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## FISCAL IMPACT REPORT

ORIGINAL DATE 1/25/09  
 SPONSOR Roch LAST UPDATED 2/10/09 HB 174/aHBIC  
 SHORT TITLE School Event Service Gross Receipts SB \_\_\_\_\_  
 ANALYST Gutierrez

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
(4.4)	(126)	(132)	Recurring	General Fund
(3.1)	(110)	(115)	Recurring	Local Governments

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

LFC Files

New Mexico Activities Association (NMAA)

#### Responses Received From

Taxation and Revenue Department (TRD)

### SUMMARY

#### Synopsis of HBIC Amendment

The House Business and Industry Committee amendment to House Bill 174 corrects the technical issue of the incorrect name of New Mexico Activities Association and amends the bill to allow for officiating at *all* NMAA-sanctioned events to be exempted from the gross receipts tax not just public school NMAA-sanctioned events.

#### Synopsis of Original Bill

House Bill 174 creates a new gross receipts tax exemption for receipts from refereeing, umpiring, scoring or other officiating at public school events sanctioned by the New Mexico athletic association.

The bill contains no effective date so it is assumed to become effective June 19, 2009, ninety (90) days after the legislature adjourns (see Technical Issues).

## FISCAL IMPLICATIONS

This estimate uses New Mexico Activities Association (NMAA) officials' fee rates for the 2008-2009 school year. It also uses a 7.07% gross receipts tax rate and assumes the number of games grows 5% annually. The new gross receipts tax deduction will decrease revenue collections by about \$235 thousand in FY10. About 59 percent of this reduction will impact the general fund, and the remaining 41 percent will impact local governments.

Because the bill's provisions will become effective on June 19, 2009, the bill's fiscal impact will result in a 0.4 month revenue impact in FY09 (see Technical Issues).

## SIGNIFICANT ISSUES

By restricting the proposed exemption to events sponsored by the New Mexico Activities Association, the bill excludes receipts from professional sporting events. Also excluded are events at elementary schools and colleges.

Fees earned by sports officials on varsity, junior varsity, and junior high sporting events are set annually by the New Mexico Activities Association and vary for different events. Sports officials receive mileage reimbursement and are paid per diem if they spend the night away from home.

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

LFC recommends adding an effective date to the bill to make the bill's provisions first apply to revenue earned on a modified accrual basis on or after July 1, 2009. This language would reduce the administrative impact on TRD (see Technical Issues).

***The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:***

- 1. Adequacy:*** revenue should be adequate to fund government services.
- 2. Efficiency:*** tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.
- 3. Equity:*** taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.
- 4. Simplicity:*** taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.
- 5. Accountability/Transparency:*** Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.

***More information about the LFC tax policy principles will soon be available on the LFC website at [www.nmlegis.gov/lcs/lfc](http://www.nmlegis.gov/lcs/lfc)***

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The bill will cause moderate administrative impacts for TRD. TRD will revise CRS forms, instructions and publications. TRD will also need to coordinate with the Public Education Department and all other organizations that hold sporting events to identify which events qualify for the new deduction.

The bill does not contain a sunset date and there is no provision for reporting on this exemption. It is important for policy makers to have regular information and an opportunity to review the effectiveness of the exemption.

### **TECHNICAL ISSUES**

An analysis of a similar proposal provided by TRD in 2008 reported that the provisions of the bill would be easier to administer if they became effective on January 1 or July 1 since that is when taxpayer information packets are revised each year. If the bill is amended to include an effective date, the language should reference the proper accounting principles to ensure that no unintended FY09 fiscal impact occurs.

BLG/mt/mc