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## FISCAL IMPACT REPORT



SPONSOR: Heaton DATE TYPED: 02/12/02 HB 335

SHORT TITLE: New Job Tax Credit SB \_\_\_\_\_

ANALYST: Smith

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY02	FY03			
	(\$24,000.0)	Indeterminate	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

### SUMMARY

#### Synopsis of Bill

This measure would allow credits against income taxes. The credits would reward employers for hiring people during “distressed periods” – periods in which county or statewide seasonally adjusted unemployment rates increase by .5 percent over unemployment rates that occurred during same month of the prior year. The credits would be for “...twenty-five percent of the first sixteen thousand dollars (\$16,000) in wages paid for the qualifying job.” In other terms, the maximum credits allowed per qualifying job would be \$4,000. The credits may be taken against a variety of taxes, including gross receipts, compensating, withholding, personal or corporate income tax liability. The credits may not be taken against local option gross receipts taxes, hence revenues received by local governments would be largely unaffected by the credits. Jobs for which the credits may be taken – “qualifying jobs” in the bill’s vernacular – are full-time private-sector jobs in industries other than retail trade. They must pay at least \$10 per hour. Workers in the qualifying jobs must be newly hired employees. Further, they must not be owners of the firm in any respect; for example, own stock in the firm taking the credits.

### FISCAL IMPLICATIONS

Annual impacts of the proposal will vary widely and be affected by unemployment rates, the size of the labor force and similar factors. According to the proposed bill’s provisions, New Mexico is currently in a distressed period. According to the Blue Chip Consensus Forecast for the State of New Mexico, the state will add approximately 6,000 jobs in sectors in which employers would qualify for

the credits under the proposal. If \$4,000 of each worker's wages resulted in the tax credits, the resulting General Fund impact would be 6,000 workers x \$4,000 in credits per employee or \$24 million.

According to the Labor Market Review (Volume 30, December 31, 2001) published by the New Mexico Department of Labor, the annual average seasonally adjusted unemployment rate increased by at least .5 percent seven times during the period between 1981 and 2001. Hence employers would have qualified for credits under the proposed program based on statewide changes in unemployment rates approximately one-third of the time during the past 21 years. This figure is probably understated, however, because during times when the statewide unemployment rate does not increase by .5 percent under the proposed measure, unemployment rates in any particular county may.

### **ADMINISTRATIVE IMPLICATIONS**

As evidenced by the definitions quoted above, it is unclear how the measure would work. TRD would need to issue regulations to set guidelines regarding how the measure would be interpreted. 1) Seasonally adjusted unemployment rates are often unavailable on a county basis. There is no need to use seasonally adjusted rates because seasonality is eliminated by simply comparing figures for a particular month to figures for the prior year month. The appropriate specification would therefore probably be that seasonally adjusted rates must be compared with seasonally adjusted rates, or seasonally unadjusted rates must be compared with seasonally unadjusted rates from a previous year. 2) Language in the measure is not clear regarding whether employers would be eligible for credits during a statewide distressed period and a county distressed period simultaneously. If the intent is to allow one or the other, the proposal should be modified to make this.

### **OTHER SUBSTANTIVE ISSUES**

TRD notes that the measure would probably make forecasting General Fund revenues difficult because its impacts on the General Fund would need to be estimated and taken into account. 2) Unemployment rates in small counties are extremely sensitive to small variations in the labor force. The civilian labor force in Harding County currently consists of 450 people, with about 20 people unemployed, hence an unemployment rate of 4.4 percent. An increase of two unemployed people would raise the unemployment rate to 4.9 percent and precipitate the credits allowed under the proposed program

SS/njw:ar