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FISCAL IMPACT REPORT

ORIGINAL DATE 1/31/08
LAST UPDATED 2/08/08 **HB** 326

SPONSOR Heaton

SHORT TITLE Extend High-Wage Jobs Tax Credit Eligibility **SB** _____

ANALYST Schardin

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY08	FY09	FY10		
	(See Narrative for FY11 Impact)		Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

Conflicts with SB174

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 326 amends the high wage jobs tax credit to extend the deadline by which a job must be created to qualify for the credit from the current date of July 1, 2009 to July 1, 2015.

Because the bill has no effective date, it will become effective 90 days after adjournment of the 2008 legislative session, on May 14, 2008.

FISCAL IMPLICATIONS

TRD's fiscal analysis of this bill is based on historic claims for the credit. The bill would reduce general fund revenue starting in FY11 by eliminating the July 1, 2009 deadline for jobs to be created. The revenue reduction is expected to be \$108 thousand in FY11 and \$221 thousand in FY12.

SIGNIFICANT ISSUES

Data from TRD indicate that the high wage jobs tax credit resulted in a loss of revenue equal to \$575.0 thousand in FY06, \$1,685.5 thousand in FY07, and \$977.5 thousand in the first four months of FY08.

The high-wage jobs tax credit may currently be claimed by an eligible employer who creates a new economic-based job that is filled for at least 48 weeks of the prior year. The credit may be claimed against the state gross receipts tax, the compensating tax, withholding taxes, and several smaller surcharges. To be eligible for the credit, more than half of an employer's sales in the previous year must have been made to persons outside of New Mexico. The credit is refundable and may be claimed for up to four years for each job created.

In 2007, the enactment of House Bill 839, the omnibus economic development tax bill, deleted the January 1, 2010 repeal date of the high wage jobs tax credit. But although that legislation made the credit permanent, the credit currently applies only to jobs created before July 1, 2009. From a tax policy standpoint, allowing the credit to be claimed for four years only for jobs created before July 1, 2009 leads to an uneven playing field for companies that operate in New Mexico before and after that date.

TRD is concerned that current law gives companies an incentive to locate just outside the boundaries of municipalities with populations over 40 thousand. Under current law, a 10 percent credit can be claimed in an unincorporated area for wages over \$28 thousand, while wages of \$40 thousand would need to be paid to receive the credit in a nearby municipality.

TRD notes that the ability of this credit to stimulate economic development depends on a number of factors including the elasticity of demand for labor and final products (how responsive demand is to a change in cost). TRD recommends studying such complicated issues on an ongoing basis to determine the efficacy of the credit.

LFC notes that while individual credits, deductions and exemptions may have small fiscal impacts, their cumulative effect significantly narrows the gross receipts tax base. Narrowing the gross receipts tax base increases revenue volatility and requires a higher tax rate to generate the same amount of revenue.

PERFORMANCE IMPLICATIONS

EDD asserts that allowing companies to have easier access to the high wage jobs tax credit is critical to major recruitment projects.

ADMINISTRATIVE IMPLICATIONS

The administrative impact on TRD will be minimal.

CONFLICT

House Bill 326 conflicts with Senate Bill 174 as amended by the Senate Finance Committee. Senate Bill 174 as amended also extends the deadline by which a job must be created to qualify for the credit, but also creates a requirement for EDD to report annually to the legislature on the cost and impact of the credit.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

EDD reports that current recruitment efforts could be jeopardized if the deadline to create jobs is not removed or extended.

SS/bb