FISCAL IMPACT REPORT

SPONSOR Carraro **ORIGINAL DATE** 1/28/08
LAST UPDATED **HB**

SHORT TITLE Municipal Gross Receipts Payment Tax Credit **SB** 196

ANALYST Schardin

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY08	FY09	FY10		
	(182,651.0)	(188,876)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 196 creates a new gross receipts tax credit that will benefit taxpayers located in municipalities that have imposed at least 0.25 percent of the maximum 1.5 percent municipal gross receipts tax authorized in 7-19D NMSA 1978.

The provisions of the bill will become effective on July 1, 2008.

FISCAL IMPLICATIONS

As of January 1, 2008, every municipality in the state has imposed a municipal gross receipts tax in excess of 0.5 percent. Therefore, the bill would allow a credit against the state gross receipts tax rate of 0.5 percent in all municipalities. Data provided by TRD suggests taxable gross receipts will total $36.5 billion in municipalities in FY09. Multiplying that tax base by 0.5 percent yields a general fund revenue reduction of $182.7 million in FY09. The credit is expected to grow by 3.4 percent in FY10 and 3.6 percent in FY11 and beyond.

SIGNIFICANT ISSUES

In 2004, a credit identical to the one proposed in this bill was repealed as a way to offset the general fund revenue losses associated with the food and medical gross receipts tax deductions enacted that year (HB625). That credit was created in 1995 to help alleviate the burden of higher taxes in municipalities, where both county and municipal local option taxes are imposed.

New Mexico's municipalities and counties are currently authorized to impose over 4 percent of local option gross receipts taxes (that figure excludes several additional local option taxes that have been authorized for selected local governments). Due to increasing imposition of local option taxes, the statewide gross receipts tax rate is increasing steadily. On average, a local option gross receipts tax of about 1.9 percent will be imposed by local governments statewide by FY09. Combined with the state gross receipts tax of 5 percent, the statewide tax rate is therefore 6.9 percent. The proposed credit would decrease the statewide effective gross receipts tax from about 6.9 to 6.5 percent in FY09.

A principle of sound tax policy is to tax as broad a base as possible at as low a rate as possible to pay for services that are best provided by the government. While this proposal lowers the tax rate, and therefore decreases the economic distortion caused by the gross receipts tax, the associated fiscal impact may be large enough that necessary government services will suffer.

ALTERNATIVES

Consideration may be given to offsetting the revenue impacts of the credit by simultaneously broadening the tax base by repealing some of the less beneficial deductions and exemptions found in the gross receipts and compensating tax act that are targeted to a very narrow population. While some existing tax expenditures do result in economic growth, others may reduce revenue without increasing economic activity.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The statewide effective gross receipts tax rate will remain at about 6.9 percent in FY09.

SS/mt