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

SPONSOR: Heaton DATE TYPED: 2/25/03 HB 632

SHORT TITLE: High-Wage Jobs Tax Credit SB

ANALYST: Neel

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	**FY04**			
	($0.1)	($1,000.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to:
HB 21 Amend Lab Partnership/Small Business Act
SB 12 Amend Lab Partnership/Small Business Act
HB 14 Technology Startup Tax Credit Act

SOURCES OF INFORMATION

LFC files

Responses Received From
Taxation Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 632 enacts a new section of statute to provide for "high wage jobs tax credits" for newly created private sector positions. The amount of the tax credit is graduated as follows:

- 5 percent paid to eligible employees whose position merits between 110 percent and 125 percent of the average wage paid in the county where the job is performed;
- 10 percent paid to eligible employees whose position merits 125 percent and over the average wage paid in the county where the job is performed;

The period by which the employer can claim the credit is based on the location and size of the county and municipality with the smaller counties (i.e. municipality or county less than 15,000) qualifying for three periods, medium sized municipalities or counties (populations of between 15,000 and 30,000) qualifying for two periods, and larger areas (larger than 30,000) qualifying for one period.

The tax credit can be taken against the taxpayer's modified combined tax liability (gross receipts tax, compensating tax and others), personal income tax liability or corporate income tax liability and may be carried forward for three years or may be sold or transferred.

HB 632 stipulates that the enterprise qualifying for the tax credit must be a growing business with employment greater on the last qualifying day of the credit than the day when the new positions was created. An eligible high-wage job must be one created on or after July 1, 2003, and prior to July 1, 2008. In addition, the job must be occupied for at least 48 weeks of either the year beginning when the employee begins working or the year beginning on the anniversary of the day they began working.

HB 632 requires the eligible employer to certify to TRD pursuant to a specified criteria that they are qualified to receive the tax credit. Eligible employer is defined as an employer who made more than 50 percent of its sales to persons outside New Mexico during the most recent 12 month of the employers modified combined tax liability reporting periods. Additional definitions are enumerated in the bill.

<u>Significant Issues</u>

The Legislature has consistently emphasized high technology job creation. During the 2002 session, it passed HB 40 *Software Development GRT Credit* (Laws 2002, Chapter 10) to provide a gross receipts tax deduction for receipts for software design and development and web-site design and development. The 2000 Legislature passed HB 19 *Technology Jobs Tax Credits* (Laws 2000, Chapter 22, 2nd SS) that provides a basic tax credit and an additional tax credit, both in the amount of 4 percent of the qualified expenditure made by a taxpayer conducting "qualified" research at a "qualified facility". To be eligible for the additional credit, the taxpayer must increase its payroll by $75.0 over the base payroll of the taxpayer for each $1.0 million of qualified expenditures.

Attachments 1 and 2 graphically depict New Mexico's need to "promote increased employment and higher wages". Attachment 1 shows New Mexico lagging the nation in nonagricultural employment growth. This under performance is projected to continue for the next few years. Similar to employment growth, Attachment 2 shows New Mexico maintaining higher personal income growth from 1991 to 1996 than the nation. However, this growth declined in 1996-1997 and fell behind the rest of the nation. The next four years saw lower personal income growth than the national average. In 2001, New Mexico's growth exceeded the national average due, in part, to the recession.

FISCAL IMPLICATIONS

TRD notes the following assumptions in determination of the fiscal impact:

The fiscal impact is based on an analysis of the In-Plant Training program provided by the Economic Development Department. A review of training awards from 2002 found that 22 employers were awarded training funds for 1,502 employees. Only 10 of these employees received wages between 110% and 125% of the county average. 212 employees received wages above 125% of the county average. The average wage of the first group was $16.78 per hour, while that of the second group was $21.78 per hour. Based on these data, this group of employers would qualify for approximately $1 million per year in credits. The department does not have a reasonable basis for extrapolating from the population of in-plant training employers to the wider population potentially eligible for the new credits. It is possible that a much larger group would receive credits, but the complicated record keeping required will probably hold down overall utilization of the credit.

There would be a limited fiscal impact in FY04 because of the requirement that an employee hold a job for 48 weeks before the employer can certify their eligibility for the credit.

ADMINISTRATIVE IMPLICATIONS

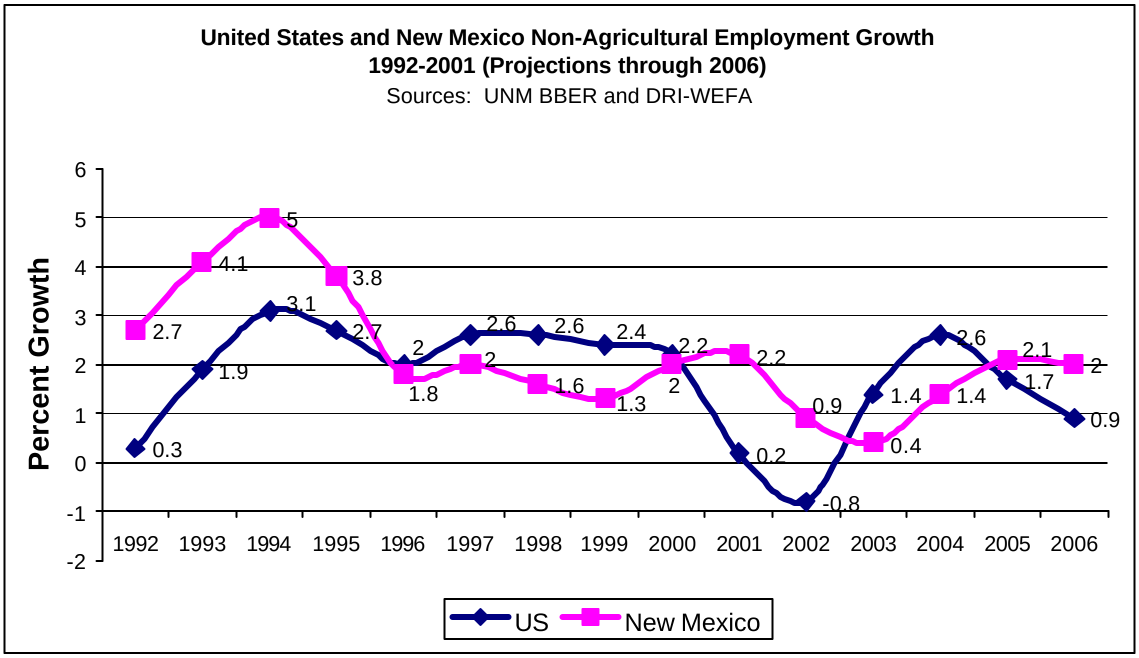
According to TRD, provisions in HB 632 would require significant revisions **to** forms, instructions and publications will have to be modified for the CIT, PIT, PTE and CRS systems. The new credit will require manual processes to track and record the credit. An application form and a claim form will have to be developed. An additional **0.2 FTE** will be required because of the manual processing required. The new forms will require 60 to 80 hours to develop and approve. The forms will have to be updated annually for the average county wage information.

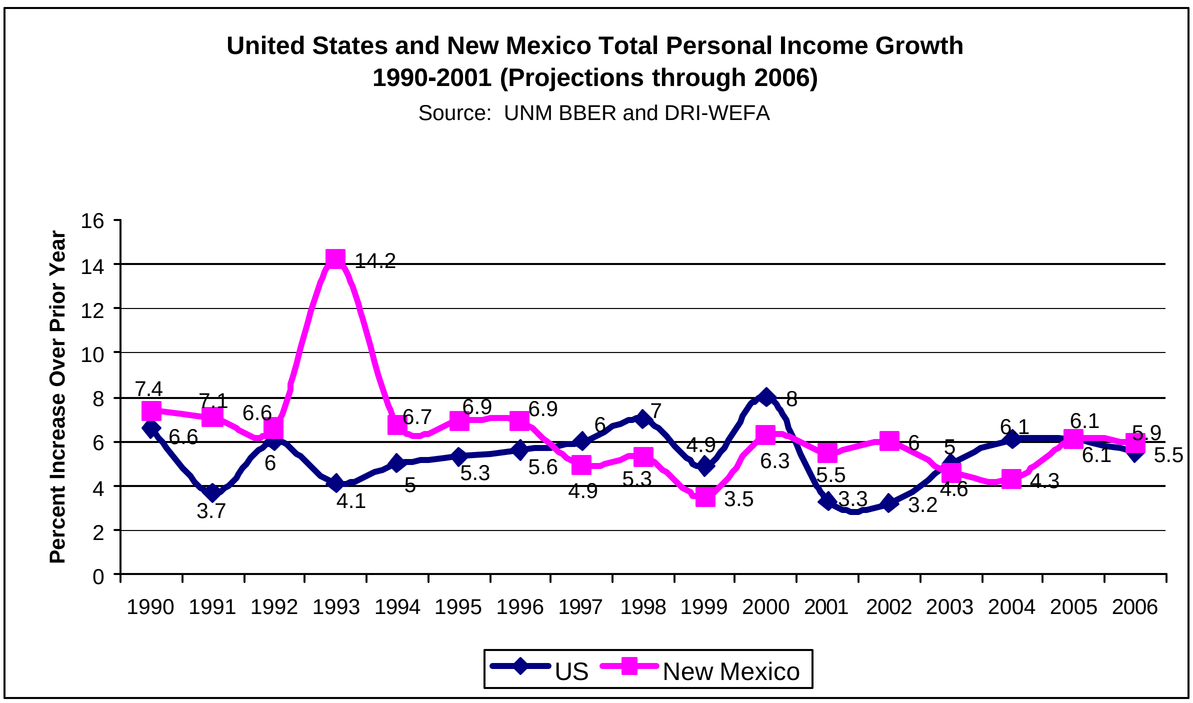
TECHNICAL ISSUES

TRD notes that record keeping on the part of the taxpayer and TRD would be extremely cumbersome and time consuming. As an example, there are several overlapping time periods the employer and the department must track to determine eligibility for the credit. One relevant period is the "qualifying period" for the job itself. The average wage during this period is compared to "the most recent" published annual average wage for the county, which would correspond to a different time period. Another relevant period is the most recent twelve months of the employer's combined tax liability reporting periods, which is needed to determine whether 50% of the employer's sales were to persons outside New Mexico. This latter determination will require extensive record keeping and reporting. It will also be difficult or impossible to confirm the validity of information on the destination point of sales.

SN/yr

Attachments


United States and New Mexico Non-Agricultural Employment Growth
1992-2001 (Projections through 2006)
Sources: UNM BBER and DRI-WEFA
Percent Growth
US
New Mexico


United States and New Mexico Total Personal Income Growth
1990-2001 (Projections through 2006)
Source: UNM BBER and DRI-WEFA
Percent Increase Over Prior Year
US
New Mexico