on alcohol. These include generating revenue and paying for negative externalities associated with alcohol consumption. Many studies have found that increases in alcohol taxation are related to reductions in alcohol consumption, even after accounting for the extent to which the tax increase is passed on to the consumer through the retail price.

Alcohol and substance abuse are among the costliest health problems in the United States. Studies have shown that public investment reduces alcohol and substance abuse and delays abuse initiation at young ages. The loss of revenue to targeted alcohol abuse funds, including the Local DWI Grant Fund and Drug Court Fund, may significantly impact community programs that rely on this revenue. This repeal will also remove a recurring general fund revenue, reducing the legislature's budgetary flexibility with respect to the broad appropriation needs of the State in future years.

Technical Issues: None.

Other Issues: Removing the tax program from the Tax Administration Act (TAA) without a delayed repeal may prohibit the department from collecting or auditing on tax periods that occurred before the Liquor Excise Tax was repealed. The TAA governs laws for both collecting delinquent taxes and auditing tax returns, which should still apply for periods before July 1, 2025.

The effective date of July 1, 2025 should be delayed to accommodate tax collections and distributions pertaining to the State's modified accrual method of accounting. A date of September 30th would be best suited to allow time to close the revenue period for the fiscal year and allow for 60-day accruals. A provision could be added stipulating that no tax collections would be due from sales occurring after June 30th, 2025.

Administrative & Compliance Impact: Tax and Rev will update forms, instructions and publications, to remove all references to the Liquor Excise Tax. Tax & Rev will conduct public outreach to impacted taxpayers. In addition, Tax & Rev will make information system changes and procedural changes with the repeal of a tax program.

The bill will result in long-term savings of staff and system processing for all divisions in Tax & Rev but in particular the Audit and Compliance Division (ACD). As noted under the Policy Issues, there are approximately 1,220 wholesale liquor taxpayers that file on average 20,000 returns a year. These 20,000 returns will no longer be filed, which will lessen the returns processed through RPD and ITD. There will no longer be revenue to distribute, lessening the workload for ASD. Finally, there will no longer be a liquor excise tax program to manage audit and compliance, which would free up time for four agents and 640 hours per year, for $22,995. The resources of staff currently directed toward the liquor excise tax in all these divisions can be directed towards other customer's needs and other tax program administration.

For one-time costs, ASD will update the general ledger and revenue reporting as this proposal will cease all distributions associated with the liquor excise tax. It is anticipated this work will take approximately 40 hours split for 1 FTE of a pay band 80 at a cost of approximately $2,300. Collaboration and input from the Department of Finance and Administration (DFA) input is required as this will decrease General Fund revenue distributions. This bill will have a low impact on ITD, approximately 200 hours or just over one months and $46,000 of contractual costs.

Estimated Additional Operating Budget Impact*				**R or NR****	**Fund(s) or Agency Affected**
FY2025	**FY2026**	**FY2027**	**3 Year Total Cost**		
--	$2.3	--	$2.3	NR	ASD – Staff Workload
$46	--	--	$46	NR	ITD – Contractual Costs
--	($22.9)	($22.9)	($45.8)	R	ACD - Staff Workload

* In thousands of dollars. Parentheses ( ) indicate a cost saving. ** Recurring (R) or Non-Recurring (NR).

Related Bills: Conflicts with HB-417, SB-378 and SB-432