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## FISCAL IMPACT REPORT

ORIGINAL DATE 2/19/07

SPONSOR Taylor LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Chile Farming Tax Credits and Employment SB 1191

ANALYST Francis

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	0.1		Recurring	General Fund
	* See Narrative			

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to HB1011

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY07	FY08	FY09	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
<b>Total</b>						

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Economic Development Department (EDD)

### SUMMARY

#### Synopsis of Bill

Senate Bill 1191 amends the Investment Credit Act to redefine manufacturing to include “chile farming” and exempts chile-related manufacturing from the employment requirements of the Act. This would allow the investment tax credit for purchases of chile farming and processing equipment. The investment tax credit allows a credit against CRS taxes— withholding, gross

receipts taxes and compensating taxes—up to 85 percent of the combined liability. The credit may be carried forward if the credit exceeds liability and can be refunded under certain circumstances.

The changes apply to qualified equipment purchases on or after January 1, 2007.

## **FISCAL IMPLICATIONS**

**Taxation and Revenue Department has not finalized its analysis and calculation of fiscal impact is dependent on TRD input.**

The Economic Development Department (EDD) reports that the fiscal impacts are likely to be substantial:

Taxation and Revenue has not determined the amount of the fiscal impact for this facility. However, the impact would probably be substantial as this credit would apply to the purchase of chili farming equipment. New Mexico's chili industry is substantial and there are a number of chili farmers that would purchase new equipment under this new provision who are currently paying compensating and gross receipts taxes. The exemption of the job creation component would limit the increase in revenues to the general fund because the purchase of new equipment would not increase payrolls. Therefore, the fiscal implications are substantial.

## **SIGNIFICANT ISSUES**

EDD:

This bill expands the investment credit act for farming equipment and exempts chili processors from the job creation component to qualify for this credit. The job creation component is an important aspect of the Investment Credit Act as it encourages a positive benefit for the state of New Mexico for this tax incentive. Luna and Hidalgo counties are two of the counties that have significant chili production. According to NMDOL, the unemployment in October 2006 for Luna County is 6.3% and for Hidalgo county is 3.9%. This bill does not encourage job creation in the chili production industry. Job creation increases payroll which in turn will increase gross receipts, compensating, withholding taxes and income taxes which affect the general fund.

NF/nt