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FISCAL IMPACT REPORT

ORIGINAL DATE 2/19/07
 LAST UPDATED 2/26/07 HB _____

SPONSOR Ingle

SHORT TITLE Military Mission Transition Gross Receipts SB 785/aSPAC

ANALYST Schardin

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	(\$273.2)	(\$364.3)	Recurring	General Fund
	(\$182.2)	(\$242.9)	Recurring	Local Governments

(Parenthesis () Indicate Revenue Decreases)

Duplicates HB 839

SOURCES OF INFORMATION

LFC Files

Responses Received From

Economic Development Department (EDD)

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of SPAC Amendment

The Senate Public Affairs Committee amendment to Senate Bill 785 addresses technical concerns raised by LFC and TRD on the original bill. The amendment makes the gross receipts tax deduction created in the bill will apply to reporting periods between July 1, 2007 and December 31, 2010.

The amendment also adds an effective date of July 1, 2007. Gross receipts tax deductions are easier to administer if they become effective on January 1 or July 1 because that's when taxpayer instructions are revised.

Synopsis of Original Bill

Senate Bill 785 creates a new gross receipts tax deduction for receipts from military construction services provided at New Mexico military installations to implement special operations mission

transition projects pursuant to contracts with the U.S. Department of Defense. The deduction will only apply to contracts in effect anytime between October 1, 2007 and September 30, 2010.

Since the bill has no effective date, its provisions will become effective 90 days after the legislature adjourns on June 15, 2007.

FISCAL IMPLICATIONS

EDD estimates that construction projects at Cannon AFB eligible for the proposed deduction will cost \$9.2 million in FFY08, \$9.2 million in FFY09, and \$15 million in FFY10. Taxed at a statewide rate of 6.6 percent, the deduction would reduce gross receipts tax revenue by \$607.2 thousand in FFY08, \$607.2 thousand in FFY09, and \$990.0 thousand in FFY10. Translating those impacts into state fiscal years yields a revenue reduction of \$455.4 thousand in FY08, \$607.2 thousand in FY09, \$758.1 thousand in FY10, and \$247.5 thousand in FY11. About 60 percent of the revenue reduction will accrue to the general fund and the remaining 40 percent will accrue to local governments.

This estimate is uncertain because funding for these projects depends on the federal budget process; delay of these projects would lessen the bill's fiscal impact or shift the impact into the farther future.

SIGNIFICANT ISSUES

According to EDD, the gross receipts tax deduction created in the bill is targeted for construction projects at Cannon Air Force, which is located near Clovis, New Mexico. As a result of the Base Realignment and Closure (BRAC) recommendations, Cannon and the U.S. Department of Defense were directed to find a new mission for Cannon to prevent its closure. On June 20, 2006, it was announced that the base would transition to a special operations mission effective October 1, 2007. Cannon AFB's new special operations mission will require construction projects in FFY08 to FFY10, the dates between which a contract must be in place to be eligible for the deduction proposed in this bill.

LFC notes that while individual deductions from the gross receipts tax may have small fiscal impacts, their cumulative effect significantly narrows the gross receipts tax base. Narrowing the gross receipts tax base increases revenue volatility and requires a higher tax rate to generate the same amount of revenue.

ADMINISTRATIVE IMPLICATIONS

TRD will be able to administer this proposal with existing resources, although the deduction would be easier to administer if it became effective on July 1, 2007, since that is when revisions to taxpayer instructions are normally sent.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Senate Bill 785 duplicates House Bill 839.

Senate Bill 785 relates to House Bill 838 and Senate Bill 809. To provide an incentive for the U.S. Air Force's operationally responsive space program to locate a Kirtland Air Force Base,

bills create a gross receipts tax deduction for the provision of research, development, testing and evaluation services for the U.S. Air Force operationally responsive space program.

TECHNICAL ISSUES

Although it is unlikely that construction projects other than the planned projects at Cannon AFB could qualify for the proposed deduction, TRD raised the concern that language should be clarified so the deduction can only be claimed receipts of projects at Cannon AFB.

SS/nt