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

ORIGINAL DATE 2/3/06
SPONSOR Smith **LAST UPDATED** **HB**

SHORT TITLE U.S. Government Contract Gross Receipts **SB** 311

ANALYST Schardin

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
	(9,000.0)	(9,450.0)	Recurring	General Fund
	(6,000.0)	(6,300.0)	Recurring	Local Governments

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

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

SUMMARY

Synopsis of Bill

Senate Bill 311 makes several changes to gross receipts and compensating tax deductions for certain contractors with the federal government.

Currently, Section 7-9-54.5 contains a compensating tax deduction for the value of test articles used in New Mexico in contract with the U.S. Department of Defense. The bill would allow this test article deduction from the compensating tax for contracts with all U.S. government agencies. The definition of "test article" is also expanded to include tangible or intangible property used for research or testing that is consumed or becomes unfit for use as a result of the research or testing. While this deduction is currently denied to operators of New Mexico's national laboratories, it would be denied to operators of any facility in New Mexico for any U.S. government agency.

The bill creates two new gross receipts tax deductions for receipts from selling research and development services or tangible personal property to U.S. government agencies, except for receipts from selling to a prime contractor for operation of any facility.

Finally, the bill repeals Section 7-9-54.1, which provides a gross receipts tax deduction from the sale of aerospace services by 501(c)(3) organizations that receive a federal income tax exemption.

The effective date of these provisions will be July 1, 2006.

FISCAL IMPLICATIONS

TRD reports that industry representatives say taxable gross receipts covered by the proposed deductions average about $230 million per year. Applying the statewide average gross receipts tax rate of 6.5 percent to this base yields a fiscal impact of roughly $15 million per year. About 60 percent of gross receipts tax collections go to the general fund, while 40 percent is distributed to local governments.

The bill would also reduce compensating tax collections by an uncertain amount. Compensating tax is distributed to the general fund (80 percent) and to the small cities and small counties assistance funds (10 percent each).

ADMINISTRATIVE IMPLICATIONS

TRD reports the bill will have minor administrative impacts stemming from form and publication changes and nontaxable transaction certificate development and distribution.

SS/mt