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FISCAL IMPACT REPORT

SPONSOR Marquardt DATE TYPED 2/12/2004 HB 329

SHORT TITLE Defense System Testing Gross Receipts SB _____

ANALYST Taylor

REVENUE

| Estimated Revenue | | Subsequent Years Impact | Recurring or Non-Rec | Fund Affected |
|-------------------|-----------|----------------------------|-------------------------|------------------|
| FY04 | FY05 | | | |
| | (6,800.0) | (6,800.0) | Recurring | General Fund |
| | (320.0) | (320.0) | Recurring | Local Government |

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

HB 329 provides a gross receipts tax deduction for testing and evaluation services on defense systems brought into the state to be tested or evaluated for U.S. Department of Defense at a major range and test facility base in New Mexico.

It also provides a compensating tax deduction for the value of equipment, parts or components of testing and evaluation systems brought into the state to be tested or evaluated for U.S. Department of Defense at a major range and test facility base in New Mexico.

The act carries an emergency clause, and thus becomes effective when passed and signed by the governor.

FISCAL IMPLICATIONS

TRD reports research based on their records as well as information from the U.S. General Services Administration and industry sources indicate that businesses generate about \$200 million total gross receipts from research and development, testing and evaluation services. Eighty-five

percent of the \$200 million, or \$170 million, is subject to tax. Applying an out-of-city gross receipts tax rate of 5.25 percent to \$170 million implies that gross receipts revenues will decline by \$8.9 million--\$8.5 million for the general fund and \$400 thousand for County Funds. However, TRD also notes that this will be partially mitigated by the fact that subcontractors gross receipts would be subject to the tax. They estimate that this would reduce the revenue loss by 20 percent. Making this adjustment, total gross receipts tax revenues are estimated to decline by \$7.1 million. The impact to the general funds would be a \$6.8 million decline; the loss to county funds is estimated to be \$320 thousand.

TRD also notes that their analysis does not account for any potential economic development impacts:

The fiscal impact estimate does not take into account potential increases in investment and employment in the state that might be stimulated by the proposal. The department does not have enough information about individual businesses to determine whether a particular incentive is the key factor influencing the decision to locate or do business in the state.

ADMINISTRATIVE IMPLICATIONS

TRD reports small administrative impacts that can be managed with existing resources.

OTHER SUBSTANTIVE ISSUES

TRD reported the following substantive issues. Their analysis put particular emphasis on the first point.

1. It is not clear if national laboratories would qualify for the proposed deductions. Similar bills introduced during this session have explicitly excluded a “prime contractor operating facilities designated as a national laboratory by act of Congress” from qualifying for proposed tax deductions. If that is the intent of this proposal, it should be made explicit.
2. According to the Federal Procurement Data Center, New Mexico ranked third in per capita federal procurement by place of performance in fiscal year 2002.
3. According to proponents of the bill, the intended beneficiaries of this proposal are contractors providing RDT&E services to the United States Air Force—including the Air Force Research Laboratory (AFRL), Air Force Operation Test and Evaluation Center (AFOTEC), Air Force Space and Missile Systems Center (SMC)—as well as DoD tenants of White Sands Missile Range (WSMR).

BT/prr