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## FISCAL IMPACT REPORT

SPONSOR: Nunez DATE TYPED: 3/14/03 HB 682/aHTRC

SHORT TITLE: Space Vehicle Gross Receipts SB \_\_\_\_\_

ANALYST: Smith

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	FY04			
	NFI			

(Parenthesis ( ) Indicate Revenue Decreases)

**Duplicates SB623/aSFC**

### SOURCES OF INFORMATION

Responses Received From  
TRD

### SUMMARY

#### Synopsis of HTRC Amendment

The House Taxation and Revenue Committee amendments remove sections 3 and 5 from the bill. These new deductions were responsible for most of the fiscal impact in the original bill. Further, TRD has reconsidered the fiscal impact of section 4; they now score this deduction at \$0.0.

#### Synopsis of Original Bill

House Bill 623 proposes several changes regarding the gross receipts taxation of space-related activities.

**Section 1:** Adds a new section to the Gross Receipts and Compensating Tax Act (“GR&CTA”) to allow gross receipts and compensating tax deductions for the use of fuel for space vehicles or launchers.

**Section 2** Amends Section 7-9-30 NMSA 1978 to allow space vehicles to qualify for the compensating tax deduction currently provided to railroad equipment and aircraft.

**Section 3:** Adds a new section to the GR&CTA to allow a gross receipts tax deduction for the receipts from manufacturing space vehicles or components and receipts from selling the service of processing component parts of a space vehicle.

**Section 4:** Under present law Section 7-9-54.2 NMSA 1978, receipts from launching, operating or recovering space vehicles and payloads, preparing payloads, and operating a spaceport in New Mexico are deductible from gross receipts. The current provisions allow deductions from the period July 1, 2001 through June 30, 2006. This section is amended to remove the time restriction, thus making it a permanent provision.

**Section 5:** Adds a new section to the GR&CTA to provide a deduction for receipts from testing services at federally-owned facilities on a federal reservation (White Sands Missile Range and Air Force test facilities at Holloman Air Force Base).

**Section 6:** Adds a new section to the GR&CTA to allow a compensating tax deduction for the value of test articles, equipment, and materials used in New Mexico for research and testing related activities.

## FISCAL IMPLICATIONS

TRD relied on information provided by the New Mexico Economic Development Department (EDD); the 1997 Census of Professional, Scientific, and Technical Services; and the 1997 Census of Manufacturing.

- **Section 1** has no current fiscal impact because there are no space vehicles or space vehicle launchers using fuel in the state.
- **Section 2** has no current fiscal impact because there are no space vehicles currently being brought into use in the state.
- **Section 3** results in a fiscal impact estimated to be approximately \$1.5 million in state and local gross receipts taxes. The estimate assumes a taxable base of approximately \$25 million, which was derived from economic census estimates of space vehicle and component part manufacturing services.
- **Section 4** has no current fiscal impact, but the deductions allowed under Section 7-9-54.2 are scheduled to be discontinued in fiscal year 2007. The deduction is currently worth about \$500 thousand in state and local gross receipts taxes. Thus, this provision would have a recurring impact beginning in FY 2007.

- **Section 5** would result in most of the total fiscal impact. Currently, testing services at the affected facilities generate roughly \$360 million in taxable gross receipts. Hence these provisions will result in a combined state and local revenue loss of nearly \$22 million. This estimate is based on information provided by EDD.
- **Section 6** results in a fiscal impact of about \$2.5 million. The fiscal impact estimate assumes \$50 million in test articles would no longer be subject to the compensating tax. Compensating tax collections are distributed 80% to the general fund and 20% to small cities/small counties assistance funds.

### **TECHNICAL ISSUES**

TRD notes that some of the new sections of the GR&CTA created in this bill do not contain key definitions. For example, Section 1 does not provide definitions of “space vehicles” or “space vehicle launchers”. Some definitions can be borrowed from present law Section 7-9-54.2, but it would probably be wise to include the “space-related” definitions that now appear in Section 7-9-54.2, and other key definitions, into the general definitions section of the GR&CTA (Section 7-9-3 NMSA 1978). That way, the definitions will apply to all of the existing and proposed statutes, and the provisions of this proposal will be more administrable

### **OTHER SUBSTANTIVE ISSUES**

The Economic Development Department reports that NASA and Air Force test articles are free from state taxation. During test programs, ownership of the test article stays with the manufacturer and is thus subject to compensating tax.

**SS/njw:yr**