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## FISCAL IMPACT REPORT

ORIGINAL DATE 01/25/12

SPONSOR Trujillo LAST UPDATED 02/06/12 HB 70/aHFI#1

SHORT TITLE Uranium Hexafluoride Gross Receipts SB \_\_\_\_\_

ANALYST Hoffmann

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY12	FY13		
NFI	NFI		

(Parenthesis ( ) Indicate Expenditure Decreases)

### REVENUE (dollars in thousands)

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY12	FY13	FY14	FY15	FY16		
	See Narrative				Recurring	General Fund

\* In thousands of dollars. Parentheses ( ) indicate a revenue loss. \*\* Recurring (R) or Nonrecurring (NR).

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

Estimated Additional Operating Budget Impact*				R or NR**	Fund(s) or Agency Affected
FY12	FY13	FY14	FY12-14		
	***	\$0.0	***	Nonrecurring	TRD Operating

\* In thousands of dollars. Parentheses ( ) indicate a cost saving. \*\* Recurring (R) or Nonrecurring (NR).

\*\*\*See Administrative Implications.

Duplicates Senate Bill 23

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Taxation and Revenue Department (TRD)

Energy, Minerals and Natural Resources Department (EMNRD)

## SUMMARY

### Synopsis of House Floor Amendment #1

House Floor amendment #1 to House Bill 70 adds two paragraphs regarding accountability for taxpayers taking the gross receipts deduction for selling uranium hexafluoride and providing the service of enriching uranium hexafluoride.

The TRD would be required to report annually to the Revenue Stabilization and Tax Policy committee the aggregate amounts of deductions taken, the number of taxpayers claiming the deduction, and any other information that the deduction is performing a purpose that is beneficial to the state.

A taxpayer deducting gross receipts according to Section 7-9-90 NMSA 1978 would be required to report to the TRD the amount deducted in such a manner that facilitates the evaluation by the Legislature for the benefit accruing to the state as a result of this deduction.

### Synopsis of Original Bill

House Bill 70 (HB70) proposes to amend Section 7-9-90 NMSA 1978 with a technical correction which changes the name of the product exempt from New Mexico gross receipts tax from “enriched uranium” to “uranium hexafluoride.” The business affected by this bill is the separation of uranium isotopes to produce an enriched fraction for use as nuclear reactor fuel.

The effective date is not specified in the bill; so it would become effective 90 days following adjournment (May 17, 2012). There is no sunset date on this legislation. The LFC recommends adding a sunset date.

## FISCAL IMPLICATIONS

House Bill 70 contains no appropriation.

This bill may violate the LFC tax policy principle of adequacy. According to the LFC General Fund Recurring Appropriation Outlook for FY14 and FY15 the December 2011 forecasted revenues will be insufficient to cover growing recurring appropriations. Since currently forecasted revenues in FY14 and FY15 may not be adequate to fund government services there is insufficient funds for additional tax cuts. This bill may also violate the tax policy principle of equity.

The exemption referred to by HB70 in this proposed amendment to the *Gross Receipts and Compensating Tax Act* is already in place.

A letter from URENCO, the company that produces uranium hexafluoride in Lea County, is attached certifying that they have never paid gross receipts taxes.

This exemption does represent a loss of revenue to the state. The facility had its first full year of operation in 2011. The Eunice facility will, at full capacity, produce 5,700 tSW/a (approximately 28%) of the total capacity (as of December 31, 2011) Based on the future full capacity of the

facility and simply using the 2011 company revenues of \$1,645.7 million, and using a nominal GRT rate of 5% the potential foregone revenue could be over \$20 million per year.

### **ADMINISTRATIVE IMPLICATIONS**

The TRD forecasts minimal impact to their operations. They would need to modify some forms and instructions. Audit procedures would need to be developed and the impact increases because the effective date of the change is in the middle of a report period. If the change was effective Jan 1, or July 1, then no cost would be associated with the bill.

### **DUPLICATION**

This is a duplicate of Senate Bill 23.

### **TECHNICAL ISSUES**

Section 7-9-78.1 NMSA 1978 allows “The value of equipment and replacement parts for that equipment may be deducted in computing the compensating tax due if the person uses the equipment and replacement parts to enrich uranium in a uranium enrichment plant.”

To retain this exemption, this language may also need to be amended. In addition, a sunset date should be added if it is amended.

### **OTHER SUBSTANTIVE ISSUES**

This is an important industry globally. URENCO Limited is a UK registered company that specializes in the processing of nuclear fuel. According to their web site, they supply approximately 25% of the world’s demand, with facilities in Germany, the Netherlands and the UK. They further state that “URENCO USA is the first enrichment facility to be built in the US in 30 years and the first ever using centrifuge enrichment technology.” The company expects the Eunice, NM facility of their subsidiary URENCO USA, when at full operating capacity, to produce sufficient fuel to meet 25% of current demand in the United States and ultimately enough to provide 10% of the United States’ electricity.

According to a 2007 report by the UNM Bureau of Business and Economic Research “*The Economics of Lea County and the Larger Region Report to the Lea County Improvement Corporation*” by Lee A. Reynis, Ph. D., the URENCO enrichment facility is expected to have significant economic impact. Construction of the \$1.5 billion facility started in 2007 with full completion expected to take seven and a half years. The facility began production in June of 2010, with full capacity expected in 2013. Planned full capacity is 5,700 tons of separative work per year (tSW/a). Facility operations are forecast to provide close to 300 fulltime and contract jobs with an annual payroll of \$10 million and \$3.1 million in benefits.

The audited financial results of URENCO Limited for 2010 show revenues of €1,267.2 million and net income of €387.1 (\$1,645.7 million and \$502.7 respectively, using a rate of €77/\$).

Attached also is a brochure with highlights of the Eunice facility.

**POSSIBLE QUESTIONS**

Does the bill meet the Legislative Finance Committee tax policy principles?

1. **Adequacy:** Revenue should be adequate to fund needed government services.
2. **Efficiency:** Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity:** Different taxpayers should be treated fairly.
4. **Simplicity:** Collection should be simple and easily understood.
5. **Accountability:** Preferences should be easy to monitor and evaluate

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