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FISCAL IMPACT REPORT

ORIGINAL DATE 02/10/09

SPONSOR Trujillo LAST UPDATED _____ HB 266

SHORT TITLE Tax Payments and Installment Agreements SB _____

ANALYST Gutierrez

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
	Impact Minimal but Recurring		Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files
Taxation and Revenue Department (TRD)

Responses Received From
Department of Finance and Administration (DFA)

SUMMARY

Synopsis of Bill

House Bill 266 makes the following filing-related changes to the Tax Administration Act: the threshold of average monthly tax liability of \$25,000 or more in the prior year to require a special payment method is reduced over three years to \$10,000; the list of taxes covered by the special payment rules is expanded to include the Alternative Fuel Tax Act, the Cigarette Tax Act, the Tobacco Products Act, the Liquor Excise Tax Act and the Local Liquor Excise Tax Act; electronic or other special payment method would be required of third-party payers such as payroll service companies. The monthly filing threshold for CRS taxes is increased from its 1991 level of \$200 to an inflation-adjusted level of \$300. The Department is allowed to serve warrants of levy upon financial institutions electronically. The Secretary is given limited authority to delay accrual of interest for persons affected by disasters declared by the Governor or the President, or by military or terrorist actions. The interest and penalty provisions are amended to address a conflict in 2007 legislation, to simplify the interest calculations, and to clarify that penalty applies only to tax amounts. The minimum civil penalty for failure to pay taxes is increased from \$5.00 to \$25.00 and for willful intent to evade taxes from \$25.00 to \$50.00. The proposal also makes other minor clarifications and cleanup changes to the Tax Administration Act.

The effective date of this bill's provisions is July 1, 2009.

FISCAL IMPLICATIONS

TRD expects the bill to speed up processing and distribution, but have limited positive impact on total revenues.

SIGNIFICANT ISSUES

TRD:

Currently the \$200 monthly filing threshold requires taxpayers with more than about \$35,000 in annual taxable gross receipts to file monthly. Increasing the monthly filing threshold to \$300 would only require larger taxpayers with annual taxable gross receipts above about \$50,000 to file monthly, thus it would lower the compliance burden on smaller taxpayers by giving them the option to file quarterly or semi-annually.

Lowering the special payment method from \$25,000 to \$10,000 would require electronic payment from an additional 2.9% of CRS taxpayers and affect 12% of revenue collected. More than one-third of the 2.9% who would be required to file with a special payment method already choose to do so currently. This proposal would bring in an additional 7.5% of revenues in the safer, faster, and less error prone electronic method. See the attachment, showing payments and numbers of taxpayers by payment class.

The provision to allow the Secretary limited authority to delay accrual of interest to taxpayers affected by disasters or militaristic or terroristic attacks would conform to federal practice and remove the need for special legislation in such circumstances.

Another administrative simplification is to allow corporations to change their method of accounting without having to request approval from the Secretary of TRD. This is a conforming change, since corporations are already required under current statute to use the same method of accounting that they use for federal purposes.

ADMINISTRATIVE IMPLICATIONS

The bill would have a small long term positive administrative impact on the Department, with minimal one time implementation impacts.

BLG/svb

**Combined Reporting System (CRS) Returns and Payments
by Average Payment Class in FY08**

Average Monthly Payment Class	Average Month of Fiscal Year 2008					
	Number of		Cumulative Percent	CRS Tax Payments		Cumulative Percent
	Returns	Percent		(\$000)	Percent	
Over \$100,000	434	0.5%	0.5%	\$151,887	46.0%	46.0%
\$75,000 to \$100,000	157	0.2%	0.7%	\$13,541	4.1%	50.1%
\$50,000 to \$75,000	319	0.4%	1.0%	\$19,454	5.9%	56.0%
\$25,000 to \$50,000	942	1.1%	2.1%	\$32,839	9.9%	65.9%
\$20,000 to \$25,000	462	0.5%	2.6%	\$10,305	3.1%	69.1%
\$15,000 to \$20,000	724	0.8%	3.4%	\$12,511	3.8%	72.8%
\$10,000 to \$15,000	1,384	1.5%	5.0%	\$16,888	5.1%	78.0%
\$5,000 to \$10,000	3,682	4.1%	9.1%	\$25,805	7.8%	85.8%
\$4,000 to \$5,000	1,569	1.8%	10.8%	\$7,016	2.1%	87.9%
\$3,000 to \$4,000	2,282	2.6%	13.4%	\$7,907	2.4%	90.3%
\$1 up to \$3,000	57,792	64.7%	78.1%	\$32,042	9.7%	100.0%
No Tax	19,584	21.9%	100.0%	\$0	0.0%	100.0%
Totals	89,331	100.0%	100.0%	\$330,195	100.0%	100.0%

**Taxpayers affected
by the Proposal
(\$10,000 to \$25,000)**

Total	2,570	2.9%	39,704	12.0%
Current Electronic Payers	926	1.0%	14,915	4.5%
Required Electronic Payers	1,644	1.8%	24,789	7.5%