F I S C A L   I M P A C T   R E P O R T

ORIGINAL DATE 02/01/14
SPONSOR Wirth **LAST UPDATED** 02/17/14 **HB**

SHORT TITLE Sole Member LLC Tax Status **SB** 117

ANALYST van Moorsel

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY14	**FY15**	**FY16**	**FY17**	**FY18**		
NFI						

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 117 amends the Gross Receipts and Compensating Tax Act to require the Taxation and Revenue Department (TRD) to deem a limited liability company whose sole member is an organization described in Section 501(c)(3) to have been granted the same tax exemption status as its sole member for purposes of certain exemptions and deductions from the gross receipts and the compensating tax.

Currently, 501(c)(3) organizations are exempted from compensating tax on the use of property, and their receipts are exempted from the gross receipts tax. Further, receipts from selling tangible personal property to 501(c)(3) organizations are deductible from gross receipts.

The effective date of the provisions of this act is July 1, 2014.

FISCAL IMPLICATIONS

At the time of this writing, the Taxation and Revenue Department had not provided an analysis for this bill. However, the legislation is similar to a bill introduced in the 2013 session. In its analysis of that bill, the TRD estimated a minimal revenue impact.

SB 117 will clarify New Mexico's current treatment of a single member LLC whose sole owner is a 501(c)(3). The LLC will be covered under the sole owner's exemption as long as it is organized exclusively for the exempt purposes that the sole owner was granted the exempt status for, entitling this entity to the exemptions under Sections 7-9-15 and 7-9-29. The IRS currently treats these companies as exempt but defaults to the states as to how they want to treat them.

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

PvM/ds