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## FISCAL IMPACT REPORT

SPONSOR Papen DATE TYPED 2/21/05 HB \_\_\_\_\_

SHORT TITLE Military Research Gross Receipts SB 566

ANALYST Padilla-Jackson

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
(*)	(\$7,030.0)	Similar	Recurring	General Fund
(*)	(\$4,690.0)	Similar	Recurring	Local Governments

(Parenthesis ( ) Indicate Revenue Decreases)

(\*) Indeterminate due to lack of effective date

### SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

### SUMMARY

#### Synopsis of Bill

Senate bill 566 would provide a gross receipts tax deduction for receipts from research and development, testing and evaluation of devices and equipment under contracts entered into with organizations operated by the U.S. Department of Defense (DOD). The tax deduction does not apply to receipts of a prime contractor operating facilities designed as a national lab.

The bill defines “testing and evaluation” to mean planning, preparing or conducting tests of materials, components, systems or assemblages of missiles.

There is no effective date provided for this bill.

**FISCAL IMPLICATIONS**

The total fiscal impact, according to TRD's analysis, is estimated to be -\$11,720.0, of which -\$7,030.0 will impact the general fund, and -\$4,690.0 will impact local governments. TRD's analysis assumes that total contract revenue from the DOD for research, development testing, and evaluation in New Mexico is estimated to be \$257 million annually, based on information provided by industry representatives. They note that the tax base is further reduced because approximately 10 percent of the contract revenue goes to out-of-state service providers, and 20 percent is passed through to sub-contractors who are assumed not to be eligible under the bill. The resulting tax base is estimated at \$180 million annually. \$180 million multiplied by a gross receipts tax rate of 6.5 percent would generate \$11,720.0 in tax credits.

**ADMINISTRATIVE IMPLICATIONS**

Minimal impacts are anticipated for TRD.

**TECHNICAL ISSUES**

According to TRD, it is easier to implement new gross receipts tax provisions with an effective date of either July 1 or January 1 since that is when the new rate schedules and instructions are published.

OPJ/yr