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FISCAL IMPACT REPORT

SPONSOR: Watchman DATE TYPED: 02/15/01 HB 570
 SHORT TITLE: Eliminate Gross Receipts Tax on Food Sales SB _____
 ANALYST: Eaton

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY01	FY02			
	\$ (52,900.0)	\$ (58,900.0)	Recurring	General Fund
	\$ (41,700.0)	\$ (46,400.0)	Recurring	Local Govt.

(Parenthesis () Indicate Revenue Decreases)

Duplicates/Conflicts with/Companion to/Relates to House Bill 468, Senate Bill 367

SOURCES OF INFORMATION

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

This proposes the repeal of the gross receipts tax on food effective July 1, 2002.

FISCAL IMPLICATIONS

The Taxation and Revenue Department (TRD) report that the impact of this bill would reduce the general fund in FY02 by \$52.9 million and reduce local government revenue by \$41.7 million. The table below illustrates the five year impact.

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>
General Fund	(52,900.0)	(58,900.0)	(60,100.0)	(61,400.0)	(62,800.0)
Local Governments	(41,700.0)	(46,400.0)	(47,200.0)	(48,200.0)	(49,300.0)
Total Impact	(94,600.0)	(105,300.0)	(107,300.0)	(109,600.0)	(112,100.0)

Source: Taxation and Revenue Department

ADMINISTRATIVE IMPLICATIONS

The Taxation and Revenue Department (TRD) report that this bill will cause a major impact on the regulatory process, but imposes an insignificant burden on revenue processing, forms development and systems maintenance.

TECHNICAL ISSUES

The repeal of the tax on food might trigger a downward adjustment of some revenue bonds by the rating agencies. Bondholders could sue for loss of capital value of their bonds if this does occur and could win a settlement equal to the amounts by which their capital had eroded. The Taxation and Revenue Department (TRD) does not know how likely this scenario is, but feels it important to point out the risk.

OTHER SUBSTANTIVE ISSUES

The Taxation and Revenue Department (TRD) note that the financial benefits of this bill will not go primarily to low-income citizens of the state. The lowest income 62,000 families, with 164,000 persons, are food stamp recipients. Food purchased with food stamps are deductible from gross receipts. Purchases for food tend to consume a greater percentage of household budget as income rises (see TRD graph below). Because of this effect, 50% of the benefit of this bill will go to the 20% of the population with the highest income. TRD indicated in their report that New Mexico, with its food stamp exemption and LICTR, have satisfactorily addressed the problems of regressivity of taxing food.



Data is based on 1988 Consumer Expenditure Survey.

Source: Taxation and Revenue Department

JBE/njw