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F I S C A L I M P A C T R E P O R T

SPONSOR: Smith DATE TYPED: 2/7/03 HB

SHORT TITLE: Amend Investment Credit Act SB 233

ANALYST: Smith

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	FY04			
	(500.0)	(1000.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates SB233

SOURCES OF INFORMATION

Responses Received From

TRD

SUMMARY

Synopsis of Bill

House Bill 179 amends Section 7-9A-7.1 to reduce the employment requirements so that taxpayers would be required to employ the equivalent of one additional full-time employee for every $500 thousand increment of qualified equipment up to a value of $30 million and $1 million increment of qualified equipment over $30 million. TRD has provided the following table.

Employment Requirements for Investment Credit Eligibility		
Equipment Value	**Current**	**Proposal**
$250,000	1	1
$500,000	2	1
$1,000,000	4	2
$1,500,000	6	3
$2,000,000	8	4

Significant Issues

The Investment Credit Act (Section 7-9A NMSA 1978) allows tax credits equal to 5% of the value of qualified equipment purchased and incorporated into certain manufacturing operations in the state. The credits may be claimed against gross receipts, compensating, or withholding tax liability.

FISCAL IMPLICATIONS

Currently, approximately 35 taxpayers actively claim credits totaling $10 to 12 million annually. Approximately 65% of the credits are applied to withholding tax, 32% to compensating tax, and 3% to gross receipts tax liabilities. Taxpayers have more than $30 million in credit balances still outstanding. These amounts can be carried forward and applied against future year's tax liability.

The relatively small fiscal impact has to do with the amended employment provisions being most effective for smaller firms.

OTHER SUBSTANTIVE ISSUES

TRD makes the following observations:

1. This proposal would benefit capital-intensive manufacturers that do not require proportionally as much labor as other manufacturers currently benefiting from the credit.

2. The intent of the Investment Credit Act is to create a favorable tax climate and create employment opportunities within the manufacturing sector. The employment benefits would be tempered somewhat by the provisions contained in this proposal.

SS/njw