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FISCAL IMPACT REPORT

ORIGINAL DATE 01/28/14
 SPONSOR Cisneros LAST UPDATED 02/04/14 HB _____
 SHORT TITLE Aircraft Parts & Maintenance Gross Receipts SB 26/aSCORC
 ANALYST van Moorsel

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY14	FY15	FY16	FY17	FY18		
\$0.0	(\$290.0)	(\$310.0)	(\$320.0)	(\$340.0)	Recurring	General Fund
\$0.0	(\$200.0)	(\$210.0)	(\$220.0)	(\$230.0)	Recurring	Local Governments
\$0.0	(\$490.0)	(\$520.0)	(\$540.0)	(\$570.0)	Recurring	Total

(Parenthesis () Indicate Revenue Decreases)

Duplicates HB 14.

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of SCORC Amendment

The Senate Corporations Committee amendment included a reporting requirement. The taxpayer allowed the deduction must separately report to the amount of the deduction to the Taxation and Revenue Department. TRD is required to compile the taxpayer reports and report an analysis of the deduction to the Revenue Stabilization and Tax Policy Committee and the LFC every five years beginning in 2019.

Synopsis of Original Bill

Senate Bill 26 provides a gross receipts tax deduction of gross receipts from selling aircraft parts or maintenance services for aircraft or aircraft parts.

The bill provides any deduction of receipts represented by a trade-in of tangible personal property of the same type being sold must be taken before calculating the deduction created in SB 26.

The effective date of this bill is July 1, 2014. There is no sunset date. The LFC recommends adding a sunset date.

FISCAL IMPLICATIONS

The Taxation and Revenue Department (TRD) reports it does not have data at a sufficiently detailed level to directly identify existing taxpayers that would qualify for the proposed deduction. However, the FAA publishes a listing of certified repair stations, which can be cross referenced with TRD data. These taxpayers accounted for about \$5.2 million in taxable gross receipts, and paid about \$360 thousand in gross receipts tax in FY13. This represents growth of about 6 percent over FY12. Many of the FAA certified repair stations are already receiving a deduction under this section as manufacturers or affiliates.

The revenue impact includes the assumption that FAA certified repair stations represent 80 percent of the relevant market, and that the gross receipts tax foregone will grow at a rate consistent with consensus revenue estimate gross receipts tax growth rates.

This bill may be counter to the LFC tax policy principle of adequacy, efficiency and equity. Due to the increasing cost of tax expenditures revenues may be insufficient to cover growing recurring appropriations.

Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for tax expenditure may be ambiguous, further complicating the initial cost estimate of the expenditure's fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is not met since TRD is not required in the bill to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the deduction and other information to determine whether the deduction is meeting its purpose.

DUPLICATION

Duplicates HB 14

TECHNICAL ISSUES

This bill does not contain a sunset date. The LFC recommends adding a sunset date.

Does the bill meet the Legislative Finance Committee tax policy principles?

- 1. Adequacy:** Revenue should be adequate to fund needed government services.
- 2. Efficiency:** Tax base should be as broad as possible and avoid excess reliance on one tax.
- 3. Equity:** Different taxpayers should be treated fairly.
- 4. Simplicity:** Collection should be simple and easily understood.
- 5. Accountability:** Preferences should be easy to monitor and evaluate