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FISCAL IMPACT REPORT

SPONSOR Marquardt **DATE TYPED** 2-10-2005 **HB** 375

SHORT TITLE Federal Testing and Evaluation Gross Receipts Tax **SB** _____

ANALYST Taylor

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
(700.0)	(2,900.0)	Similar	Recurring	General Fund
(480.0)	(1,900.0)	Similar	Recurring	Local Governments

(Parenthesis () Indicate Revenue Decreases)

Relates to: HB 423

SOURCES OF INFORMATION

LFC Files
Taxation and Revenue Department (TRD)

SUMMARY

House Bill 375 provides a new gross receipts tax deduction for certain services performed pursuant to U.S. Department of Defense contracts brought into New Mexico. Specifically, gross receipts from testing and evaluation services on defense systems would be deducted from gross receipts.

The bill carries an emergency clause, making its provisions applicable upon signing by the Governor.

FISCAL IMPLICATIONS

The Taxation and Revenue Department estimates that this bill would reduce state general fund revenues by \$2.9 million and local government revenues by \$1.9 million in FY06. The FY05 impact is about one-fourth the full-year impact, and reflects the effects of the emergency clause, which would make the bill applicable to about 3 months in FY05.

The Taxation and Revenue Department's estimate is based on the following information:

1. Total annual Department of Defense revenue for research, development and evaluation in New Mexico is estimated to be \$257 million.
2. 60 percent of this, or \$154 million, is for testing and evaluation services.
3. Two-thirds of the \$154 million, or \$103 million, is estimated to be attributable to services on system brought into New Mexico.
4. The \$103 million attributable to testing and evaluation services is reduced by 30 percent to account for contracts going to out-of-state firms and subcontractors who are assumed not to be eligible for the deduction. This leaves a tax base eligible for the deduction of approximately \$74 million.
5. The estimated fiscal impact to the state of \$2.9 million implies an effective state gross receipts tax rate of 3.9 percent; the \$1.9 million impact to local governments implies an effective local gross receipts tax rate of 2.6 percent; and a combined effective rate of 6.5 percent.

ADMINISTRATIVE IMPLICATIONS

TRD reports that the administrative implications of the bill would be minor.

BT/yr