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FISCAL IMPACT REPORT

ORIGINAL DATE 2/3/06

SPONSOR Lujan, B LAST UPDATED 2/8/06 HB 440/aHBIC

SHORT TITLE Laboratory & Small Business Tax Credits SB _____

ANALYST Schardin

REVENUE (dollars in thousands)

| Estimated Revenue | | | Recurring or Non-Rec | Fund Affected |
|-------------------|---------|------|-------------------------|------------------|
| FY06 | FY07 | FY08 | | |
| | (600.0) | | Recurring | General Fund |

(Parenthesis () Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

| | FY06 | FY07 | FY08 | 3 Year Total Cost | Recurring or Non-Rec | Fund Affected |
|--------------|------|-------|-------|----------------------|-------------------------|------------------|
| Total | | 100.0 | 100.0 | 200.0 | Recurring | General Fund |

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of HBIC Amendment

The House Business and Industry Committee amendment to House Bill 440 includes language that will require TRD to track credits claimed by national laboratories by the small business assisted to ensure that credits awarded are associated with specific small business assistance requests (see Administrative Impacts).

The amendment also expands eligibility requirements for claiming the laboratory partnership with small business tax credit. To be eligible for the credit, the national laboratory providing small business assistance will be required to 1) offer each small business receiving assistance the option of obtaining ownership of license to property developed through the assistance; 2) acknowledge that the small business assistance is rendered only after it is completed; and 3) pro-

vide forms for small business assistance requests and for completion of small business assistance that are in accordance with state and federal laws.

The amendment also changes reporting requirements so that a report from one national laboratory claiming the credit will be due to TRD by October 15 of each year (see Technical Issues).

Synopsis of Original Bill

House Bill 440 expands the existing laboratory partnership with small business tax credit. The bill increases the credit that a national laboratory can claim for assistance to a small business in a rural area from \$5 to \$10 thousand per year, and increases the credit that a national laboratory can claim for assistance to each small business in a non-rural area from \$10 to \$20 thousand per year. The total amount of credits that can be claimed by a national laboratory is increased from \$1.8 to \$2.4 million per year.

The bill will also require national laboratories claiming this credit to submit a joint annual report to TRD, the Economic Development Department, and the appropriate legislative interim committee by July 1 of each year. The report will summarize program results, describe projects funded, provide survey results, quantify the total amount of credits claimed, and include an economic impact study of jobs created and retained.

Finally, if more than one national lab claims the credit, those labs will be required to coordinate their efforts.

The effective date of these provisions is July 1, 2006.

FISCAL IMPLICATIONS

Under current law, Sandia National Laboratories are eligible to claim \$1.8 million per year in credits. By increasing the total amount of credits that a national laboratory can claim per year by \$600 thousand, the bill will reduce state gross receipts tax collections from Sandia National Laboratories by \$600 thousand per year.

Due to the new contract signed by Los Alamos National Lab, it is likely that LANL will soon become eligible to claim the credit as well. If Los Alamos becomes eligible the cost of the credit will increase by another \$2.4 million per year.

Since this credit can only be claimed against the state portion of gross receipts tax liability it has no impact on local governments.

SIGNIFICANT ISSUES

According to TRD, this credit benefited 278 small businesses in 2004.

ADMINISTRATIVE IMPLICATIONS

The House Business and Industry Committee amendment creates significant administrative impacts for TRD by requiring TRD to track the credit received by each individual small business that receives assistance from a national laboratory through this credit. In 2004, 278 small businesses received assistance through this credit. TRD would need to verify that each of these businesses requested and received assistance meeting the necessary requirements. This tracking would need to be done manually and would require two additional FTEs. The salaries and other costs associated with these two FTEs are estimated to be \$200 thousand per year.

TECHNICAL ISSUES

TRD notes that to qualify for the program, small businesses must certify that assistance is not available at a reasonable cost through private sources. There is currently no mechanism in place to verify these assertions.

The House Business and Industry Committee Amendment to Section 6 A. creates different reporting requirements for years in which one or more national laboratories claim the credit. The original bill would require all reports to be submitted to TRD, EDD and the appropriate interim legislative committee. The amendment changes language so that if only one national laboratory claims the credit the report will only be submitted to TRD, but if more than one national laboratory claims the credit it will be submitted to TRD, EDD and the appropriate interim legislative committee.

According to TRD, it is unclear why the House Business and Industry Committee amendment requires TRD to oversee the type of assistance requested and provided when national laboratories claiming the credit already track this information and provide each year in the annual report.

SS/mt:nt