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FISCAL IMPACT REPORT

ORIGINAL DATE 02/09/11
LAST UPDATED 03/11/11 **HB** 239/aHTRC

SPONSOR Garcia, T.

SHORT TITLE Veteran Employment Tax Credit **SB** _____

ANALYST Golebiewski

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY11	FY12	FY13		
	(\$210.0)	(\$420.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY11	FY12	FY13	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		\$46.0	\$40.0	\$86.0	Recurring	Taxation and Revenue Department

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

Department of Veterans' Services (DVS)

SUMMARY

Synopsis of HTRC Amendment

The House Tax & Revenue Committee Amendment to House Bill 239 increases the eligibility requirements for corporations that claim the veteran employment tax credit; the corporation must be wholly owned by an honorably discharged New Mexico veteran. The fiscal impact estimates above reflect the expectation that 30 percent of veterans work for entities that do not qualify for the tax credit.

Synopsis of Original Bill

House Bill 239 would give business owners a \$300 tax credit for each qualified military veteran employed full time in New Mexico by the taxpayer for at least eight months during the taxable year. The taxpayer may not claim the credit for any individual qualified military veteran for more than two calendar years from the date of hire. The bill requires the Veterans' Services Department to adopt rules establishing procedures to certify qualified military veterans for this credit. There is a limit of \$2,000,000 in the aggregate annual veteran employment tax credit. The Department is also required to compile an annual report that includes the number of taxpayers approved by the Department to receive this credit, amount of credit approved, the number of qualified military veterans hires, the length of time the veteran is employed while the taxpayer received the credit and any other information required by the legislature to aid in evaluating the effectiveness of the credit. An appropriate legislative committee shall review the effectiveness of the credit every five years beginning in 2016.

This bill also amends the Corporate and Franchise Tax Act to provide a similar credit.

FISCAL IMPLICATIONS

TRD:

There were 1,029 veterans honorably discharged from the military during federal fiscal year 2008 who now live in New Mexico; this number is assumed to hold constant over time.

SIGNIFICANT ISSUES

TRD:

This tax expenditure will make it slightly more profitable for employers to hire veterans than non-veterans. This may attempt to accomplish other public policy goals but it violates the tax policy principles simplicity, efficiency, and equity. It adds complexity to New Mexico's tax system, it provides an incentive for businesses to act not solely based on the most efficient hiring choices, and it creates divergent tax treatment of similar employers.

ADMINISTRATIVE IMPLICATIONS

TRD:

Revise the 2011 income tax forms and instructions to include this credit at no additional cost. Create two new forms with instructions and revise publications at a cost of \$6,000. 1/2 FTE at a cost of \$40,000 would be required to perform internal audits, track the credits and compile the annual reports. Also, the bill calls for the Department to audit the veteran's services records periodically which would require at least one additional auditor to perform this function.

DVS:

DVS will establish rules establishing procedures to determine who is a qualified veteran in order to obtain the veteran employment tax credit. These rules must also ensure that the qualified veteran is not claimed by more than one business for each tax year that they are qualified.

The agency would have to dedicate an FTE to handle the required issuance of a certificate of eligibility to the veteran. This certificate will be provided to the Department of Tax And Rev by the employer in order to claim the credit.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Related bills include HB-89, HB-265 and SB-217.

TECHNICAL ISSUES

TRD:

Page 5, Subsection M – This bill defines “New Mexico business” but the bill does not use the term “New Mexico business”. The bill uses NM sole proprietor, partnership, limited liability company and corporation. In addition, the definition seem to qualify any entity that carries on a trade or business in NM and the business does not have to be NM based or even have a NM location.

The definition of “qualified military veteran” does not take into account veterans who were injured and had to rehabilitate for a period longer than a year after discharge, making them ineligible.

JAG/svb:mew