

NOTE: As provided in LFC policy, this report is intended for use by the standing finance committees of the legislature. The Legislative Finance Committee does not assume responsibility for the accuracy of the information in this report when used in any other situation.

Only the most recent FIR version, excluding attachments, is available on the Intranet. Previously issued FIRs and attachments may be obtained from the LFC office in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

SPONSOR: Papen DATE TYPED: 03/05/01 HB _____
 SHORT TITLE: Non-Taxable Transaction Certificate System SB SJM 72
 ANALYST: Hayes

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY01	FY02	FY01	FY02		
			NFI		

(Parenthesis () Indicate Expenditure Decreases)

Relates to SB714

SOURCES OF INFORMATION

LFC Files
 Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

This memorial directs the Taxation and Revenue Department to review and recommend changes to the current Non-Taxable Transaction Certificate (NTTC) system along with implementing changes to modernize that system using automated processes and technological enhancements for those improvements.

Taxation and Revenue Department is directed to report its findings and recommendations to the Revenue Stabilization and Tax Policy Committee by December 1, 2001.

Significant Issues

The memorial emphasizes alternatives to the paper system of NTTC issuances; it directs the department to undertake a serious study of the NTTC system with particular emphasis on using available technology.

Recognizing that the 1991 NTTC issuance will be expiring this year, TRD has already begun looking into revision of the system. The department is committed to simplifying the paper system, reducing the different types of NTTCs from 15 to seven. According to TRD, a number of auditors and revenue processors, as well as information systems personnel, believe the NTTC system could be completely automated as a stand-alone website. Issuers could electronically post the NTTC to the account of the

vendor. Periodically, the vendor could download electronic copies of NTTCs or upload requests for NTTCs from purchasers who had promised delivery of an NTTC. This technology could be developed for significantly less than the \$200.0 or \$300.0 the last recall and NTTC reissue cost in 1991.

In sum, it appears that TRD could meet the December deadline in providing its findings and recommendations for improvements of the NTTC system to the Revenue Stabilization and Tax Policy Committee without delay, particularly since it has already been working on amending the system for several months.

FISCAL IMPLICATIONS

TRD states that some funding may be required in revamping and automating the NTTC system. There are significant security issues with any automated approach, plus TRD’s computer server capacity and speed will need to be significantly upgraded in order to handle the changes.

CONFLICT/DUPLICATION/COMPANIONSHIP/RELATIONSHIP

SB714 provides for a two-year grace period allowing TRD to further study automating the NTTC system.

CMH/ar

TYPES OF NON-TAXABLE TRANSACTION CERTIFICATES:

Certificate Type	Nature of Issuer and Transaction	Statutory Reference
<i>Type 1</i>	By a <i>manufacturer</i> for the purchase of tangible personal property which will become an ingredient or component part of the product	Section 7-9-45 NMSA 1978

Certificate Type	Nature of Issuer and Transaction		Statutory Reference
	being manufactured.		
Type 2	By a <i>wholesaler or retailer</i> for purchase of tangible personal property <i>for resale</i> in the ordinary course of business.		Section 7-9-47 NMSA 1978
Type 3	By a <i>lessee</i> for the <i>lease</i> of tangible personal property <i>for subsequent lease</i> in the ordinary course of business.		Section 7-9-50 NMSA 1978
Type 4	By a <i>lessor</i> for the <i>purchase</i> of tangible personal property <i>for subsequent lease</i> in the ordinary course of business.		Section 7-9-49 NMSA 1978
Type 5	By a <i>service contractor</i> for the purchase of a <i>service for resale</i> if (1) the value of the service purchased is stated separately in the charge upon subsequent sale of the service; (2) the subsequent sale by the buyer is in the ordinary course of business; and (3) the subsequent sale of the service is taxable under the Gross Receipts and Compensating Tax Act.		Section 7-9-48 NMSA 1978
Type 6	By a <i>construction contractor</i> for the purchase of <i>construction materials</i> which will be incorporated as an ingredient or component part of a construction project which is subject to the gross receipts tax.		Section 7-9-51 NMSA 1978
Type 7	By a <i>construction contractor</i> for the purchase of <i>construction services</i> to be performed on a construction project which is subject to the gross receipts tax.		Section 7-9-52 NMSA 1978
Type 8	For the <i>purchase of service for export</i> when initial use of the product of the service will be made outside New Mexico.		Section 7-9-57 NMSA 1978
Type 9	By <i>government agencies and 501(c)(3) organizations</i> for the purchase of <i>tangible personal property only</i> . These certificates may not be used for the purchase of services or for the lease of property. 501(c)(3) organizations may not use these certificates to purchase construction materials to be used in construction projects.		7-9-54 NMSA 1978 and 7-9-60 NMSA 1978
Type 13	By <i>manufacturers</i> for the <i>purchase of services</i> performed directly upon tangible personal property they are in the business of manufacturing or upon ingredient or component parts thereof.		Section 7-9-75 NMSA 1978
Type 14	By <i>state and federal credit unions</i> for purchase of tangible personal property.	Federal law preempts taxation of federal credit unions. State law enabling state credit unions include a provision that they be treated the same as federal credit unions for taxation.	
Type 15	By <i>qualified federal contractors</i> on a contract by contract basis.		
Type OSB	By an <i>out-of-state purchaser</i> of tangible personal property if the tangible personal property <i>for resale</i> in the ordinary course of business. This certificate differs from a type 2 certificate in that the purchaser need not be registered with the Department.		Section 7-9-47 NMSA 1978
Filmmakers	By qualified filmmakers for the purchase or lease of tangible personal property or purchase of specified services integral to producing a film.		Section 7-9-86 NMSA 1978
Spaceport	The Department will develop a spaceport deduction certificate if required.		Section 7-9-54.2 NMSA 1978