

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (legis.state.nm.us). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

ORIGINAL DATE 1/28/09

SPONSOR Campos LAST UPDATED _____ HB 67

SHORT TITLE Mission Transition Project Gross Receipts SB _____

ANALYST Gutierrez

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
(\$144.0)	(\$433.0)	(\$216.0)	Nonrecurring	Local Governments
(\$281.0)	(\$844.0)	(\$422.0)	Nonrecurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 67 expands the gross receipts tax (GRT) deduction in Section 7-9-51 NMSA 1978 by making construction materials deductible if they are used as an ingredient or component part of a project that is part of a New Mexico military installation to implement special operations mission transition projects.

Because this bill contains an emergency clause, its provisions will become effective upon signature by the governor.

FISCAL IMPLICATIONS

TRD:

Cannon Air Force Base reports “massive construction efforts to accommodate the base’s new mission” have already begun and are expected to be completed in FY 2011. This estimate assumes 55% of construction materials are purchased inside of municipalities at an average GRT rate of 7.07%, the remainder purchased outside of city limits at an average GRT rate of 5.9%, and assumes the deduction will take effect March 1, 2009 (affecting only one-fourth of FY 2009).

This estimate assumes that all qualifying construction materials are purchased in New Mexico; however, if they were purchased out-of-state they would be subject to the compensating tax at a rate of 5% affecting the General Fund, the Small Cities Assistance Fund, and the Small Counties Assistance Fund.

Although the fiscal impact report (FIR) for Laws 2007, Chapter 172 (HB839) appeared to account for all lost revenue from construction services without adding back in the previously untaxed construction materials, new data show that the costs of construction services taking place are much greater than used in the estimate for that FIR. For example, that FIR assumed less than \$8 million in qualifying construction receipts for FY 2008 when reports from Cannon AFB estimated receipts “in excess of \$40 million” in FY 2008 and “approximately \$25 million” the year before. The current estimate takes into account the higher level of actual and expected construction services at Cannon.

SIGNIFICANT ISSUES

TRD:

Cannon AFB transitioned to a special operations mission effective October 1, 2007. This bill will affect construction materials used in projects on Cannon AFB from the date of the bill’s signing through December 31, 2010.

The taxpayers affected by this bill had understood that HB839, passed in the 2007 legislative session (and compiled as Section 7-9-106 NMSA 1978), would make all aspects of Cannon AFB construction deductible; however, even though HB839 succeeded in making the receipts from the final construction services deductible it did not address existing restrictions (in Section 7-9-51 NMSA 1978) that limit when construction materials may be purchased tax free.

ADMINISTRATIVE IMPLICATIONS

This bill would have minimal impacts to the Taxation and Revenue Department.

BLG/mc:svb

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