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Tax Expenditure Assessment

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

Technology Jobs and Research & Development Tax Credit

Background

Brief Description. The technology jobs and research and development tax credit is an incentive for technology-based businesses engaged in research and development. The incentive offers a credit of up to 5 percent (10 percent in rural areas) and is partially refundable based on total expenditures.

Created: 2000 and amended in 2015 and 2019

Expires: No expiration date.

Impact Analysis Summary

In FY24, businesses received \$11.2 million in state support through the credit. Over the last ten years, businesses received an average of \$5.8 million in state support through the credit each year. The credit is estimated to increase statewide employment by 165 jobs per year on average because of lower business costs that encourage job creation. The average cost per job is \$35 thousand. The credit is estimated to increase state personal income by \$33 million, 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 \$20.9 million. The economic return on investment (ROI) is estimated to be 92 percent, meaning for every \$1 spent on the credit, the New Mexico economy grows by 92 cents. The estimated annual return in revenue is -81 percent, meaning that for every \$1 spent, the state forgoes 81 cents and recaptures 19 cents of state tax revenue.

Economic Impact Analysis Summary

FY24 Expenditure

\$11.2 M

FY24 Claims

390

Economic ROI

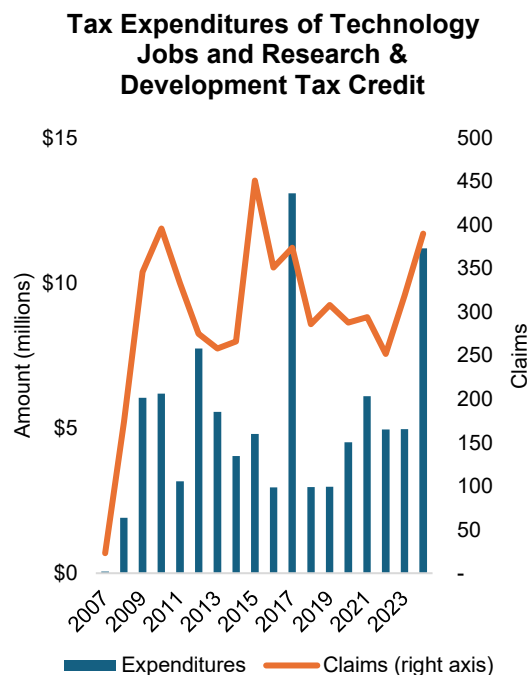
92%

Return in Revenue

-81%

For every \$1 spent, the state economy grows by 92 cents.

For every \$1 spent, the state foregoes 81 cents and recaptures 19 cents in state tax revenue.



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 technology jobs and research development tax credit was created in 2000 to provide a favorable tax climate for technology-based businesses engaging in research, development and experimentation and to promote increased employment and higher wages within those fields. A taxpayer who conducts qualified research may claim a basic credit equal to 5 percent of qualified expenditures against the state portion of GRT, compensating tax, or withholding tax. The credit is doubled to 10 percent when the taxpayer’s facility is in a rural area. Taxpayers may claim an additional 5 percent credit (or 10 percent in rural areas) against income tax by raising payroll by \$75 thousand for every \$1 million in qualified expenditures. The credit is fully or partially refundable if qualified expenditures are less than \$5 million.

The credit has been amended twice since its inception. In 2015, the credit was amended to add Research and Development to the title and increase the basic and additional tax credits provided for from four percent to five percent of the amount of qualified expenditures. It also set forth a new mechanism for claiming the basic credit and excluded local option gross receipts tax from the taxes the basic credit could be claimed against. In 2019, an amendment revised the definition of “local options gross receipts tax.”

Usage Trends. Between FY22 and FY24, an average of 320 claims were made per year for an average annual tax expenditure of \$7.2 million, including basic and additional claims. This represents an increase over the previous three-year average, with an especially marked 125 percent expenditure increase in FY24.

Design Analysis. The credit does not have an expenditure cap or an expiration date. 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 targets export-based industries. There are no additional agency reporting requirements beyond the annual tax expenditure report.

Meets Purpose. The credit likely meets its purpose of providing a favorable tax climate for technology-based, research and development businesses and promoting increased employment, with a high number of jobs created, steady usage trends, and sound return on investment.

Summary

FY24 Tax Expenditure	\$11.2M
FY24 Number of Claims	390
Jobs Created	165
Economic ROI	92%
Return in Revenue	-81%
Usage Trends	
<i>1-Year Change</i>	125%
<i>3-Year Average Change</i>	55%
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.