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FISCAL IMPACT REPORT

SPONSOR Salazar **DATE TYPED** 2/21/05 **HB** 527/a HENRC

SHORT TITLE Advanced Energy Product Tax Credit **SB** _____

ANALYST Padilla-Jackson

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
	(\$87.0)	Increasing	Recurring	General Fund
	(\$13.0)	Increasing	Recurring	Local Governments

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)
 Energy, Minerals & Natural Resources (EMNRD)
 Air Quality Bureau (AQB)

SUMMARY

Synopsis of HENRC Amendment

House Bill 527 was amended by the House Energy and Natural Resources Committee (HENRC). The amendments modify various definitions in the bill. One amendment narrows the definition of “manufacturing operation” to refer to the production of “advanced energy products” instead of the production of “goods”. The amended bill also adds to the definition of renewable energy, to include a resource that generates “bio fuel” in addition to “electrical energy” through low- or zero-emissions generation technology, etc. The amended bill clarifies the definition of “renewable energy system” to add the term “bio fuel” in front of hydrogen when referring to a system using renewable energy that produces hydrogen. Lastly, the amended bill changes one of the employment requirements so that employees already employed would qualify the taxpayer for the credit if the employee was hired with respect to use of “manufacturing” equipment, as opposed to “qualified” equipment.

Synopsis of Original Bill

House Bill 527 would provide a new tax credit to a taxpayer of up to five percent of the taxpayer's expenditures on advanced energy product manufacturing equipment. The bill defines "advanced energy product" to mean an advanced energy vehicle, fuel cell system, renewable energy system or any component of an advanced energy vehicle, fuel cell system or renewable energy system. A taxpayer may apply for a credit against compensating, gross receipts or withholding tax, provided that the claim does not exceed the sum of the tax due. Any unused tax credit may be carried forward for three years.

To qualify for the credit, the taxpayer must employ at least one new full-time employee for every \$500 thousand of expenditures up to \$30 million, and at least one new full-time employee for every \$1 million of expenditures over \$30 million. A taxpayer can count toward the employment requirements employees already employed if the taxpayer trained the existing employee, or the employee was hired to use the qualified equipment.

The effective date of this bill is July 1, 2005.

Significant Issues

According to EMRD, this bill is an economic development bill that, if enacted, will create jobs and generate revenues from a desirable industry sector, the clean advanced energy technologies. By providing an incentive to manufacturers of advanced energy product technologies, EMNRD believes that the bill encourages the recruitment and retention of advanced energy businesses. They note that in combination with New Mexico's world-class renewable energy resources and the technical expertise that exists within our universities and national laboratories, this incentive will make the state more attractive for the relocation of advanced energy businesses.

PERFORMANCE IMPLICATIONS

EMRND stated that recruitment and retention of advanced energy businesses would significantly assist EMNRD's Energy Conservation and Management Division in achieving targets relating to renewable energy, energy efficiency and clean-burning alternative transportation fuels.

Additionally, the AQB notes that the implementation of this bill would help the state achieve its renewable energy goals. The environment department submitted a State Implementation Plan to EPA in December 2003 pursuant to Section 309 of the Federal Regional Haze Rule. According to this rule, the state is obligated to report every five years its progress in achieving the renewable energy goal of 10 percent of the regional power needs by 2005 and 20 percent by 2020.

FISCAL IMPLICATIONS

There are no changes to the original fiscal impact estimates associated with the amendments to House Bill 527.

The total fiscal impact of this bill is estimated by TRD to be -\$100 thousand in FY06, of which -\$87 thousand will impact the general fund and -\$13 thousand will impact local governments. According to "The Source for Renewable Energy" website, there are 54 renewable energy businesses in New Mexico, with 21 classified as manufacturers. TRD's fiscal impact estimate as-

sumes a base of 21 eligible companies. Using average payroll and investment values from the 1997 Census of Manufacturers for New Mexico, TRD calculated that the average annual eligible investment for the industry is \$2 million, which generates \$100 thousand per year in available credits. TRD believes that total tax liability for the industry should be sufficiently large to absorb all of these tax credits. Due to the ability to claim the credits against the gross receipts and compensating tax, local government revenues would also be impacted.

ADMINISTRATIVE IMPLICATIONS

Implementation of the bill would require 1/8 FTE to evaluate applications and maintain logs of credits approved and claimed, according to TRD.

OTHER SUBSTANTIVE ISSUES

TRD notes that a recent presentation sponsored by Sandia National Laboratories on state and local tax incentives and wage subsidies for manufacturers estimated that existing subsidies are enough to offset from 55 to 67 percent of initial capital investment. To prevent excessive subsidies, TRD recommends limiting eligibility to expenditures not eligible for other credits and incentives.

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