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## FISCAL IMPACT REPORT

SPONSOR Youngberg DATE TYPED 02/17/05 HB 593

SHORT TITLE Architectural & Engineering Gross SB \_\_\_\_\_

ANALYST Padilla-Jackson

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
(*)	(\$2,200.0)	Similar	Recurring	General Fund
(*)	(\$1,500.0)	Similar	Recurring	Local Governments

(Parenthesis ( ) Indicate Revenue Decreases)

(\*) uncertain due to the missing effective date.

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Taxation and Revenue Department (TRD)

Department of Transportation (DOT)

### SUMMARY

#### Synopsis of Bill

House Bill 593 expands current tax statutes to allow a gross receipts tax deduction for receipts from an architectural or an engineering service for sales made to a person in the construction business. The buyer must have the construction services performed on a construction project that is subject to gross receipts tax or located on Indian lands.

No effective date was provided.

#### Significant Issues

#### **DOT provided the following background:**

Currently, Section 7-9-52, NMSA 1978, allows a subcontractor to deduct receipts from the sale

of “construction services” to a prime contractor if these services are sold and used in a construction project. However, TRD regulations exclude indirect services from this deduction, such as accounting, architectural, engineering, and drafting. In theory, these services are consumed by the prime contractor in the performance of the contract, and are considered normal expenses of doing business. Therefore, although the prime contractor pays gross receipts tax on the whole amount in the end, the law allows some pyramiding of taxes. House Bill 593 will simply extend the deduction allowed under Sec. 7-9-52 to include engineering and architectural services.

### **FISCAL IMPLICATIONS**

The total fiscal impact, as estimated by TRD, is -\$3,700.0 in FY06, of which -\$2,200.0 will impact the general fund and -\$1,500.0 will impact local governments. Based on a taxable sales of architectural and engineering services to persons in the construction business estimate of \$57 million in FY06, TRD calculated the total impact using an average gross receipts tax rate of 6.5 percent. TRD’s analysis was based on information from the Department’s “Analysis of Gross Receipts Tax by Industry Classification,” 1997 Economic Census for the State of New Mexico, and input-output estimates from Implan, Inc.

### **ADMINISTRATIVE IMPLICATIONS**

None to TRD.

Although DOT is arguably the single largest consumer of engineering and architectural services in New Mexico, DOT notes that the bill does not affect the department directly.

**OPJ/lg**