FISCAL IMPACT REPORT

		LAST UPDATED	2/5/24
SPONSOR	Ortez	**ORIGINAL DATE**	1/18/24
SHORT TITLE	National Lab Contractor Gross Receipts	**BILL NUMBER**	House Bill 117
		ANALYST	Graeser/ Torres, Ismael

REVENUE*
(dollars in thousands)

Type	FY24	FY25	FY26	FY27	FY28	Recurring or Nonrecurring	Fund Affected
GRT				$8,560.0	$22,460.0	Recurring	General Fund
GRT				$8,000.0	$21,000.0	Recurring	Local Governments

Parentheses ( ) indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files
Los Alamos City and County Proposed 2023-2024 Budget

SUMMARY

Synopsis of House Bill 117

House Bill 117 proposes to discontinue the manufacturing gross receipts tax deductions for sales of manufacturing tangibles, consumables, and leasing of equipment (Section 7-9-46 NMSA 1978) for laboratories owned by the federal government and to research facilities owned by the state.

The effective date of this bill is July 1, 2024.

FISCAL IMPLICATIONS

The text of the bill provides the exemption from the manufacturing deductions for Sandia National Labs and Los Alamos National Labs (LANL), as well as any other national laboratories or research facilities owned by the state. As LANL begins the manufacture of plutonium pits, the laboratory may begin to qualify for the manufacturing deduction, an unintended consequence of the original provision of the deduction. This bill addresses the issue and prevents loss of state and local gross receipts tax revenue due to any transition in mission among state or federal laboratories.

To deduce the potential impact, local budget documents were used. Based on publicly available information from federal and local budget projections, the state could lose more than $22 million a year in gross receipts tax collections without this bill. Similarly, local governments could lose over $21 million. Depending on the timing of claiming the credits, local and state revenues could begin to decline, year-over-year, beginning in FY28 without the provisions of this bill.

	HB 117 Associated Matched Taxable Gross Receipts (MTGR)									
	Projected									
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Total GRT ($ Millions)	83	94	105	108	98	93	93	95	98	101
Annual Change %	15.3%	13.3%	11.7%	2.9%	-9.3%	-5.1%	0.0%	2.2%	3.2%	3.1%
MTGR (Base $ Millions)	$2,432	$2,754	$3,076	$3,164	$2,872	$2,725	$2,725	$2,784	$2,872	$2,960
Annual Change in matched taxable gross receipts (MTGR;$ Millions)	$322.3	$322.4	$322.3	$87.9	($293.0)	($146.5)	$0.0	$58.6	$87.9	$87.9
Change attributed to deduction				$234.4	$615.3	$468.8	$322.3	$263.7	$234.4	$234.4
State General Fund Impact				$8,560	$22,460	$17,110	$11,760	$9,630	$8,560	$8,560
Local Impact				$8,000	$21,000	$16,000	$11,000	$9,000	$8,000	$8,000

The declines in revenues represent a 12 percent reduction in total gross receipts tax distributions to local governments over the period from FY27 through FY33 and would continue at that level indefinitely, while also reducing the state general fund by more than $8 million and as high as $22.5 million, each year.

SIGNIFICANT ISSUES

The original purpose of the manufacturing deduction was to reduce the businesses tax burden on manufacturing in New Mexico to incentivize the relocation of manufacturing to New Mexico. The change to manufacturing for laboratories in the state is not driven by the provision of this incentive but rather at the direction of the federal or state government and set by contract exclusively to laboratories in New Mexico. The availability of the deduction is not likely to impact the economic development resulting from the change to manufacturing as relocating or diverting employment will not reduce the tax imposed by this bill and federally or state mandated targets will still need to be met. Those contracts are not divertible to other states.

Furthermore, the Brookings Institute and others note that effective state and local tax policies export taxation for the benefit of local constituents. Non-residents, including individuals, and organizations owned by people who reside in other jurisdictions, derive benefits from the public services provided by the state and local governments. Consistent with the benefit-tax argument, it is appropriate that non-residents pay taxes to compensate the public sector for the services they receive. Also, non-residents may create negative externalities, and appropriately structured taxes can help internalize these externalities by compensating the public for costs that impact only locals like environmental impacts, congestion, waste, and more. Finally, the provision of public benefits can have a reduced tax burden when the tax is effectively exported to non-residents, like the federal government.

According to the Taxation and Revenue Department:

The current law under 7-9-46 (D) and 7-9-46.1 (B) NMSA 1978 states the purpose of these deductions is to reduce the businesses' tax burden to incentivize manufacturing in New Mexico. However, 'pit' manufacturing is not necessarily economically driven and therefore might lie outside the law's purpose. Furthermore, the waste generated from this manufacturing process is radioactive, creating environmental externalities the State might address by employing tax collection from pit manufacturing.

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