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FISCAL IMPACT REPORT

SPONSOR: Garcia DATE TYPED: 02/28/01 HB 784
 SHORT TITLE: Allocation of Nonresident Border Income SB _____
 ANALYST: Williams

REVENUE (See Text)

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY01	FY02			
	\$ (30.0)	\$ (60.0)	Non-Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

Duplicates SB541

SOURCES OF INFORMATION

LFC Files
 Taxation and Revenue Department

SUMMARY

Synopsis of Bill

The bill would expand the income allocation and apportionment language in current statute to authorize compensation to be allocated to the taxpayers' state of residence for certain businesses. The language would be effective beginning tax year 2001. To qualify, a manufacturing business would pay compensation for activities, labor or services performed when the business has at least 5 full time employees in New Mexico and is located within 15 miles of an international border with either:

- a total payroll in New Mexico for in-state residents that grows by 10 percent per calendar year or
- a total payroll in New Mexico for in-state residents, with no comparable payroll in the prior year.

Significant Issues

If a qualifying plant were built in Santa Teresa, employees from Texas could apportion their wage and salary income to Texas, which does not have a personal income tax. The bill sets a precedent for exempting from taxation the wages of non-New Mexicans who work in the state.

FISCAL IMPLICATIONS

TRD estimates the fiscal impact assuming one very small manufacturing plant with 25 workers relocating each year with the tax preference in place for two years. The revenue loss is calculated at \$1,200 per Texas employee per year, assuming an average weekly wage of \$700. Net general fund revenue loss is projected at \$30.0 and \$60.0 in FY02 and FY03, respectively.

Note that just one major plant relocation involving hundreds of employees could reduce general fund revenues by more than \$1,000.0 annually. To be certain of the maximum fiscal impact, the legislation would be amended to include a cap.

ADMINISTRATIVE IMPLICATIONS

TRD notes minimal impacts.

TECHNICAL ISSUES

Total payroll in New Mexico for New Mexico residents, for the calendar year in which the taxable year begins that is at least 10% greater than on the first of the month, 12 months prior to beginning the taxable year.

OTHER SUBSTANTIVE ISSUES

TRD believes the legislation is directed to one plant per year, and has evaluated the fiscal impact accordingly. TRD notes the bill may violate the constitutional prohibition on local or special legislation (Article IV, Section 24).

AW/ar/njw