F I S C A L   I M P A C T   R E P O R T

SPONSOR SCORC **ORIGINAL DATE** 3/15/07 **LAST UPDATED** **HB**

SHORT TITLE Low-Income Housing Material Gross Receipts **SB** 1221/SCORCS

ANALYST Schardin

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	($396.0)		Recurring	General Fund
	($264.0)		Recurring	Local Governments

(Parenthesis ( ) Indicate Revenue Decreases)

Conflicts with HB 833

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

The Senate Corporations and Transportation Committee substitute for Senate Bill 1221 expands a gross receipts and governmental gross receipts deduction granted in Section 7-9-60 NMSA 1978 to allow a deduction for receipts from providing single-family homeownership opportunities to low-income and special populations, as defined by the federal department of housing and urban development, by a nonprofit organization.

Because the substitute contains no effective date its provisions will become effective 90 days after the legislature adjourns on June 15, 2007.

FISCAL IMPLICATIONS

Based on information from federal tax returns filed by New Mexico non-profit entities TRD estimates that 20 to 30 non-profit entities operate in New Mexico each year to provide low-income homeownership opportunities. Total income of these entities is about $30 million per year TRD assumes that $10 million of that income is spent on construction materials and would be eligible for the proposed deduction. Taxed at a statewide rate of 6.6 percent, the proposal would reduce gross receipts tax collections by about $660 thousand. About 60 percent of that revenue decrease would accrue to the general fund and the remaining 40 percent would accrue to local governments.

SIGNIFICANT ISSUES

LFC notes that while individual deductions from the gross receipts tax may have small fiscal impacts, their cumulative effect significantly narrows the gross receipts tax base. Narrowing the gross receipts tax base increases revenue volatility and requires a higher tax rate to generate the same amount of revenue.

The bill will reduce local government gross receipts tax collections. Many of New Mexico's local governments are highly dependent on gross receipts tax revenue.

ADMINISTRATIVE IMPLICATIONS

The bill has no major administrative impacts on TRD.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Senate Bill 1221 conflicts with House Bill 833, which amends the same section to allow a deduction for receipts from selling construction materials or metalliferous mineral ore to a 501(c)(3) organizations organized to provide homeownership opportunities to low-income families.

TECHNICAL ISSUES

The bill should contain an effective date of July 1, 2007 since revisions to taxpayer instructions are sent only on January 1 and July 1 of each year.

According to the Mortgage Finance Authority, the federal housing and urban development department (HUD) has a straightforward definition of the term "low-income" but on "special populations." The term "special populations" can be used to describe such diverse groups as homeless people, disabled people, or elderly people. It is unclear which special populations will qualify receipts for the proposed deduction.

On Page 2, line 15, the bill states that the deduction will be available if "the activity" is for the purpose of providing homeownership opportunities to low-income and special populations. Nowhere in the section in any "activity" mentioned.

The bill should be amended so that the deduction does not apply to materials purchased by a non-profit organization for purposes unrelated to its tax-exempt status (see House Business and Industry Committee amendment to House Bill 833 for suggested language).

SS/nt