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# FYI-275

New Mexico  
Taxation and Revenue Department

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## FOR YOUR INFORMATION

Tax Information/Policy Office ♦ P.O. Box 630 ♦ Santa Fe, New Mexico 87504-0630

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### Deductions for Certain Sales to Manufacturers

This publication provides information on the deductions for sales to manufacturers in New Mexico, provided under Section 7-9-46 NMSA 1978.

In the 2012 legislative session, the New Mexico Legislature passed, and the Governor signed into law, an expansion to the deduction for the sale of tangible personal property to manufacturers. This amends the current deduction under Section 7-9-46 NMSA 1978, to include tangible personal property that is consumed in the manufacturing process. The new component of this deduction is effective beginning January 1, 2013.

**This information is as accurate as possible at time of publication. Subsequent legislation, new state regulations and court cases may affect its accuracy. For the latest information please check the Taxation and Revenue Department's web site at [www.tax.newmexico.gov](http://www.tax.newmexico.gov).**

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This publication provides general information. It does not constitute a regulation, ruling or decision issued by the Secretary of the New Mexico Taxation and Revenue Department. The Department is legally bound only by a regulation or a ruling [Section 7-1-60, *New Mexico Statutes Annotated, 1978*]. In the event of a conflict between FYI and statute, regulation, case law or policy, statutes, regulations and case law override the information in FYIs. Taxpayers and preparers are responsible for being aware of New Mexico tax laws and rules. Consult the Department directly if you have questions or concerns about information provided in this FYI.

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## Deduction for Sales to Manufacturers

Under Section 7-9-46 NMSA 1978, a seller may deduct receipts from sales to a manufacturer of tangible personal property that becomes and ingredient or component part of a manufactured product, or is a consumable and is consumed in the manufacturing process. The deduction for sales of tangible personal property consumed in the manufacturing process is phased-in as follows:

- (1) twenty percent of receipts received in calendar year 2013;
- (2) forty percent of receipts received in calendar year 2014;
- (3) sixty percent of receipts received in calendar year 2015;
- (4) eighty percent of receipts received in calendar year 2016; and
- (5) one hundred percent of receipts received on or after January 1, 2017.

For purposes of the deduction for consumables that are consumed in the manufacturing process, "consumable" is defined to mean tangible personal property that is incorporated into, destroyed, depleted or transformed in the process of manufacturing a product:

- (1) including electricity, fuels, water, manufacturing aids and supplies, chemicals, gases, repair parts, spares and other tangibles used to manufacture a product; but
- (2) excluding, effective July 1, 2013, tangible personal property used in:
  - (a) the generation of power;
  - (b) the processing of natural resources, including hydrocarbons; and
  - (c) the preparation of meals for immediate consumption on- or off-premises.

Each of the deductions offered by Section 7-9-46 NMSA 1978 must be supported by a specific Nontaxable Transaction Certificate (NTTC), and also must be reported separately on the CRS-1 Form. This publication will detail which NTTC is necessary to support each deduction, as well as how the separate reporting is to be done.

### Use of NTTCs

Most NTTCs may be obtained on the Taxpayer Access Point (TAP) website, [www.tap.state.nm.us](http://www.tap.state.nm.us). If you do not have a TAP account, you will need to create one to login and access NTTCs. A supplemental application (RPD-41378) is needed to obtain Type 11 and Type 12 NTTCs, which are used for some of the deductible transactions discussed in this publication, so those NTTCs are not available through the normal online process. The supplemental application for these NTTCs may be found on our website at <http://www.tax.newmexico.gov/Businesses/Pages/Manufacturers-Consumables-GRT-Deduction.aspx>.

### **Type 2 NTTCs for Sale of Tangible Personal Property (Other Than Utilities) That Becomes an Ingredient or Component Part of a Manufactured Product**

Sellers deducting receipts under Section 7-9-46(A) NMSA 1978 for selling tangible personal property (other than utilities) to a manufacturer that will become an ingredient or component part of a manufactured product, must have been executed a Type 2 NTTC by each manufacturer making a purchase for which the deduction is being claimed.

## **Type 11 NTTCs for Sale of Tangible Personal Property that is Consumed in the Manufacturing Process of a Product**

Sellers deducting receipts under Section 7-9-46(B) NMSA 1978 for selling tangible personal property (not utilities) to a manufacturer that will be consumed in the manufacturing process of a product must have been executed a Type 11 NTTC by each manufacturer making a purchase for which the deduction is being claimed.

## **Type 12 NTTCs for Sale of Utilities Consumed in the Manufacturing Process**

Sellers deducting receipts under Section 7-9-46(B) NMSA 1978 for selling utilities to a manufacturer consumed in the manufacturing process must first enter into a *Manufacturers Agreement to Pay Gross Receipts Tax on Behalf of a Utility Company for Certain Utility Sales* (RPD-41377) with the manufacturer. After the manufacturer and the utility company (seller) sign this agreement, as provided by Section 7-1-21.1 NMSA 1978, the manufacturer may apply for a Type 12 NTTC to be executed to the seller of the utility. The application and a copy of the agreement are required to be submitted to the Department for approval, and if approved the seller is issued the Type 12 NTTC. The Type 12 NTTC is then executed to the seller and the seller will then be able to deduct all receipts from sales of utilities to that manufacturer. It is then the responsibility of the manufacturer to report the deductible receipts, as well as any taxable receipts associated with their purchase from that utility (utilities not consumed in the manufacturing process) for the given reporting period.

## **Reporting Deductible Receipts**

### **Reporting Deductible Receipts from Sales of Certain Tangible Personal Property to Manufacturers (Non-Utility)**

The law providing the deductions for certain sales of tangible personal property to manufacturers, both that becomes an ingredient or component part of the product, or is consumed in the process of manufacturing the product, requires the seller to separately report the amount deducted for each deduction provided under Section 7-9-46 NMSA 1978. It is important for all affected parties to report correctly in order for the Department to accurately track the deductions allowed under Section 7-9-46 NMSA 1978 and to fulfill their statutory reporting requirements. Please use the following instructions when reporting your gross receipts tax:

To file a CRS-1 Form or the CRS-1 Long Form to report deductible receipts under Section 7-9-46 NMSA 1978, you must enter those receipts on a separate line from your taxable receipts and receipts deductible under other statutes. Each deduction in Section 7-9-46 NMSA 1978 for non-utility sales must be reported by using a separate line, and a business location code unique to the deduction. To complete the CRS-1 Form for these deductions:

1. On the first line for the business location, enter your normal business location, your taxable receipts and receipts deductible under statutes *other than Section 7-9-46 NMSA 1978*.
2. On the next line, enter the information for receipts eligible for the ingredient or component part deduction under Section 7-9-46 NMSA 1978 (Subsection A). For receipts eligible for this deduction, for which you have received a Type 2 NTTC, enter location code D0-002 in Column C.

3. For receipts deductible under Section 7-9-46 NMSA 1978 (Subsection B), for the sale of tangible personal property which is consumed in the process of manufacturing a product, for which you have been executed a Type 11 NTTC, enter location code D0-003 in Column C.

*Example:* For a report period after January 1, 2013, a seller has \$50,000 in total gross receipts for a business location in Albuquerque, \$10,000 of which qualify for the ingredient or component part deduction under Section 7-9-46(A) NMSA 1978, and \$10,000 of which qualify for the consumables deduction under Section 7-9-46(B) NMSA 1978. The seller's CRS-1 Form should be completed this way:

- **The seller must separate other deductible sales from sales that carry the special location codes D0-002 and D0-003.** For the Albuquerque location, the seller counts \$30,000 in sales that do not qualify for the manufacturer's deduction. The seller completes the first line of the CRS-1 Form in the usual way, with the \$30,000 of non-deductible receipts included in Column D instead of \$50,000.
- On a separate line of the CRS-1 Form, the seller enters the information for the receipts deductible under Section 7-9-46(A) NMSA 1978 for sales to a manufacturer that become an ingredient or component part of the manufactured product. The seller must enter "D0-002" as a location code in Column C. Then, in Column D, the seller enters the \$10,000 in receipts that qualify for the Subsection A deduction of Section 7-9-46 NMSA 1978. The seller then enters that same amount in Column E, "Total Deductions", and has zero to enter as taxable gross receipts in Column F.
- On the next line of the CRS-1 Form, the seller enters the information for the receipts deductible under Section 7-9-46 NMSA 1978 for sales to a manufacturer of tangible personal property that is consumed in the manufacturing process of a product. The seller must enter "D0-003" as a location code in Column C. The seller had \$10,000 in receipts that qualify for this part of the Section 7-9-46 NMSA 1978 deduction. For the first year of the phase-in, only 20% of receipts are deductible, so the seller then enters \$2,000 in Column D, "Gross Receipts", and also in Column E, "Total Deductions." The remaining \$8,000 are taxable receipts, which would be added to the receipts on line 1 in Column D, resulting in a total of \$38,000 in taxable receipts for this seller.
- The CRS-1 Form for the seller in this example would be look like this:

A Municipal/County Name	B Special Code	C Location Code	D Gross Receipts (Excluding Tax)	E Total Deductions	F Taxable Gross Receipts	G Tax Rate	H Gross Receipts Tax	
Albuquerque/Bern.		02-100	\$38,000	\$0	\$38,000	7.1875%	\$2,731.25	
		D0-002	\$10,000	\$10,000	\$0.00	0%	\$0.00	
		D0-003	\$2,000	\$2,000	\$0.00	0%	\$0.00	
Total Columns D, E and H. *See instructions for column B.			\$50,000	\$12,000	TOTAL GROSS RECEIPTS TAX		1	\$2,731.25
						COMPENSATING TAX	2	
						WITHHOLDING TAX	3	
						<b>TOTAL TAX DUE</b>	4	\$2,731.25
						PENALTY	5	
						INTEREST	6	
						<b>TOTAL AMOUNT DUE</b>	7	\$2,731.25

## Reporting Deductible Receipts from Sales of Utilities Consumed in the Manufacturing Process of a Product

The law providing the deduction for sales of tangible personal property to manufacturers that is consumed in the process of manufacturing a product requires the seller to separately report the amount deducted Section 7-9-46 NMSA 1978. It is important for manufacturers to report correctly in order for the Department to accurately track the deductions allowed under Section 7-9-46 NMSA 1978 and to fulfill their statutory reporting requirements. Where utilities are concerned, the manufacturer itself does the reporting of both the deductible and taxable receipts. Please use the following instructions when reporting your gross receipts tax.

To file a CRS-1 Form or the CRS-1 Long Form, to include the deduction for utilities consumed in the manufacturing process under Section 7-9-46 NMSA 1978, you must enter those receipts on a separate line from your taxable receipts and receipts deductible under other statutes. The deductible receipts must be reported on a separate line for each business location where the manufacturer has a facility. To complete the CRS-1 Form for this deduction:

1. On the first line for the business location, enter your normal business location, your taxable receipts and receipts deductible under statutes *other than utility receipts deductible under Section 7-9-46(B) NMSA 1978*.
2. On the next line, enter the total amount billed for electricity for the reporting period at that business location (the location of the utility meter). In Column B, enter special code "E" to differentiate this line from any other utility's receipts that will be reported in this manner. (Special code "G" will be used for gas, "W" for water, and "O" for all other utilities.)

*Example:* For a report period after January 1, 2013, a manufacturer, who has been certified at 20% consumption of electricity in the manufacturing process, is billed \$3,000 for electricity for a business location in Albuquerque. The manufacturer has also been certified at 40% consumption of natural gas in the manufacturing process, and is billed \$2,000 for natural gas for a business location in Albuquerque. For the first part of the phase-in, only 20% of those receipts are eligible for the deduction. The manufacturer's CRS-1 Form should be completed this way:

- ***The manufacturer must separate all other receipts from those of each utility for purposes of the deduction under Section 7-9-46 NMSA 1978.*** On the first line of the CRS-1 Form, the manufacturer would report his own receipts, along with any deductions, in the usual way.
- On a separate line of the CRS-1 Form, the manufacturer enters the total amount that they were billed for electricity in that reporting period. The manufacturer would enter the special code "E" in Column B on that line and then complete the line showing \$120 in deductible receipts (20% phase-in deduction on 20% of consumed electricity). Please see the worksheet below to see an illustration of how the deductible receipts are calculated. The additional \$2,880 would be taxable at the rate in effect in Albuquerque, the location of the electricity meter.
- On the next line of the CRS-1 Form, the manufacturer enters the total amount that they were billed for natural gas in that reporting period. The manufacturer would enter the special code "G" in Column B on that line and then complete the line showing \$160 in deductible receipts (20% phase-in deduction on 40% of consumed natural gas). Please see the worksheet below to see an illustration of how the deductible receipts are calculated. The additional \$1,840 would be taxable at the rate in effect in Albuquerque, the location of the natural gas meter.

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- If the manufacturer consumes additional types of utilities in the manufacturing process, he would complete subsequent lines of the CRS-1 Form in the same way, using the appropriate certified consumption percentages and special codes for those types of utilities.

*Sample Worksheet:*

**Electricity**

Amount billed by the utility for the purchase of the electricity	=	\$3,000
Multiply by 20% (percentage of the electricity consumed in the manufacturing process)		<u>x 20%</u>
Total of receipts that are associated with the electricity consumed in the manufacturing process	=	\$600
Multiply by the applicable deduction amount (20% in the 1st year)		<u>x 20%</u>
Total amount of receipts that are deductible	=	\$120

**Natural Gas**

Amount billed by the utility for the purchase of natural gas	=	\$2,000
Multiply by 40% (percentage of the natural gas consumed in the manufacturing process)		<u>x 40%</u>
Total of receipts that are associated with the natural gas consumed in the manufacturing process	=	\$800
Multiply by the applicable deduction amount (20% in the 1st year)		<u>x 20%</u>
Total amount of receipts that are deductible	=	\$160

The CRS-1 for the manufacturer in this example would be look like this:

A Municipal/County Name	B Special Code	C Location Code	D Gross Receipts (Excluding Tax)	E Total Deductions	F Taxable Gross Receipts	G Tax Rate	H Gross Receipts Tax	
Albuquerque/Bern.		02-100	\$30,000	\$0	\$30,000	7.1875%	\$2,156.25	
Albuquerque/Bern.	E	02-100	\$3,000	\$120	\$2,880	7.1875%	\$207.00	
Albuquerque/Bern.	G	02-100	\$2,000	\$160	\$1,840	7.1875%	\$132.25	
Total Columns D, E and H. *See instructions for column B.			\$15,000	\$280	TOTAL GROSS RECEIPTS TAX		1	\$2,495.50
						COMPENSATING TAX	2	
						WITHHOLDING TAX	3	
						<b>TOTAL TAX DUE</b>	4	\$2,495.50
						PENALTY	5	
						INTEREST	6	
						<b>TOTAL AMOUNT DUE</b>	7	\$2,495.50

## Reporting by Utility Companies of Deductible Receipts from the Sale of Utilities Consumed in the Manufacturing Process

The law providing the deduction for sales of tangible personal property to manufacturers that is consumed in the process of manufacturing a product requires the seller to separately report the amount deducted Section 7-9-46 NMSA 1978. It is important for sellers to report correctly in order for the Department to accurately track the deductions allowed under Section 7-9-46 NMSA 1978 and to fulfill their statutory reporting requirements. Where utilities are concerned, the reporting of both the deductible and taxable receipts is done by the manufacturer itself, so the utility reports all receipts from sales to a qualified manufacturer as deductible. Please use the following instructions when reporting your gross receipts tax.

Utility companies deducting receipts under Section 7-9-46(B) NMSA 1978 for selling utilities to a manufacturer that will be consumed in the manufacturing process must first enter into a *Manufacturers Agreement to Pay Gross Receipts Tax on Behalf of a Utility Company for Certain Utility Sales* (RPD-41377) with the manufacturer, pursuant to Section 7-1-21.1 NMSA 1978. Once the agreement has been entered into, the Type 12 NTTC will be executed to the utility company.

To file a CRS-1 Form or the CRS-1 Long Form, to include the deduction for utilities consumed in the manufacturing process under Section 7-9-46 NMSA 1978, you must enter those receipts on a separate line from your taxable receipts and receipts deductible under other statutes. To complete the CRS-1 Form for this deduction:

- ***The utility must separate all other receipts from those deductible under Section 7-9-46 NMSA 1978.*** On the first line of the CRS-1 Form, the utility would report his own receipts, along with any deductions, in the usual way.
- On a separate line of the CRS-1 Form, the utility would enter the total receipts billed in that reporting period to manufacturers with whom that utility has entered into a *Manufacturers Agreement to Pay Gross Receipts Tax on Behalf of a Utility Company for Certain Utility Sales*, and from whom they have received a Type 12 NTTC. The utility must enter location code D0-003 in Column C on that line, and would show 100% of those receipts as deductible.

*Example:* For a report period after January 1, 2013, a utility has \$120,000 in receipts from sales to manufacturers with whom that utility has entered into a *Manufacturers Agreement to Pay Gross Receipts Tax on Behalf of a Utility Company for Certain Utility Sales*, and from whom they have received a Type 12 NTTC. The utility's CRS-1 Form would look like the following:

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A Municipal/County Name	B Special Code	C Location Code	D Gross Receipts (Excluding Tax)	E Total Deductions	F Taxable Gross Receipts	G Tax Rate	H Gross Receipts Tax
Albuquerque/Bern.		02-100	\$400,000	\$0	\$400,000	7.1875%	\$28,750.00
Santa Fe/Santa Fe		01-123	\$50,000	\$0	\$50,000	8.3125%	\$4,156.25
Bernalillo/Sandoval		29-120	\$50,000	\$0	\$50,000	7.0625%	\$3,531.25
		D0-003	\$120,000	\$120,000	\$0.00	0%	\$0.00
Total Columns D, E and H. *See instructions for column B			\$620,000	\$120,000	TOTAL GROSS RECEIPTS TAX	1	\$36,437.50
					COMPENSATING TAX	2	
					WITHHOLDING TAX	3	
					<b>TOTAL TAX DUE</b>	4	\$36,437.50
					PENALTY	5	
					INTEREST	6	
					<b>TOTAL AMOUNT DUE</b>	7	\$36,437.50

If you still have questions about the deductions discussed in this publication, or need assistance with reporting, you may also contact your district office using the contact information on the following page.



## TAXPAYER INFORMATION

The Department offers a variety of taxpayer information. Some information is free and other information must be purchased.

**General Information.** FYIs and Bulletins present general information with a minimum of technical language. All FYIs and Bulletins are free and available through all local tax offices, the Tax Information and Policy Office, and on the Internet. The Taxation and Revenue Department's Internet address is:

<http://www.tax.newmexico.gov>

**Regulations.** The Department establishes regulations to interpret and exemplify the various tax acts it administers. The Taxation and Revenue Department regulation book is available from the New Mexico Compilation Commission on a prepaid basis. The Compilation Commission also has a compact disk of all statutes and regulations. Specific regulations are also available at the State Records Center or on its web page at [www.nmcpr.state.nm.us/nmac](http://www.nmcpr.state.nm.us/nmac).

Order regulation books directly from:

**New Mexico Compilation Commission**

<http://www.nmcompcomm.us/index.html>

**Rulings.** Rulings signed by the Secretary and approved by the Attorney General are written statements that apply to one or a small number of taxpayers. A taxpayer may request a ruling (at no charge) to clarify its tax liability or responsibility under specific circumstances. The request for a ruling must be in writing, include accurate taxpayer identification and the details about the taxpayer's situation, and be addressed to the Secretary of the Taxation and Revenue Department at P.O. Box 630, Santa Fe, NM 87504-0630. The taxpayer's representative, such as an accountant or attorney, may request a ruling on behalf of the taxpayer but must disclose the name of the taxpayer. While the Department is not required to issue a ruling when requested to do so, every request is carefully considered.

The Department will not issue a ruling to a taxpayer who is undergoing an audit, who has an outstanding assessment, or who is involved in a protest or litigation with the Department over the subject matter of the request. The Secretary may modify or withdraw any previously issued ruling and is required to withdraw or modify any ruling when subsequent legislation, regulations, final court decisions or other rulings invalidate a ruling or portions of a ruling. Taxation and Revenue Department rulings are compiled and available on the Department's web page free of charge at <http://www.tax.newmexico.gov/rulings.aspx>.

**Public Decisions & Orders.** All public decisions and orders issued by the hearing officers since July 1994 are compiled and available on the Department's web page free of charge at <http://www.tax.newmexico.gov/tax-decisions-orders.aspx>.

## FOR FURTHER ASSISTANCE

Local tax offices can provide full service and information about the Department's taxes, programs, and forms as well as specific information about your filing situation.

**ALBUQUERQUE (505) 841-6200**

Taxation and Revenue Department  
5301 Central NE  
P.O. Box 8485  
Albuquerque, NM 87198-8485

**LAS CRUCES (575) 524-6225**

Taxation and Revenue Department  
2540 S. El Paseo Bldg. #2  
P.O. Box 607  
Las Cruces, NM 88004-0607

**SANTA FE (505) 827-0951**

Taxation and Revenue Department  
Manuel Lujan Sr. Bldg.  
1200 S. St. Francis Dr.  
P.O. Box 5374  
Santa Fe, NM 87502-5374

**ROSWELL (575) 624-6065**

Taxation and Revenue Department  
400 Pennsylvania Ave., Suite 200  
P.O. Box 1557  
Roswell, NM 88202-1557

**FARMINGTON (505) 325-5049**

Taxation and Revenue Department  
3501 E. Main St., Suite N  
P.O. Box 479  
Farmington, NM 87499-0479

Main switchboard (Santa Fe): (505) 827-0700

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