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FISCAL IMPACT REPORT

ORIGINAL DATE 01/24/13

SPONSOR Keller/Smith LAST UPDATED _____ HB _____

SHORT TITLE State Graduate Employment Tax Credit SB 11

ANALYST van Moorsel

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY13	FY14	FY15	FY16	FY17		
	(\$2,000.0)	(\$2,000.0)	(\$2,000.0)	(\$2,000.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)
 Department of Finance and Administration (DFA)
 Higher Education Department (HED)

SUMMARY

Synopsis of Bill

Senate Bill 11 amends the Income Tax Act and the Corporate Income Tax Act to create a nonrefundable, nontransferable “state graduate employment tax credit.”

The bill would allow an owner of a New Mexico business or a New Mexico Corporation to claim a credit equal to \$5 thousand of the gross wages paid to a qualified state graduate against personal and corporate income tax liability, respectively.

The bill provides that the credit is available for each qualified state graduate who is employed full time in New Mexico for at least seven months during the first taxable year and twelve months during the second taxable year. The tax credit is not available if the qualified state graduate replaces or performs the job of a previous state graduate, and may not be claimed for more than two taxable years.

SB 11 caps the state graduate employment tax credit at \$2 million (against both personal and corporate income tax) per year. Any claims submitted once the cap is reached are placed for the next year in the order they are received.

The bill also provides that a taxpayer that claims the state graduate employment tax credit may not apply for and be granted the rural jobs tax credit, the high-wage jobs tax credit, or an additional credit pursuant to the Technology Jobs Credit Act based on the same job for which the state graduate employment tax credit is claimed.

SB11 defines a “qualified state graduate” as a New Mexico resident who files an individual New Mexico tax return, is hired prior to June 1, 2018, and within 18 months of graduation from one of the state educational institutions of higher learning enumerated in Article 12, Section 11 of the Constitution of New Mexico. The graduate must also receive benefits and work at least 40 hours per week. The qualified graduate must have completed a post-baccalaureate graduate master’s or professional degree within three years or, if part-time, within the credit equivalent, or a doctoral degree within six years or, if part-time, within the credit equivalent, in the discipline of physical or life sciences, technology, engineering, mathematics, or a health-related field.

The bill requires taxpayers applying for the credit to provide information to the Higher Education Department (HED) concerning the employee’s employment and status as a qualified state graduate.

SB11 further requires the HED promulgate rules establishing procedures to certify qualified state graduates for purposes of obtaining a state graduate employment tax credit. The HED must issue a dated certificate of eligibility containing a list of the qualified state graduates employed by the taxpayer claiming the credit that includes identifying information.

The bill includes reporting requirements. The Taxation and Revenue Department (TRD) is required to periodically audit HED records of the state graduate employment tax credit to ensure the credit’s effective administration. TRD must also compile an annual report that includes the number of taxpayers approved to receive the tax credit. The bill requires the appropriate legislative committee to review the effectiveness of the state graduate employment tax credit every four years, beginning in 2017.

The bill provides that the tax credit would be applicable to taxable years beginning on or after January 1, 2013. The bill does not provide for a sunset date. The LFC recommends adding a sunset date.

FISCAL IMPLICATIONS

TRD cites the Council of University Presidents in noting that 1,086 post-baccalaureate degrees were awarded in the 2011-2012 school year in the areas of engineering, technology, computer science, health, nursing, science and math to graduates of New Mexico four-year higher education institutions. On average, about 50% of these graduates are employed in New Mexico National labs employ many graduates from New Mexico institutions; however, they tend to employ more of the lower degree levels. The annual \$2 million cap for PIT and CIT could be reached if approximately 400 graduate employment tax credit applications are filed per year at the \$5,000 per application level.

This bill may be counter to the LFC tax policy principle of adequacy, efficiency and equity. According to the LFC staff General Fund Recurring Appropriation Outlook for FY15 and FY16, Forecasted revenues may be insufficient to cover growing recurring appropriations.

SIGNIFICANT ISSUES

TRD notes that SB11 only provides an incentive for private employers to hire post-baccalaureate graduates of the State’s research universities. A person who has received a masters or doctorate degree from an out-of-state university would not qualify the employer for this credit – even if that graduate is a native New Mexican.

Post-baccalaureates in these fields already experience substantially higher earnings and lower unemployment rates than other graduates. This bill does not effectively target a disadvantaged group, nor does it aim to correct negative divergence in employment or work income measures.

TRD reports it is possible that businesses will get this credit for hires they were going to make anyway, even without this subsidy. Temporarily lowering the cost to bring on new workers might spur companies to accelerate their plans to boost payroll.

Finally, the TRD analysis reports that since the total number of applicants would exceed the credit cap, this could undermine the purpose of the credit which is to retain New Mexico graduates in New Mexico. If businesses are not certain if they will receive the credit, they are not likely to change their hiring practices. This level of incentive might not significantly increase the number of graduates hired in the state, partly due to the cap.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is met with the bill’s requirement to report to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the credit and other information to determine whether the deduction is meeting its purpose.

ADMINISTRATIVE IMPLICATIONS

The Higher Education Department (HED) reports that to fully understand the administrative impact to the department, HED will need to work with TRD to establish rules and processes, estimate the number of requests per year and determine what data will be needed.

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