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

		ORIGINAL DATE	02/14/13		
SPONSOR	McCamley	**LAST UPDATED**	02/18/13	**HM**	44/aHTRC
SHORT TITLE	Study State Tax Incentives			**SB**	
				ANALYST	Leger

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY13	FY14	FY15	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		$5.0 - $130.0		$0.0 - $130.0	Nonrecurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to Senate Bill 7/SPACS

SOURCES OF INFORMATION
LFC Files

Responses Received From
Economic Development Department (EDD)
Department of Finance and Administration (DFA)
Legislative Finance Committee (LFC)
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of HTRC Amendment

The House Taxation and Revenue Committee amendment modifies the intent of the memorial to focus on specific areas such as the energy, technology, film and value-added technology agriculture.

Synopsis of Original Bill

House Memorial 44 (HM 44) requests the Economic Development Department (EDD), the Taxation and Revenue Department (TRD), and the Legislative Finance Committee (LFC) to perform an exhaustive study to assess all of the state's tax incentives and economic development initiatives in order to form a robust tax policy and economic development strategy directed at growth of the energy, technology, film, and value-added technology industries.

FISCAL IMPLICATIONS

According to the LFC, contractual funding has been utilized in the past to assist in such studies. The scope of the study would determine such cost.

The Department of Finance and Administration (DFA) reports, the budget impact of this proposal could likely be absorbed with current funding; however, this proposal will likely inhibit the ability of participants to complete other projects and research.
The TRD estimates, the analytical team will be composed of approximately 10 individuals). This would constitute an additional burden of an estimated 100 staff-days (i.e., approximately 800 staff-hours), with approximately 50 percent of those hours from the TRD resources, 30 percent from the EDD resources, and 20 percent from the LFC resources.

PERFORMANCE IMPLICATIONS

The TRD reports, there is already an Executive Order requiring that a tax expenditure report be prepared annually.

According to the DFA:

> Many states currently prepare tax expenditure budgets as a means of tracking the impacts of special tax provisions that reduce state revenue in order to target certain populations or activities. Three major challenges limit the usefulness of these reports: (1) significant amounts of detailed information are required, much of which is proprietary in nature; (2) reasonable people can disagree on the definition of tax expenditure, thus, a report is unlikely to satisfy all parties to the debate; (3) the state of the art of economic research does not enable reliable estimates of the full economic impacts of tax preferences.
>
> Many tax expenditures are difficult to measure due to insufficient data, limited time and resources, and estimation limitations. The volatility of some tax expenditures would further inhibit reliable calculations of future revenue impacts. The time required to complete such in-depth analysis would likely prevent the staff at these agencies from engaging in other interim projects and research that may prove beneficial to the state.
>
> The TRD in collaboration with the DFA successfully compiled a tax expenditure report in FY12. The report took approximately three months to complete and required the input of seven staff economists. In the recent past, tax expenditure reports have also been produced by the LFC and the TRD. These reports were initiated on the part of the executive or legislative branches without requiring a statutory mandate.

The TRD further states:

> Estimating the impact of compliance with this memorial is based on the TRD's experience in preparation of the 2012 Tax Expenditure Report. There are more than four hundred known potential tax expenditures that must be analyzed separately (i.e., many tax expenditures may be applicable to as many as five different tax programs or taxpayer refund revenue tracking systems). We are unfamiliar with the specific recording keeping as to the EDD's initiatives, but presume that significant challenges exist in extracting much of the data sought by the required analysis.

> From just the tax program perspective, if all of these individual tax programs must be investigated annually by the TRD's Tax Analysis, Research and Statistics staff, it is anticipated that 2.0 FTEs effort is required to extract, estimate and compile the foregone tax revenue data. It must be noted that there is no general agreement on the definition of every tax expenditure, and wide variety of "reasonable interpretations" among well informed analysts of tax expenditures will produce significant debate on these issues.
>
> This effort is independent of the standing Executive Order requiring similar analyses to define and quantify impacts of all tax expenditures. The scope of the analysis required by the Memorial and the TRDs prior experience with these effort allows us to reasonably anticipated to require the EDD, TRD and LFC representatives to meet at least monthly (approximately 4 hour meetings), and each representative would need a full day in preparation time before the meeting.

ADMINISTRATIVE IMPLICATIONS

The EDD, TRD, and LFC shall coordinate efforts of the study.

According to the EDD, within its strategic plan, has identified seven industry sectors, which include: Energy/Natural Resources; Aerospace/Defense; Value-Added Agriculture; Distribution, Logistics & Transportation; Advanced Manufacturing; Digital Media; and Back Office/Technical Support. HM 44 only identifies four industry sectors: Energy, Technology, Film and Value Added Technology Industries.

RELATIONSHIP

HM 44 relates to Senate Public Affairs Committee substitute for Senate Bill 7 (SB 7). SB 7 requires the consensus revenue estimating group to compile a tax expenditure budget for the next fiscal year and provide mandatory reporting of the tax expenditure analysis and budget to the governor, the legislative interim Revenue Stabilization and Tax Policy Committee and the LFC no later than October 15th of each year.

The report must include estimates from the EDD of jobs created.

TECHNICAL ISSUES

The memorial does not specify a date the study shall be completed.

OTHER SUBSTANTIVE ISSUES

The DFA reports the following:

> The memorial may indirectly provide information to business competitors by disclosing private business practices. Tax incentives are used for the purpose of retaining, expanding, and recruiting companies, and this bill could inhibit the state's ability to provide business incentives and create jobs.
>
> Moreover, this proposal does not take into account the administrative implications, privacy issues, and effects on business. New Mexico policy makers should have

knowledge of the cost of tax expenditures, but the plan should be developed with all stakeholders in mind.

One of the most difficult challenges in creating a tax expenditure plan is defining the revenue base against which tax expenditures should be measured. Much has been written about defining the base of income and excise taxes in other states and at the federal level, but New Mexico's gross receipts tax is unlike most sales taxes and will be more difficult to model.

According to the EDD, the Blue Ribbon Tax Reform Commission (BRTRC) was created by Laws 2003, Chapter 77 (HB 168) and was charged to "develop recommendations for reform of New Mexico's tax laws to establish a balanced tax system that provides maximum economic development benefits and maintains necessary government services at an appropriate level." That commission's general goal was to align New Mexico's taxes more closely with its economy and its future. The study identified 196 proposals; of which, seventy one (71) were adopted. One of the proposals identified includes: Reducing the Corporate Income Tax Rate; is being addressed in SB 277 – Single Sales and Reduce Corporate Sales Tax, sponsored by Senator Munoz in this year's legislative session.

In mid-2012, an executive committee, led by the EDD Secretary and driven by the private sector, came together to plan a summit designed to gather ideas and build consensus from business, community and economic development leaders throughout the state on how to create an economy for "the new century." From this summit the New Century Jobs Agenda evolved, though recommendations from the summit that were not legislative will be incorporated in the EDD's Five-Year Strategic Plan.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

According to the EDD, they will continue to assess its existing programs and maximize the use of the programs which are already working. As exhibited by the creation of the New Century Economy Summit, the agency will continue to take the lead on identifying tax, incentive programs, and strategic plans which will benefit the economic future for the citizens of New Mexico.

JLL/svb:blm