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FISCAL IMPACT REPORT

SPONSOR Griego DATE TYPED 2/18/05 HB _____

SHORT TITLE Extend Rural Job Tax Credit SB 695

ANALYST Taylor

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
	(\$225.0)	Similar	Recurring	General Fund
	(\$75.0)	Similar	Recurring	Local Government

(Parenthesis () Indicate Revenue Decreases)

Duplicates HB 53

SOURCES OF INFORMATION

LFC Files
Economic Development Department (EDD)

SUMMARY

Senate Bill 695 makes the rural job tax credit permanent. Under current law this credit would sunset as of June 30, 2005.

The rural job tax credit is available to qualifying employers located in rural New Mexico. Rural New Mexico is defined by exception. Excepted are Los Alamos County and incorporated municipalities within a metropolitan statistical area with a population of 30 thousand or more. A qualifying employer is one who has been approved by EDD for participation in the in-plant-training program. The value of the credit is equal to 6.25 percent of the first \$16 thousand in wages paid for a qualifying job, where a qualifying job is also determined by qualification for in-plant-training and has been held for at least 48 weeks in a 12 month period. The employer may take the credit for 4 years in “tier one areas”, which is defined as municipalities in a rural area with a population lower than 15 thousand or any other part of a rural area that is not located within municipal boundaries. Employers may take the credit or two years in “tier two areas”, which is defined as municipalities in a rural area with a population greater than 15 thousand. The Economic Development, Taxation and Revenue, and the Department of Labor are required to annually evaluate the effectiveness of rural job tax credit in stimulating rural economic develop-

ment and to report their findings to each session of the legislature as long as the credit is in effect.

PERFORMANCE IMPLICATIONS

EDD reports three businesses—Southwest Cheese in Clovis, Monarch Litho in Santa Teresa and Merrilat Industries in Los Lunas—have announced decisions to locate in New Mexico. They claim the rural jobs tax credit was part of their location decision.

FISCAL IMPLICATIONS

TRD estimates that fiscal impact of extending the credit is approximately \$300 thousand. \$225 thousand of this impacts the state general fund, and the rest represents revenue losses to local government funds. The estimate is simply an average of the \$900 thousand of credits taken over the last three years. TRD explains that there is a local government impact despite provisions that the credit does not apply to local option gross receipts taxes. This is because the credit does apply to the revenue the state shares with local government out of the 5 percent state gross receipts tax.

OTHER SUBSTANTIVE ISSUES

The law requires that an evaluation of the credits effectiveness be presented to the legislature every session the credit is in effect. The report is supposed to be jointly prepared by the Departments of Labor, the Taxation and Revenue Department and the Economic Development. To date, no such report has been prepared. Discussion with Taxation and Revenue indicates that both the timing (session time) and the requirement for a joint-report make satisfying this requirement difficult. Perhaps, the current requirement should be amended to require the report to be delivered to interim committees, say the Revenue Stabilization and Tax Policy Committee and the Legislative Finance Committee.

Given the uncertainty associated with the fiscal impacts of this legislation, perhaps a new sunset should be applied. Alternatively, the value of the credits could be capped.

BT/lg