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Tax Expenditure Assessment

Analysis of key state tax credits, exemptions, and deductions by the Legislative Finance Committee

Laboratory Partnership with Small Businesses Tax Credit

Background

Brief Description. The Laboratory Partnership with Small Businesses Tax Credit is an incentive for Los Alamos National Laboratory and Sandia National Laboratories to provide services to small businesses free of charge.

Created: 2000 and amended in 2007 and 2019

Expires: No expiration date.

Impact Analysis Summary

In FY24, New Mexico's national laboratory prime contractors received \$2.3 million in state support through the credit. Over the last ten years, the prime contractors received an average of \$4.3 million in state support through the credit each year. The credit is estimated to increase statewide employment by 45 jobs per year on average because of lower business costs that encourage job creation and because of the technical assistance provided. The average cost per job is \$95 thousand. The credit is estimated to increase state personal income by \$11 million per year on average because of higher wage earnings, increased business profits, and increased property income. The estimated net annual impact in state GDP attributable to the program is \$7 million. The economic return on investment (ROI) is estimated to be 103 percent, meaning for every \$1 spent on the credit, the New Mexico economy grows by \$1 and 30 cents. The estimated annual return in revenue is -80 percent, meaning that for every \$1 spent, the state forgoes 80 cents and recaptures 20 cents of state tax revenue.

Economic Impact Analysis Summary

FY24 Expenditure

\$2.3 M

FY24 Claims

2

Economic ROI

103%

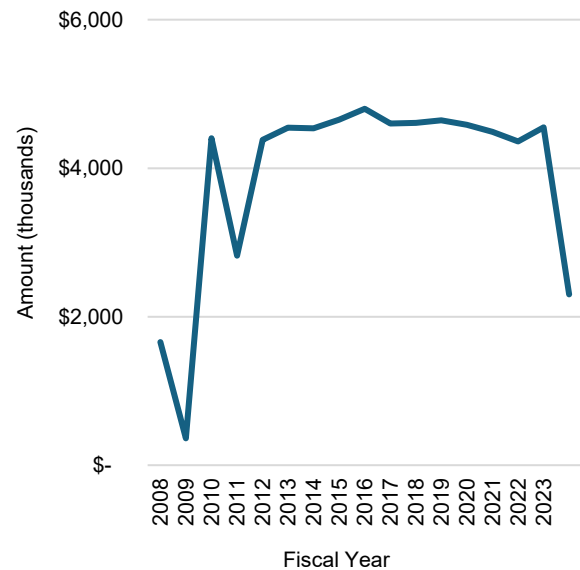
Return in Revenue

-80%

For every \$1 spent, the state economy grows by \$1 and 30 cents.

For every \$1 spent, the state foregoes 80 cents and recaptures 20 cents in state tax revenue.

Tax Expenditures of Laboratory Partnership with Small Business Tax Credit



Source: TRD

THIS REPORT summarizes key fiscal and economic impact information of state tax expenditures. These brief summaries are prepared on an ongoing basis for policymakers to identify—and request further study of—larger policy issues. The primary sources of information are the New Mexico Tax Expenditure Reports from 2012-2024, accessible on the Taxation and Revenue Department's [website](#), and other state and national economic data. Detailed methodology of this report can be found at the LFC Revenue, Economic Reports, and Tax Policy [website](#).

Credit Overview and Legislative History. The laboratory partnership with small businesses tax credit was first enacted in 2000 to bring the technology and expertise of the national laboratories to small businesses to promote economic development, especially in rural areas. It provides a tax credit equal to the value of free technical services offered to a small business by the national laboratory prime contractors—Triad National Security LLC and National Technology and Engineering Solutions of Sandia, a Honeywell International subsidiary. For each business served, the lab may claim a credit up to \$20 thousand if the business is in an urban area and up to \$40 thousand if the business is in a rural area. Laboratory prime contractors may claim the credit against the state portion of gross receipts tax, but not the local portion of gross receipts tax. The credit is capped at \$2.4 million per laboratory, or \$4.8 million in aggregate.

The credit has been amended twice. The original statute was enacted in 2000 but sunset in 2006. In 2007, the per laboratory expenditure cap was increased from \$1.7 million to \$2.4 million. The allowable amount of assistance provided to each business was also increased and reporting requirements were added. In 2019, the credit was amended to increase the amount a laboratory could claim per business served, increasing from in urban areas from \$10 thousand to \$20 thousand and in rural areas from \$20 thousand to \$40 thousand.

Usage Trends. From FY22 to FY24, expenditures averaged \$3.7 million around the historical average. FY24 expenditures were \$2.3 million, a significant decrease. Since 2007, the effective value of the credit has decreased by 34 percent because of inflation.

Design Analysis. The credit does not have an expiration date, but it does have an expenditure cap. While targeting rural businesses may help distressed areas, the credit could be more effective by differentiating based on need, demographics, or economic activity. The credit primarily goes toward export-based industries, but targeting export-based industries is not statutorily required. Recipients meet statutory reporting requirements.

Meets Purpose. The credit likely meets its purpose of bringing technology and expertise to small businesses. Although usage trends have recently slowed, it offers benefits to rural areas and has seen a strong return in investment to the state's economy.

Summary

FY24 Tax Expenditure	\$2.3M
FY24 Number of Claims	2
Jobs Created	8
Economic ROI	103%
Return in Revenue	-80%
Usage Trends	
<i>1-Year Change</i>	-49%
<i>3-Year Average Change</i>	-18%
Meets Purpose	●
Design Elements	
<i>Has expiration date</i>	○
<i>Has expenditure cap</i>	●
<i>Targets distressed areas</i>	◐
<i>Targets export-based industry</i>	◐
Data Availability <i>Are requirements being met?</i>	●
Data Reliability <i>Is data reported separately?</i>	●
Key ● Yes ◐ Partial ○ No Note: Criteria based on LFC tax policy principles or other design, purpose, or statutory measures. Data are from New Mexico Tax Expenditure Reports from 2012-2024, accessible on the Taxation and Revenue Department's website , and other state and national economic data. Estimates on annual increase in baseline statewide employment, state GDP, and state revenues were calculated using a New Mexico-specific economic impact model using state and national employment, expenditure, and revenue information. Additional methodology details can be found at the LFC Revenue, Economic Reports, and Tax Policy website .	

Future research opportunities for this tax credit include:

- Comparing the economic impacts to other tax expenditures and forms of spending
- Understanding how this credit impacts different regions of New Mexico
- Understanding the changes in claims and expenditures over time.