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## FISCAL IMPACT REPORT

ORIGINAL DATE 1/24/22

SPONSOR McQueen/Harper LAST UPDATED \_\_\_\_\_ HB 72

SHORT TITLE Space Ticket Gross Receipts SB \_\_\_\_\_

ANALYST Torres

### REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY22	FY23	FY24	FY25	FY26		
-	-	\$2,310	\$2,310	\$2,310	Recurring	General Fund
-	-	\$1,430	\$1,430	\$1,430	Recurring	Local Governments

Parenthesis ( ) indicate revenue decreases

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

New Mexico Spaceport Authority (NMSPA)  
Taxation and Revenue Department (TRD)

### SUMMARY

#### Synopsis of Bill

House bill 72 amends Section 7-9-54.2 NMSA 1978, to specifically include receipts from the sale of tickets or services from transporting persons into space or near space in the gross receipts tax. The receipts from launching, operating, or recovering space vehicles or payloads remain unchanged and deductible from gross receipts tax.

There is no effective date of this bill. It is assumed that the effective date is 90 days following adjournment of the Legislature.

### FISCAL IMPLICATIONS

The Taxation and Revenue Department (TRD) used Virgin Galactic's public filing 10-K to the Securities and Exchange Commission (SEC), in conjunction with news reports, to calculate the fiscal impact.

Virgin Galactic has sold 700 tickets, 100 priced at \$450,000 each and 600 priced ranging from \$200,000 to \$250,000. These tickets were sold in advance and customers have not yet taken these space flights. TRD assumes that the next round of ticket sales would occur in FY23.

The company expects commercial flights to begin in late calendar year 2022. Individuals who already purchased a ticket are assumed to be the first ones to partake in the launches beginning in late 2022 and spanning through 2023. TRD assumes that the next round of ticket sales would occur in the second half of calendar year 2023. This analysis assumes that 100 tickets will be sold each year at \$450,000 each given that the company has reported that demand increased after the successful test launch in July 2021.

The Gross Receipts Tax (GRT) rate used is the effective rate as of January 2022 in Las Cruces, the city where Virgin Galactic operational headquarters is located. The fiscal impact to local governments in the table above refers to Las Cruces and Dona Ana County.

This estimate does not take into account delays nor acceleration of the pace of space flights. Private space exploration is a new industry and there is limited information to estimate a demand growth rate. This estimate could be larger should Virgin Galactic sell more tickets at a faster pace, or if other companies enter the market in New Mexico.

## **SIGNIFICANT ISSUES**

Taxation and Revenue Department notes:

While tax incentives may support particular industries or encourage specific social and economic behaviors, the proliferation of such incentives can complicate the tax code. This bill would narrow an existing tax incentive to broaden the GRT tax base. As such, removing tax incentives: (1) removes special treatment and exceptions to the code, narrowing tax expenditures and/or growing the tax base, with a positive impact on the general fund and local governments. However, the statute loses simplicity as the proposed tax provision is embedded within a tax deduction. Adding complexity and exceptions to the tax code does not comport generally with the best tax policy.

Consumers purchasing tickets for commercial space flights have higher income and more disposable income, given the \$450,000 cost of a ticket. Demand appears strong for commercial space flights. Thus, subjecting these ticket sales to GRT appears reasonable as the incentive is not needed to induce demand for flights. The current deduction, along with other incentives, have contributed to the development of space flight in New Mexico and the state and local economy can now benefit from recurring flight activity.

## **TECHNICAL ISSUES**

The Spaceport Authority notes the following issue:

It is very likely that tickets may be sold for the transportation into or near space of scientists, researchers and/or students accompanying payloads for the purpose of conducting educational, research, and/or scientific experimentation. Allowing GRT exemption for receipts for tickets purchased for these persons, provided that their transportation objectives meet the criteria of “Human-Tended Payloads”, as characterized by NASA, [would clarify which payloads are allowed for deduction].