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## FISCAL IMPACT MEMORANDUM

SPONSOR: SFC DATE TYPED: 02/27/01 HB \_\_\_\_\_  
 SHORT TITLE: Federal Research Service Tax Deduction SB 815/SFCS  
 ANALYST: Eaton

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY01	FY02			
	\$ (3,000.0)	\$ (3,300.0)	Recurring	General Fund
	\$ (2,300.0)	\$ (2,500.0)	Recurring	Local Govt.

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

Taxation and Revenue Department (TRD)  
LFC files.

### SUMMARY

#### Synopsis of Bill

This bill provides a gross receipts tax deduction for receipts from a federal agency for performing research and development services other than at Sandia or LANL.

### FISCAL IMPLICATIONS

The Taxation and Revenue Department (TRD) preliminary analysis is that the estimated full year impact would reduce the general fund by \$3.3 million and local government revenues by \$2.5 million. The 1997 New Mexico Economic Census reports for NAICS 5417 -- Scientific research & development services - 112 establishments, with 9,872 employees, \$533.4 million in payroll and \$1,442.5 million in total gross receipts. This presumably includes Sandia National Laboratory, excluded from the benefits of this bill. TRD assumed 80 percent of the private R & D receipts are from federal sources, 50 percent taxable, with 7,374 employees at Sandia National Lab apply the same ratio of gross receipts to employees. TRD further allowed some growth to achieve a base for this bill of \$163 million.

This bill appears to be an economic development tool although it may not actually support more research and development. There may be a shift of taxability, rather than an elimination of taxability.

Contractors who perform federally funded research and development services within the state are generally reimbursed for their gross receipts tax. As a result, the federal research laboratories would

be the true beneficiaries of this deduction as they would no longer reimburse this cost. While this would lower the research costs for the federal labs in New Mexico, there is no certainty that the money will be re-spent in the local economy.

Because federal research in New Mexico is largely connected to federal defense department and energy department budgets decided at the federal level, it is outside of the state governments' ability to directly influence the process.

If federal funding is shifted to research endeavors not specific to our specialized labor pool and lab assets or if federal budget priorities change, New Mexico will be profoundly impacted and the fiscal incentives we give to the federal government may not be a major factor in their decisions.

The Taxation and Revenue Department (TRD) also report that this deduction may only apply to receipts received directly from the federal agency. Subcontractor's receipts from a primary contractor are not covered. Thus, if the prime's receipts are no longer taxable by virtue of their new deduction, the prime may no longer execute a type 5 nontaxable transaction certificate with the subcontractor, making the subcontractor's receipts taxable, whereas under current law the receipts would be deductible.

#### **ADMINISTRATIVE IMPLICATIONS**

Minimal.

JBE/njw