FISCAL IMPACT REPORT

SPONSOR	Gallegos/Serrato/Herndon/Lundstrom/ Johnson	**LAST UPDATED**	02/05/2025
		ORIGINAL DATE	01/31/2025
SHORT TITLE	Saturday After Thanksgiving GRT Sunset	**BILL NUMBER**	House Bill 179
		ANALYST	Faubion

REVENUE*
(dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
GRT	($0.0)	($860.0)	($890.0)	($910.0)	($940.0)	Recurring	General Fund
GRT	($0.0)	($570.0)	($590.0)	($610.0)	($630.0)	Recurring	Local Governments

Parentheses ( ) indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
TRD	$14.6	$0.0	$0.0	$14.6	Nonrecurring	General Fund

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

Sources of Information
LFC Files

Agency Analysis Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of House Bill 179

House Bill 179 (HB179) extends the sunset for the small business Saturday Thanksgiving weekend gross receipts tax (GRT) deduction from the end of fiscal year 2025 to the end of fiscal year 2030. The bill also requires the deduction, including the total annual aggregate cost of the deduction, be included in the tax expenditure budget.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns, or June 20, 2025, if enacted.

FISCAL IMPLICATIONS

The Taxation and Revenue Department (TRD) used separately reported deductions by taxpayers in fiscal year 2024 to estimate the revenue loss. The analysis used the GRT revenue growth from the December 2024 consensus revenue estimating group (CREG) to grow the fiscal impact.

This bill creates or expands a tax expenditure. Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for a tax expenditure may be ambiguous, further complicating the initial cost estimate of the fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures.

TRD will update forms, instructions, and publications and make information system changes. TRD's Information Technology Division will implement the changes, taking approximately 220 hours or about one month at a cost of $14,661 in staff workload costs.

SIGNIFICANT ISSUES

Receipts from retail sales of specified tangible personal property are deductible from GRT if the sale occurs during the first Saturday after the Thanksgiving holiday. The deduction may be taken on sales of property with a value of less than $500. Qualified retailers must be a business in New Mexico and have employed no more than 10 employees at any one time in the previous fiscal year.

The deduction is like the back-to-school tax free weekend, which is widely used in New Mexico. This deduction, however, restricts purchases to those made at small businesses and is believed to have much lower usage. While the deduction may result in a small increase in purchases at small businesses during the popular holiday shopping season, the overall benefit is limited. The number of businesses that claimed the deduction has increased since FY21, which may indicate a post-pandemic recovery of small businesses.

This bill narrows the GRT. Many New Mexico tax reform efforts over the last few years have 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.

TRD notes 19 states currently use tax holidays to incentivize certain purchasing. In New Mexico, this tax holiday is used to encourage holiday shopping to occur at small local businesses rather than national chains. While this type of sales tax holiday does not increase demand overall, it may give small local retailers an edge over national chains. Some research has suggested that companies can absorb up to 20 percent of the benefits of sales tax holidays through price increases, reducing consumer benefits. The prevalence of sales tax holidays like this one does complicate the state tax code and its administration. This deduction continues to include a sunset date. TRD supports sunset dates for policymakers to review the impact of tax expenditures before extending them.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is met with the bill's requirement to report annually in the tax expenditure budget the data compiled from the reports from taxpayers taking the deduction.

OTHER SUBSTANTIVE ISSUES

In assessing all tax legislation, LFC staff considers whether the proposal is aligned with committee-adopted tax policy principles. Those five principles:

- **Adequacy**: Revenue should be adequate to fund needed government services.
- **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
- **Equity**: Different taxpayers should be treated fairly.
- **Simplicity**: Collection should be simple and easily understood.
- **Accountability**: Preferences should be easy to monitor and evaluate

In addition, staff reviews whether the bill meets principles specific to tax expenditures. Those policies and how this bill addresses those issues:

Tax Expenditure Policy Principle	Met?	Comments
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.	?	No record of an interim committee hearing can be found.
Targeted: The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals. Clearly stated purpose Long-term goals Measurable targets	✗	There are no stated purposes, goals, or targets.
Transparent: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies.	✓	The deduction must be reported publicly in the TER. The deduction does have an expiration date.
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. Public analysis Expiration date	✓	
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. Fulfills stated purpose Passes "but for" test	?	There are no stated purposes, goals, or targets with which to measure effectiveness or efficiency.
Efficient: The tax expenditure is the most cost-effective way to achieve the desired results.	?	
Key: ✓ Met ✗ Not Met ? Unclear		

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