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

SPONSOR Cervantes **ORIGINAL DATE** 2/9/15 **LAST UPDATED** **HB**

SHORT TITLE Border Zone Trade-Support Gross Receipts **SB** 332

ANALYST van Moorsel

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY15	**FY16**	**FY17**	**FY18**	**FY19**		
$0.0	($37.0)	($60.0)	($84.0)	($108.0)	Recurring	General Fund
$0.0	($24.0)	($40.0)	($56.0)	($72.0)	Recurring	Local Governments
$0.0	($61.0)	($100.0)	($140.0)	($180.0)	Recurring	Total

Parenthesis ( ) indicate revenue decreases

SOURCES OF INFORMATION

LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
Economic Development Department (EDD)

SUMMARY

Synopsis of Bill

Senate Bill 332 amends the Gross Receipts and Compensating Tax Act to restore the gross receipts tax (GRT) deduction for trade-support companies that first locate in a border zone in fiscal years 2016-2021. Currently, the deduction is available only to trade-support companies that first located in New Mexico within 20 miles of a port of entry on New Mexico's border with Mexico during fiscal years 2004-2013.

The bill also creates reporting requirements, requiring taxpayers allowed a deduction to report the amount of the deduction separately. TRD is required to compile an annual report on the deduction created pursuant to this section that shall include the number of taxpayers approved by the department to receive the deduction, the aggregate amount of deductions approved and any other information necessary to evaluate the effectiveness of the deduction. Beginning in 2016 and every four years thereafter that the deduction is in effect, TRD must compile and present the annual reports to the Revenue Stabilization and Tax Policy committee and the LFC with an analysis of the effectiveness and cost of the deduction.

The effective date of this bill is July 1, 2015. The sunset date of this bill is June 30, 2021, in that companies that first locate in a border zone after this date are not eligible for the deduction.

FISCAL IMPLICATIONS

The bill extends the credit for new companies that first locate in the border zone between FY16-FY21. TRD reports taxpayers that became eligible for the deduction by first locating in New Mexico between July 1, 2003 and July 1, 2013, remain eligible to deduct receipts for five years after locating in the border zone. The gross receipts of currently eligible companies are not included in the estimated impact of this bill.

TRD adds that the geographic areas covered are also limited and largely very rural, further limiting the revenue impact. TRD considered all of Columbus, Sunland Park, Anthony and unincorporated Luna, Dona Ana and Hidalgo Counties in its estimate. Combining the narrow industry definition, the small geographical area, and the eligibility of only taxpayers that are new to the border zone, TRD reports the impact is relatively small.

In FY14, taxpayers registered in the applicable NAICS industry codes and locations accounted for about $10.5 million in total gross receipts, $4.2 million in taxable gross receipts, and $275 thousand in gross receipts tax paid.

TRD reports that between FY09 and FY14, GRT for "trade support" companies within a 20 mile radius of a point of entry on the New Mexico-Mexico border has increased by an average of 10.5 percent a year. Assuming similar growth continues the FY16 revenue impact would be about $61 thousand, assuming all of the growth is from newly located companies.

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 a 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.

SIGNIFICANT ISSUES

The Economic Development Department (EDD) states the deduction is critical in recruiting trade support companies to the Borderplex and creating jobs in the transportation, warehousing, and logistics industries. Together with the 2011 legislation allowing overweight vehicles to operate within a limited radius of the international border crossing at Santa Teresa, the GRT deduction for locomotive fuel enacted last year, and the state's capital investment in the water and wastewater systems in Santa Teresa, companies such as Union Pacific, TE Connectivity, and Alaska Structures have moved to southern New Mexico or expanded their operations there. In the last three years and due to these concerted efforts, the Borderplex has become an international business hub.

EDD reports on some economic development successes in the border zone, stating W. Silver Recycling, a metal recycling company, and Twin Cities, a warehousing, distribution and logistics company, expanded to Santa Teresa in July 2014, creating 20 and 50 jobs respectively. EDD reported a record number of commercial crossings at the Santa Teresa port of entry in 2012 totaling 81,339 vehicles, 13 percent higher than the previous record.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is met with the bill's requirement 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.

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

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