FISCAL IMPACT REPORT

SPONSOR	Reps. Parajón, Hernandez, JF. and Cadena/Sen. Charley	**LAST UPDATED**	
		ORIGINAL DATE	3/2/25
SHORT TITLE	National Research Facility Gross Receipts	**BILL NUMBER**	House Bill 504
		ANALYST	Torres

REVENUE*
(dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
GRT			$8,560	$22,460	$17,110	Recurring	General Fund
GRT			$8,000	$21,000	$16,000	Recurring	Local Governments

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

Sources of Information

LFC Files

Agency Analysis was Solicited but Not Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of House Bill 504

House Bill 504 modifies the gross receipts tax (GRT) deduction available to manufacturers and manufacturing service providers to exclude prime contractors operating a facility designated as a national laboratory or a research facility owned by the state from claiming these GRT deductions.

Currently, manufacturers and manufacturing service providers may deduct receipts from selling tangible personal property, manufacturing consumables, and professional services when used in the production process. The bill removes eligibility for these deductions for contractors operating as national laboratories and state-owned research facilities while maintaining the deductions for other manufacturers.

The effective date of the bill is July 1, 2025.

FISCAL IMPLICATIONS

House Bill 504 is expected to maintain gross receipts tax revenue for local governments and the state by limiting the scope of existing GRT deductions that may soon apply to operations at laboratories with in the state. By excluding prime contractors operating national laboratories and state-owned research facilities, the bill broadens the tax base, ensuring these entities are subject to full GRT liability on previous deductions for manufacturing as manufacturing ramps up for these labs in New Mexico.

The bill provides the exemption from the manufacturing deductions for Sandia National Labs and Los Alamos National Labs, as well as any other national laboratories or research facilities owned by the state. As the manufacture of plutonium pits begins, a laboratory may begin to qualify for the manufacturing deduction and create significant losses to local governments and the state. Because the original deduction is intended to support economic development of the manufacturing sector, the qualification of labs for this deduction is an unintended consequence of the original provision of the deduction. This bill addresses the issue and prevents the loss of tax revenue due to any transition in mission among state or federal laboratories.

According to a previous analysis of this legislation, publicly available local budget documents were used to deduce the potential impacts. Depending on the timing of the credits, local and state revenues could begin to decline, year-over-year, beginning in FY28 without this bill.

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

House Bill 504 modifies New Mexico's tax incentive structure by restricting GRT deductions that were originally designed to reduce tax pyramiding (the application of the tax at each step of the manufacturing process) and encourage manufacturing investment in the state and incentivize relocation of manufacturing to New Mexico. The bill would not impact deductions available to private-sector manufacturers, maintaining existing tax incentives for businesses engaged in commercial manufacturing and production.

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.

The Brookings Institute and other experts emphasize that effective state and local tax policies shift tax burdens to nonresidents, ensuring they contribute to public services from which they benefit. Nonresidents, including individuals and out-of-state business owners, utilize state-funded infrastructure and services, making it equitable for them to pay taxes under the benefit-tax principle. Additionally, nonresidents may impose negative externalities, such as environmental impacts, congestion, and waste, which targeted taxes can help offset. Properly structured tax policies can also reduce the tax burden on local residents by effectively exporting taxation to external entities, including the federal government.

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