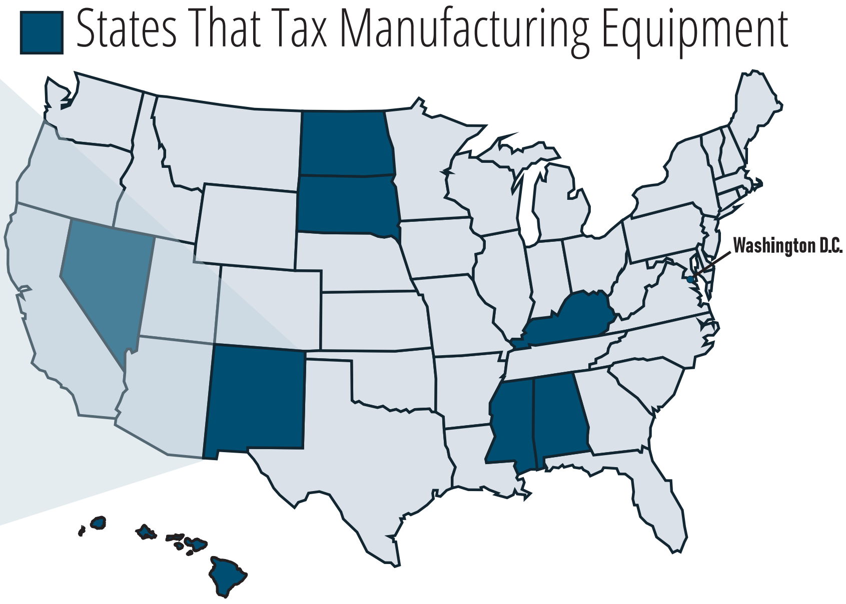
MFG INVESTMENT TAX CREDIT

EXTEND THE CREDIT TO

2030

AND ADJUST EMPLOYMENT REQUIREMENTS TO ALLOW FOR INCREASES IN INFLATION



FISCAL IMPACT OF THE CREDIT (THOUSANDS)	2014	2015	2016	2017	2018
	$8,710	$2,365	$2,004	$1,157	$1,235

Source: New Mexico Tax & Revenue Department, 2018 New Mexico Tax Expenditure Report

WHAT IS THE CREDIT?

The Investment Tax Credit is for equipment owned and introduced into New Mexico for use by a taxpayer in a new or expanded manufacturing operation. The credit is equal to the New Mexico compensating tax rate of 5.125%. The credit is limited to 85% of the taxpayer's compensating, gross receipts or withholding tax due for the reporting period. Any remaining credit may be claimed in subsequent reporting periods.

NEW IN 2019: DESTINATION-BASED SOURCING

During the 2019 legislative session, the state elected to move to destination-based sourcing for purposes of determining the tax rate on purchases. This means the tax rate on qualified equipment will be determined at the point-of-delivery, not the point-of-sale. The investment credit does not account for this change and manufacturers would be required to pay the difference between the compensating tax and the gross receipts tax on all manufacturing equipment used in their New Mexico operations, regardless of where the equipment was purchased. This would discourage manufacturers from making future equipment investments in New Mexico. **Therefore, we need to expand the credit to also apply against the gross receipts tax rate to ensure a competitive business climate.**

WHY DO WE NEED IT?

In 1979, the New Mexico Legislature enacted the credit to provide a favorable tax climate for manufacturing businesses and to promote increased employment in New Mexico. To date this credit has attracted manufacturing businesses in industries such as consumer products, pharma and natural health products, food and beverage, and more.

WHAT IS HAPPENING TO THE CREDIT?

Currently, there is no cap on the investment tied to qualified equipment, but after June 30, 2020, the current statute caps the amount of qualified equipment at $2 million in any taxable year. The credit currently requires a company to hire one full-time employee for each $500,000 of investment up to $30 million, and then one full-time employee for each million dollars invested thereafter. After June 30, 2020, companies will be required to hire one full-time employee for each $100,000 of qualified equipment. This is a major problem.

PROPOSED SOLUTIONS

AED is proposing to extend the credit out to July 1, 2030. We need to continue to have a tax climate that encourages investment of all sizes in our state. Please remember that employers will not make investment decisions without clarity as to tax treatment in future years, they need predictability.

- New and existing manufacturing companies expanding in our state typically make investments in equipment far greater than $2 million dollars. New Mexico needs a tax climate that continues to make us competitive for investment by manufacturers large and small.
- Change the employment requirement to be one full-time employee for each $750,000 of investment up to $30 million, and then one full-time employee for each million dollars invested thereafter. The current employment requirement became effective in 2003 and has not been adjusted for inflation in over 15 years.
- If a company was issued an Industrial Revenue Bond for the qualified equipment, then the company can only receive a credit equal to the compensating tax rate. This will keep the projected cost of the credit under this scenario the same as it is today.

To learn more, visit www.abq.org/advocacy.aspx or call 505-705-3777.

Albuquerque Economic Development