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FISCAL IMPACT REPORT

ORIGINAL DATE 02/24/15
 LAST UPDATED 03/06/15 HB _____

SPONSOR SCORC

SHORT TITLE Geothermal Heat Pump Tax Credit SB 584/SCORCS

ANALYST Dorbecker

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY15	FY16	FY17	FY18	FY19		
Minimal	Minimal	Minimal	Minimal	Minimal	Recurring	General Fund

Parenthesis () indicate revenue decreases

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY15	FY16	FY17	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	\$14.0	\$0.0	\$0.0	\$14.0	Nonrecurring	TRD Operating – IT Division

Parenthesis () indicate expenditure decreases

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)
 Energy, Minerals and Natural Resources Department (EMNRD)
 Department of Finance and Administration (DFA)
 Office of the State Auditor (OSA)

SUMMARY

Synopsis of SCORC Substitute

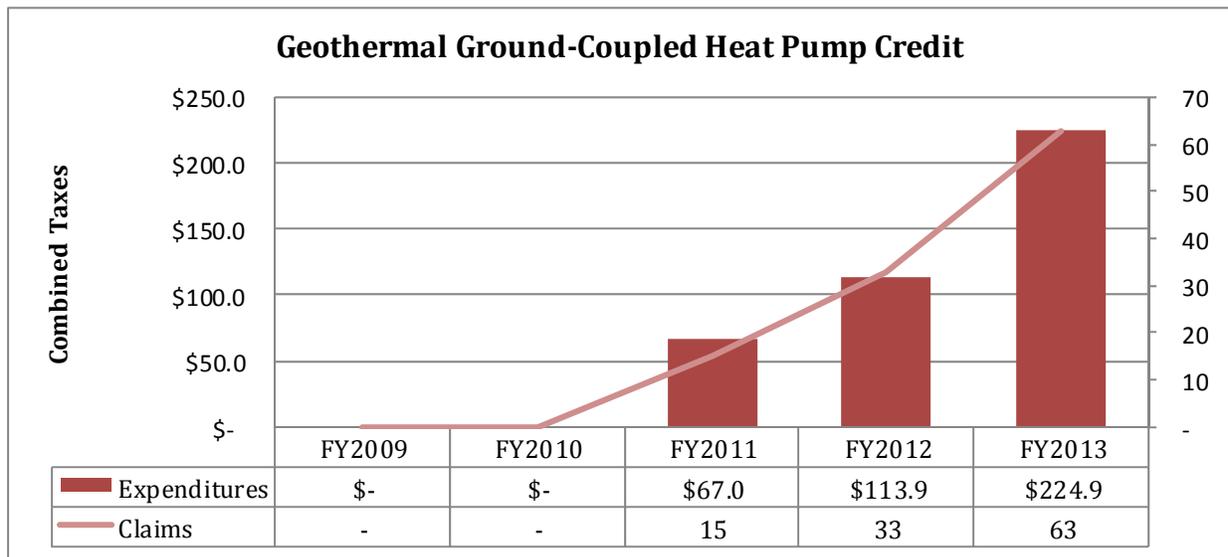
Senate Corporations and Transportation Committee substitute of Senate Bill 584 amends the Income Tax Act, Section 7-2-18.24 NMSA 1978 and the Corporate Income and Franchise Tax Act, Section 7-2A-24 NMSA 1978 to clarify the geothermal ground-coupled heat pump tax credit under current law is applicable to each heat pump or pumps that may be installed in one or more residences, businesses or agricultural enterprises. The bill also replaces the language for “husband and wife” with “married individuals” and adds the credit can be transferrable to another taxpayer according to TRD rules and regulations.

There is no effective date of this bill. It is assumed that the new effective date is 90 days after this session ends. The bill sunsets on December 31, 2020.

FISCAL IMPLICATIONS

According to TRD’s 2014 tax expenditure report, average expenditures for FY 2013 for the geothermal ground-coupled heat pump tax credit were about \$3,600 per individual taxpayer. TRD believes there is a possibility that a few taxpayers may be able to install more than one pump and still benefit under the individual cap. Table 1 taken from TRD’s 2014 expenditure report shows the individual cap of \$9,000 has not being met by taxpayers.

Table 1.



TRD estimates the fiscal impact to be minimal as the department assumes the potential number of taxpayers with more than one pump installed in the same property is very small. However, while the individual and aggregate credit caps remain unchanged in the bill, TRD believes there is a possibility that a small number of taxpayers that may have installed more than one pump in prior years could amend their past returns to claim the credit.

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

DFA reports the federal government currently offers a 30 percent tax credit on the installation of geothermal heat pumps and adds if the federal and state tax credits are combined, they can effectively cut in half the costs of purchasing installing these systems.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is not met since TRD is not required in the bill 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.

ADMINISTRATIVE IMPLICATIONS

TRD estimates a minimal administrative impact from the bill. The modification of necessary forms, instructions and publications related to the geothermal ground-coupled heat pump could be changed by the deadline of June 19, 2015.

TRD's Information Technology (IT) division would need approximately 200 hours to make necessary changes to GenTax and to the taxpayer access point documents and configuration changes to the business credit module.

OTHER SUBSTANTIVE ISSUES

EMNRD reports the bill would provide the department more flexibility to deal with properties where multiple heat pumps are installed.

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