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FISCAL IMPACT REPORT

SPONSOR Cisneros DATE TYPED 3-04-2005 HB _____

SHORT TITLE Repeal Certain Property Use Taxation Statutes SB 420

ANALYST Taylor

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
	\$190	Similar	Recurring	General Fund
	\$20	Similar	Recurring	Small Cities Assistance
	\$20	Similar	Recurring	Small Counties Assistance

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of bill

Senate Bill 420 repeals a section of tax law related to the prohibition of enforcement of the compensating tax for the use of property for nonbusiness purposes. The section to be repealed 7-9-7.1 states that the department is to take no action to enforce collection of compensating tax due on purchases made by an individual if:

1. the property is used only for nonbusiness purposes;
2. the property is not a manufactured home; and
3. the individual is not an agent for collection of compensating tax.

Significant Issues

The bill has the effect of allowing the taxation and revenue department to collect compensating tax from individuals.

The bill has no effective date; provisions assumed to take effect 90 days after the end of the legislative session.

FISCAL IMPLICATIONS

TRD estimates that collecting compensating tax from individuals would increase state general fund revenue by about \$190 thousand. There is also a small impact on the small county and small cities assistance programs. They base their estimates on collections by other states that collect this tax, which are then adjusted for New Mexico's population and income relative to those states. They also note that collection is influenced by enforcement effort, and that most states report limited compliance.

ADMINISTRATIVE IMPLICATIONS

TRD reports that the administrative implications are significant. Their report is replicated here:

The proposal would impose significant new administrative responsibilities on TRD. Currently the department has no mechanism for collecting the compensating tax due on purchases made out-of-state for personal use in New Mexico. In developing such a mechanism, the state could choose to require individuals to report their purchases on the Personal Income Tax return or to institute a new tax program. A new tax program would require new forms and instructions and changes to existing publications. Educational materials and programs for both taxpayers and TRD employees would have to be developed, as would new audit and compliance procedures. Systems to capture and record the return data and to deposit and distribute the money collected would also have to be developed. These duties would require at least 3 FTE.

The proposed responsibilities could not be implemented before January 1, 2006.

OTHER SUBSTANTIVE ISSUES

TRD also reported this issue:

Significant new compliance costs would be imposed on taxpayers as a result of the requirement to substantiate their purchases. Since a cancelled check does not contain enough information to establish the origin of the purchase, invoices would have to be retained for long periods.

BT/yr