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FISCAL IMPACT REPORT

SPONSOR: Wilson DATE TYPED: 02/14/01 HB _____
 SHORT TITLE: Software Services Gross Receipts Deduction SB 8/aSCORC
 ANALYST: Eaton

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY01	FY02			
	\$ (2,300.0)	\$ (2,560.0)	Recurring	General Fund
	\$ (1,000.0)	\$ (1,090.0)	Recurring	Local Govt.

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of SCORC Amendment

After the Senate Corporations Committee amendment, Farmington is an allowed location for this deduction. Other amendments constrain the deductible activities to software design and development and web site design and development but software implementation or support services are excluded from deduction.

Synopsis of Original Bill

This bill provides for a deduction from gross receipts the sale of software services for eligible companies. To be eligible, the company, whose primary business in New Mexico is providing software services, must have its business location(s) outside the boundaries of incorporated municipalities with populations of more than forty thousand (40,000) (50,000 with SCORC amendment) persons according to the most recent federal decennial census. The applicable municipalities according to the 2000 Census are Albuquerque, Rio Rancho, Roswell, Santa Fe, and Las Cruces.

Software services is defined as services of computer programming and the creation of internet web sites.

FISCAL IMPLICATIONS

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The Taxation and Revenue Department (TRD) estimates a negative impact to the general fund (full year) of \$2,560.0 and a negative impact of \$1,090.0 for local government revenues.

This estimate is less on balance than the previous estimate (before the SCORC amendment). The four most important factors are:

Farmington is included in the allowed locations for the deduction.

Further restrictions on the definition probably exclude NAICS 5142 data processing services, NAICS 541513 computer facilities management services and NAICS 541519 other computer related services. The approximate reduction of fiscal impact due to the restricting amendment is the product of 81 percent for the exclusion of NAICS 5142 and 84 percent for the exclusion of the computer support services sectors.

The remaining industrial sectors are estimated to have grown at a 6 to 7% annual rate from 1997 to FY 2002 (3.5 years), instead of the 5% annual growth assumed when data processing and computer support services were included.

The proportion of taxable sales to total sales for the restricted industrial specification has been increased from 80% to 85%.

ADMINISTRATIVE IMPLICATIONS

Minimal impact. Forms, instructions, materials for taxpayer seminars and technical advice memoranda to auditors must be prepared.

TECHNICAL ISSUES

After 60 years of service, the out-dated Standard Industrial Classification (SIC) system was retired and replaced by the new North American Industry Classification System (NAICS, pronounced "nakes"). Unlike previous SIC revisions, the NAICS changes are fundamental. They recognize hundreds of new businesses in our economy, primarily in the fast-growing service sector. NAICS United States provides 1,170 detailed United States industry classifications, a 15-percent increase in total classifications compared to those available under the SIC.

JBE/ar