

NOTE: As provided in LFC policy, this report is intended only for use by the standing finance committees of the legislature. The Legislative Finance Committee does not assume responsibility for the accuracy of the information in this report when used for other purposes.

The most recent FIR version (in HTML & Adobe PDF formats) is available on the Legislative Website. The Adobe PDF version includes all attachments, whereas the HTML version does not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

SPONSOR: Maes DATE TYPED: 2/21/03 HB _____

SHORT TITLE: Water Assistance Tax Credit SB 8/aSCC

ANALYST: Smith

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	FY04			
	(3,000.0)	(7,000.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

Responses Received From
TRD

SUMMARY

Synopsis of SCC Amendment

The Senate Conservation Committee amendment corrects small drafting errors that made reference to “small business” and “small business assistance” on page 4. The amendment also strikes the word “of” and replaces it with “or” on page 7, line 8.

Synopsis of Original Bill

SB8 creates the “Water Technology Assistance Tax Credit Act.” The Act provides a credit of 100% of qualified expenditures to a national laboratory and its contractors to provide technical assistance to various New Mexico entities to help resolve water issues. Qualified expenditures include: payroll expenses, administrative costs (capped at 75% of payroll expenses), in-state travel expenses, contractor supplies and services, and expenses related to the operation of the water assistance council. The amount of qualified expenditure eligible for credit is limited to \$100 thousand per partner for a calendar year for technical assistance (information sharing, lab testing and educational outreach), and \$400 thousand per partner for a calendar year for technology development (field testing, model development, engineering services).

To be eligible to claim the credit, the laboratory must provide to the Taxation and Revenue Department (TRD) a quarterly report including a list of partners assisted, certification from both the

laboratory and the partner that the assistance could not be obtained for a reasonable cost from private industry, qualified expenditures attributed to each partner, description of assistance

provided, and the name of the provider. The total annual credit amount is limited to \$7 million per year.

Additionally, a “water assistance council” is created to provide some oversight of the program, and to assist the national laboratory in identifying critical water needs of the state and potential beneficiaries of the program.

FISCAL IMPLICATIONS

The estimate assumes a lag time. However, it is a certainty that the labs would find a way to utilize the full credit.

TECHNICAL ISSUES

TRD notes that on page 4, lines 17 through 23, there are repeated references to “small business” and “small business assistance”. These should be changed to “partner” and “water-related assistance”.

OTHER SUBSTANTIVE ISSUES

- TRD makes the following policy observations:
The laboratory may contract with outside entities to aid in the provision of water technology assistance, so some of the subsidy flows from the lab to contractors. Thus the lab, rather than acting solely as a provider of technical assistance, essentially becomes an administrator of a state-funded assistance program responsible for allocating state funds. A direct appropriation to the relevant state agency to operate this program *by contract* is a less expensive means of funding this program and would provide closer oversight.
- The proposed rate of subsidy is 100% up to the specified caps. Thus, the state is providing all of the funding for the targeted activities.
- This law has a narrowly targeted number of beneficiaries. Targeting preferential tax treatment to specific entities increases complexity and sets precedents that other taxpayers can use to obtain similar tax preferences. By reducing the tax base, the large number of exemptions and deductions in the gross receipts tax statutes reduces the revenue that can be generated, puts pressure on state and local budgets, and puts upward pressure on tax rates.
- This proposal is similar to the current “Laboratory Partnership with Small Business Tax Credit Act” which provides a tax credit to the lab for providing technical assistance to small businesses in the state. The lab reports providing technical assistance to 300 New Mexico small businesses annually, at a cost of nearly \$1.5 million to the state.