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

SPONSOR:	Pearce	DATE TYPED:	02/10/00	HB	283/aHAGC
SHORT TITLE:	Agricultural Processing Cluster Pilot Project			SB	
			ANALYST:	Williams	

REVENUE

Estimated Revenue		Subsequent	Recurring	Fund
FY00	**FY01**	**Years Impact**	**or Non-Rec**	**Affected**
	$ (180.0)	Grows; See Text	Recurring	General Fund
	$ (308.0)	Grows; See Text	Recurring	General Fund
	$ (192.0)	Grows; See Text	Recurring	Local Funds

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to <u>SB 246 is identical; HB 18 provides gross receipts tax deduction, but is mutually exclusive with the existing Investment Credit</u>

SOURCES OF INFORMATION

Taxation and Revenue Department (TRD) - Revised analysis

New Mexico Department of Agriculture (NMDA)

SUMMARY

Synopsis of HAGC Amendment

This amendment removes the bill's language on gross receipts tax deduction on construction of the plant, the value of the machinery and its installation and inserts new language. The amendment would provide a deduction from gross receipts from the sale of:

- •construction services and materials,
- •agricultural processing equipment and related installation services

to expand existing or construct new facilities for an agricultural processing operation if the construction service is sold to a qualifying entity that delivers a nontaxable transaction certificate to the person performing the otherwise taxable activity.

Synopsis of Original Bill

This bill would establish a pilot project for up to six applicant annually. The Secretary of Economic Development would approve and notify successful applicants.

The credit amount, limited to $30,000 per applicant per year against personal or corporate income tax liability. The credit claim would be determined by investment in "productive capital" and ranges from 25 percent of productive capital if the investment is made in the first year of operation to 5% if the investment is delayed until the fifth year of operation. Investments may be made in successive years, although the credit would decline.

The pilot project must be located in a rural area, enterprise zone or an area with a local economic development plan developed according to the Local Economic Development Act. Productive capital would include investments in machinery, computers and similar equipment which are part of the processing operation.

In addition, the bill authorizes a gross receipts tax deduction for the construction of the plant, the value of the machinery and its installation.

The bill amends 1999 legislation on rural job tax credits to include the six pilot projects per year within that credit.

Neither the income tax credit or gross receipts tax deduction prohibit simultaneous Investment Credit Act claims. Effective date would be 90 days after adjournment.

FISCAL IMPLICATIONS

In preliminary discussions with TRD, indications are that fiscal impact would not change due to this amendment. It appears mutually exclusive credits have been achieved, LFC will update upon receiving TRD analysis.

TRD estimates the bill would reduce recurring General Fund revenues by a total of $488.0 in FY01. This amount consists of $180.0 General Fund revenue loss from the production capital credit and $308.0 General Fund revenue loss from the gross receipts tax deduction. Local governments would also be impacted by the gross receipts loss by an estimated $192.0 in FY01. These amounts reflect the maximum first year impact of the bill. TRD notes the productive capital equipment credit may not apply at all, since it must be applied to personal or corporate income tax. It is expected that these credit will not be paid to start-up firms, but to existing firms, with profits and wages large enough to absorb the productive capital credits.

The amount of revenue loss is expected to grow over time, and TRD assumes investment is made to take maximum use of credits and deductions in the first four years after qualification. TRD estimates total general fund loss in FY06 of $1,194.0 for the production capital credit and gross receipts deduction. In addition, the rural jobs credit would reduce general fund revenues by an estimated additional $673.0 and the investment credit component could reduce general fund revenues by approximately $231.0. These provisions would not have a fiscal impact in the first effective year of the bill because the plants must be in service (for the investment credit) and wages must be paid (for the rural jobs credit). Finally, in FY06, local governments revenue loss is projected to be $295.0. TRD notes these impacts are difficult to estimate. A full discussion is included in their analysis.

ADMINISTRATIVE IMPLICATIONS

TRD estimates a full time clerk will be needed to account for and audit the three credit. The gross receipts tax deduction would require instructions and training of audit staff. Total cost is estimated at $40.0.

AW/gm