BILL ANALYSIS AND FISCAL IMPACT REPORT
Taxation and Revenue Department

March 3, 2025

Bill: HB-504 **Sponsor:** Representatives Cristina Parajón, Joseph Franklin Hernandez, Micaela Lara Cadena and Senator Angel M. Charley

Short Title: Excluding National Lab Contractor Gross Receipts

Description: This bill amends Sections 7-9-46 and 7-9-46.1 NMSA 1978 to exclude the receipts of a prime contractor that are derived from operating a facility in New Mexico designated as a national laboratory by an act of congress or a research facility in New Mexico that is owned by the state. The amendment narrows Sections 7-9-46 and 7-9-46.1 NMSA 1978 to prevent national laboratories from deducting certain receipts.

Effective Date: July 1, 2025

Taxation and Revenue Department Analyst: Pedro Clavijo

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2025	FY2026	FY2027	FY2028	FY2029		
--	17,900	18,500	19,000	19,600	R	General Fund
--	16,800	17,300	17,800	18,400	R	Los Alamos

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

Methodology for Estimated Revenue Impact: Publicly available information related to the National Laboratories and New Mexico Research facilities, indicate that the production of "pits" at Los Alamos National Lab (LANL) would fall into the exception proposed under 7-9-46 and 7-9-46.1 NMSA 1978. "Pits" contain plutonium and are an important component in the production of U.S. nuclear weapons. The National Nuclear Security Administration (NNSA) under the Department of Energy (DOE) reports that LANL will manufacture a minimum of 30 pits per year no later than August 2030, to reach the total national goal of 80 pits between LANL and the Savannah River Plutonium Processing Facility (SR).[1] The first qualified pit production is reported to occur in the last six months of calendar year 2024.

Based on the NNSA's fiscal year 2025 budget justification,[2] the fiscal year 2025 request for the Los Alamos Plutonium Pit Production Project is $470 million. The Taxation and Revenue Department (Tax & Rev) utilized the $470 million and assumed under current law those funds would be deducted from GRT, which would mean the State and Los Alamos municipality and county would not receive the revenue benefit of the expenditures. Tax & Rev used the GRT revenue growth from the December 2024 Consensus Revenue Estimating Group (CREG) forecast to estimate the bill's fiscal impact to exclude these costs from the deduction under 7-9-46 and 7-9-46.1 NMSA 1978. The fiscal impact analysis used the current Los Alamos GRT rate and the additional distribution to Los Alamos under 7-1-6.4 NMSA 1978.

Although the bulk of this program is expected to be developed in LANL, the program will provide funding to supporting institutions in New Mexico, particularly universities, which might have a fiscal impact on other local governments.

---

[1] https://www.energy.gov/sites/default/files/2023-07/2023%20SES%20Pit%20Production%20Fact%20Sheet-0623-R2.pdf
[2] https://lasg.org/budget/FY2025/doe-fy-2025-budget-vol-1-v2.pdf

Policy Issues: 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 private sector 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.

While the deduction would represent lost revenue to Los Alamos and the General Fund, per the LANL website approximately 2,500 new employees will be hired to support the pit mission at LANL. These new employees will contribute to the economy in northern New Mexico and represent new revenue through personal income tax and consumption-related GRT revenue. This growth in employees would not have occurred without LANL and the federal government expanding the mission of LANL.

The exclusion of a sub-set of taxpayers erodes horizontal equity among taxpayers eligible for this deduction and adds complexity to the administration of these deductions. The proposed amendment narrows an existing manufacturing deduction to make more of the national lab receipts taxable. LANL and the federal government can be assumed to have factored in the tax code of New Mexico when budgeting for this pit production project. To exclude these taxpayers from the GRT deductions after the finalization of budget plans and certification by the federal government, may be seen as discrimination by the taxpayer and the budget planning at the local and federal level. Adding complexity and exceptions to the tax code does not comport generally with the best tax policy.

Technical Issues: None.

Other Issues: None.

Administrative & Compliance Impact: Tax & Rev will update forms, instructions, and publications. Tax & Rev may need to make some clarification in documentation such as on non-taxable transaction certificates (NTTC.)

Related Bills: Similar to HB-117 (2024 Legislative Session)