F I S C A L   I M P A C T   R E P O R T

ORIGINAL DATE 2/7/07
SPONSOR Silva **LAST UPDATED** 3/7/07 **HB** 530/aHTRC

SHORT TITLE Aircraft Manufacturer Gross Receipts **SB**

ANALYST Schardin

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	**FY08**	**FY09**		
	(1,346.4)	(1,485.0)	Recurring	General Fund
	(897.6)	(990.0)	Recurring	Local Governments

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates SB 477, Conflicts with HB 256

SOURCES OF INFORMATION
LFC Files
Eclipse Aviation

Responses Received From
Economic Development Department (EDD)
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of HTRC Amendment

In response to technical issues raised by TRD, the House Taxation and Revenue amendment to House Bill 560 provides definitions to several terms used in the bill. The amendment defines an "aircraft manufacturer" as a business entity that designs and builds FAA certified private or commercial aircraft. "Control" of a business is defined to mean at least 50 percent of total voting power and at least 50 percent of equity in the business.

Synopsis of Original Bill

House Bill 530 expands an existing deduction for receipts of an aircraft manufacturer from selling aircraft to include receipts from an aircraft manufacturer's affiliate from selling aircraft parts, components, flight support, pilot training, or maintenance training services.

An affiliate is defined as a business entity that is directly or indirectly controlled by an aircraft manufacturer. Flight support is defined as providing navigation data, charts, weather information, online maintenance records and other aircraft or flight-related information and the software needed to access such information.

The effective date of these provisions will be July 1, 2007.

FISCAL IMPLICATIONS

Based on industry information and the Report 80, "Analysis of Gross Receipts by Standard Industrial Classification," TRD estimates taxable gross receipts for the new deduction will total about $4 million in FY08 and about $6 million thereafter. With a statewide average gross receipts tax of 6.6 percent, the bill will reduce gross receipts tax revenue by about $264 thousand in FY08. About 60 percent of this revenue loss will accrue to the general fund and the remaining 40 percent will accrue to local governments.

SIGNIFICANT ISSUES

According to EDD and Eclipse Aviation, this bill will help aviation manufacturing companies located in New Mexico competitively provide manufacturing services. New Mexico aircraft service providers compete with providers in other states that may not be subject to gross receipts or sales tax and that may have more convenient locations.

The language contained in this bill will benefit Eclipse Aviation's JetComplete program, which provides pilot and maintenance training, data services, flight support services, and aircraft repair and maintenance services on a fixed payment basis. Eclipse asserts that the deduction creates a favorable business climate for aircraft owners to have services performed in New Mexico instead of other out-of-state locations.

Eclipse currently plans to develop a national customer and product support headquarters in Albuquerque. This facility is expected to employ 77 workers at an average annual salary of $42.8 thousand and a median annual salary of $32 thousand.

LFC notes that while individual deductions from the gross receipts tax may have small fiscal impacts, their cumulative effect significantly narrows the gross receipts tax base. Narrowing the gross receipts tax base increases revenue volatility and requires a higher tax rate to generate the same amount of revenue.

ADMINISTRATIVE IMPLICATIONS

Administrative impacts on TRD will be minor.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

House Bill 530 duplicates Senate Bill 477.

House Bill 530 conflicts with House Bill 256, which creates amends the same section to create a gross receipts tax deduction for belowground irrigation systems.

SS/mt