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FISCAL IMPACT REPORT

SPONSOR Griego DATE TYPED 02/22/05 HB _____

SHORT TITLE Tax Credit For Businesses Near Road Projects SB 312

ANALYST Padilla-Jackson

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
(\$9,500.0)*	(\$19,000.0)*		Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 312 would create a section in the Income Tax and Corporate Income Tax Act to allow tax credits for New Mexico businesses adversely affected by road construction projects. The allowed tax credit against personal and corporate income tax would be equal to a reduction in the taxpayer's income resulting from highway construction by the Department of Transportation (DOT) within one mile of the taxpayer's business.

The provisions of the bill would apply to taxable years beginning on or after January 1, 2005.

FISCAL IMPLICATIONS

*Estimating the fiscal impact of this bill is difficult, since it would require that one estimate the amount of lost sales that eligible businesses will claim or how many DOT road construction projects that will take place in a given year.

The -\$19 million estimate in the table is a rough approximation by TRD of the bill's potential full-year fiscal impact to the general fund. To provide this estimate, TRD assumed that there are 150,000 businesses in the state, and that two percent of business owners (or 3,000 owners) would

have their income reduced by 20 percent due to road construction projects. TRD concluded that the resulting impact on state revenue would be the \$19 million, which implies total impacted revenue of approximately \$292 million. TRD cautions that the DOT undertakes projects in many locations near businesses in high-population areas and that fiscal impacts of the proposed measure, although highly uncertain, could be very substantial.

ADMINISTRATIVE IMPLICATIONS

The bill would reportedly impose moderate administrative impacts on TRD, including developing a new claim form, changing tax forms and publications, taxpayer outreach, staff education, and development of new audit and compliance procedures.

TECHNICAL ISSUES

It would be difficult for the taxpayer to measure and prove that a specific amount of lost sales were attributable to the road construction. The bill might be easier and less costly to implement by establishing a maximum percentage of lost sales that can be claimed for the tax deduction.

OTHER SUBSTANTIVE ISSUES

TRD notes that by reducing state tax obligations, the proposed measure would tend to increase federal tax liability because state tax obligations are deductible against federal liability. Hence the net taxpayer benefit would be less than the amount of credits claimed. Credits providing \$1,000 in state tax savings would, for example, be reduced to \$800 for a taxpayer in the 20 percent federal tax bracket.

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