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

SPONSOR: Cervantes DATE TYPED: 2/26/03 HB 961

SHORT TITLE: Investment Credit Act Eligibility SB

ANALYST: Smith

REVENUE

Estimated Revenue		**Subsequent Years Impact**	**Recurring or Non-Rec**	**Fund Affected**
FY03	**FY04**			
	(1,000.0)	(500.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION

Responses Received From

TRD

SUMMARY

Synopsis of Bill

House Bill 961 allows taxpayers five years to apply for credit approval on equipment that was introduced into New Mexico before January 1, 2002.

The Investment Credit Act (Section 7-9A NMSA 1978) allows tax credits equal to 5% of the value of qualified equipment purchased and incorporated into certain manufacturing operations in the state. The credits may be claimed against gross receipts, compensating, or withholding tax liability. Minimum new employment levels must be achieved to qualify for the credits. A taxpayer is required to apply for approval of a credit within one year following the end of the calendar year in which the qualified equipment was purchased or introduced into New Mexico.

FISCAL IMPLICATIONS

TRD evaluated denied applications for investment credit to determine the fiscal impact.

TECHNICAL ISSUES

TRD points out that under current law, a taxpayer applies for credit, at which point the department determines if the appropriate number of employees was added ***in the year in which the taxpayer applies for credit***. This proposal changes the employment requirements for equipment purchased on or before January 1, 2002 so that applications are evaluated based on the number of employees added ***in the year in which the taxpayer is claiming credit***. Taxpayers currently cannot claim credits until they have applied and been approved for credit. Under this proposal, the department would have to approve the credit tentatively, and then monitor the increase in employment as the credit is claimed.

OTHER SUBSTANTIVE ISSUES

Currently, approximately 35 taxpayers actively claim credits totaling $10 to 12 million annually. Approximately 65% of the credits are applied to withholding tax, 32% to compensating tax, and 3% to gross receipts tax liabilities. Taxpayers have more than $30 million in credit balances still outstanding. These amounts can be carried forward and applied against future year's tax liability.

SS/njw