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

ORIGINAL DATE 02/09/11
SPONSOR Ingle **LAST UPDATED** **HB**

SHORT TITLE Military Construction Service Gross Receipts **SB** 160

ANALYST Golebiewski

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY11	FY12	FY13		
	($120.0)	($370.0)	Recurring	Curry County
	($840.0)	($2,600.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 160 extends the gross receipts tax (GRT) deduction for military construction services for another period beginning July 1, 2011 and ending December 31, 2014. This GRT deduction applies to construction services provided pursuant to contracts with the US Department of Defense for special operations mission transition projects at Cannon Air Force Base.

FISCAL IMPLICATIONS

TRD:

The mission support group of the 27th Special Operations Wing at Cannon AFB is "leading an orchestra of high profile and high dollar military construction projects" according to an interview published in January with their command chief master sergeant. One of those projects will be to build 676 new housing units and renovate 361 at Cannon AFB over the next six years. Curry County's current gross receipts tax rate outside municipalities of 5.875% was applied to the portion of construction expected to occur during the proposed deduction's applicability period. If the rate of construction is increased in order for it to occur within the deduction's applicability window the revenue impact may be greater than what is shown. The revenue impacts are classified as "Recurring" despite the sunset date on the proposal because the GRT is treated as a recurring funding source by both the state and the county.

SIGNIFICANT ISSUES

TRD:

The construction services deduction that this bill proposes to extend is a significant departure from long-standing state policies that have required almost all construction services in the state to be taxable. This policy applies even to construction services provided to state and local governments and to non-profit entities. The purpose of the policy is to maintain a broad tax base for the GRT, so that the tax rate can be kept as low as possible while maintaining the most important source of revenue to State and Local governments. Economic research argues that tax systems with lower tax rates and broader tax bases impose less of "drag" on the economy, leading to higher rates of economic growth and higher incomes for residents of the state.

TECHNICAL ISSUES

TRD:

The exemption proposed in this bill meets the criteria of an "economic development tax incentive" as defined in the economic development tax incentive guidelines in Section 9-15-56 NMSA 1978, but this bill does not include all items required in that Section.

A deduction from the GRT for a specific type of construction services in a specific county meets the definition of an "economic development tax incentive" in Section 9-15-56 as a deduction with the purpose of "offering an advantage to a particular industry or type of business to do business in New Mexico." The economic development tax incentive guidelines in Section 9-15-56 require that the enabling statute for an economic development tax incentive shall include the following provisions:

1) a statement of purpose;
2) the designation of a responsible agency to establish measurable policy goals, track state expenditures, quantify the state's return on investment and report regularly to the interim revenue stabilization and tax policy committee and the legislative finance committee;
3) a requirement that the economic development department track job creation;
4) specific standards for the taxpayer to qualify for the incentive;
5) reporting requirements for the taxpayer;
6) a description of the financial obligation of the taxpayer if the specific standards are not met; and

a mandatory review of the incentive no more than every seven years.

JAG/svb