Finance New Mexico

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State’s Gross Receipts Tax: It’s Complicated

By Finance New Mexico

New Mexico’s gross receipts tax is admittedly confusing, but the state still expects businesses to follow the law and pay what they owe from the sale of property or services.

In a nutshell, GRT is a substitute for the traditional sales tax that shoppers in other states pay when they make a purchase. In New Mexico, the seller pays the tax on the sales price of a product or service even if the seller doesn’t collect it from the buyer — and even if the buyer lives out of state.

GRT was intended to widen the tax base by taxing more items at a lower rate than would be typical in states with a sales tax. Over the years, though, cities and counties have responded to reductions in local revenues caused by state-allowed exemptions and deductions by loading on their own assessments. The combined tax rate in some towns is now — or is about to go over — 9 percent. Until lawmakers agree on an alternative system, businesses should know how to comply with the status quo.

GRT applies to the gross receipts of businesses or people who sell property, perform services, lease or license a property or franchise in New Mexico, and sell certain services delivered outside New Mexico when the resulting product is initially used here. Some transactions are tax exempt, and some are deductible. A detailed explanation is available from the state Taxation and Revenue Department (TRD); ask for “Gross Receipts and Compensating Taxes: An Overview” (FYI-105).

The state takes the bulk of GRT proceeds — 5.125 percent — to provide services; the balance consists of “local options” taxes that counties, municipalities and special districts assess to underwrite public services such as police, fire, water and jails. In some municipalities, GRT revenues represent 70 to 85 percent of the budget; in counties, it can account for 30 percent of revenue.

A business ordinarily bases its GRT on the rate that applies to its physical base of operations, but many companies transact business online or in multiple places and thus register each site separately and pay different GRT rates. In most cases, the tax revenue benefits the municipality in which the business is physically based. TRD publishes site-specific GRT rates that itemize all state, local and special taxes being assessed (such as those for water districts or improvement districts). Businesses pay the applicable taxes via the online combined reporting system (CRS) portal, and TRD disburses local portions to each local entity.

A business based in a municipality pays the municipality's rate; a business outside an incorporated municipality pays the county rate. A business with no physical location in New Mexico but with a resident representative considers the in-state location as the business headquarters. Companies with no physical location or resident salesperson pay tax at the rate for out-of-state businesses: 5.125 percent.

Registering a business helps the state know that a business is charging the appropriate local GRT rate. Businesses that evade GRT by dodging registration should understand that laws allow government entities to assess stiff penalties. For example, for each day a business is out of compliance, its municipality can fine it up to $500 and jail the owner for 90 days. That translates into about $15,000 and more than seven years in jail for each month the business is under the radar.

To help businesses navigate the rules of the GRT system, the TRD offers workshops and other materials. For a workshop schedule, visit http://www.tax.newmexico.gov/workshop-schedule.aspx.