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

		ORIGINAL DATE	03/01/11		
SPONSOR	O'Neill	**LAST UPDATED**		**HJM**	49
SHORT TITLE	Job Creation Tax Credit Legislation Study			**SB**	
				ANALYST	Graeser

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY11	FY12	FY13		
	See narrative	See narrative	Non-recurring	All State and Local Funds

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Economic Development Department (EDD)

SUMMARY

Synopsis of Joint Memorial

House Joint Memorial 49 requests the Taxation and Revenue Department and the Economic Development Department study the feasibility of establishing (by legislation) job creation tax credits to foster economic growth and provide jobs for New Mexicans.

The apparent impetus of this study is the Federal Job Creation Tax Credit which is a refundable tax credit available to employers who expand the portion of their payroll that is subject to Social Security tax in 2010 and 2011. If a federal credit applicable throughout the US is good for the US, then, perhaps, a piggyback credit applicable throughout the State would be good for the state.

FISCAL IMPLICATIONS

The study would involve economists from the Department of Workforce Solutions (who understand the drivers of employment) and from the Department of Finance and Administration (who maintain and use a computable general equilibrium model of the State's economy which would be used to model intrastate and interstate tradeoffs) in addition to economists from TRD and EDD. This study would not require additional resources, but would take between 80 and 100 hours of total effort, and numerous meetings. After all, four or more economists would have to agree on the recommendations.

SIGNIFICANT ISSUES

EDD discusses the policy implications of this study:

> HJM49 references the Federal Job Creation Tax Credit which is a refundable tax credit available to employers who expand the portion of their payroll that is subject to Social Security tax in 2010 and 2011. The federal job creation tax credit is paid on increases in total payroll subject to Social Security taxes, so firms will receive the credit for adding new jobs, adding hours for existing workers or simply raising pay. The federal tax credit equals 15% of additions to taxable payroll in 2010 and 10% in 2011. The higher credit in 2010 encourages employers to front-load their hires. Furthermore, because the credit is based only on that portion of payroll subject to Social Security taxes, wage increases given to very highly paid workers (those whose earnings exceed the Social Security tax threshold of $106,800 in 2009) would not be eligible for the credit.
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> **Federal vs. state job creation tax credits**
> Some other states have employer tax credits that purport to create jobs. These frequently are permanent tax credits and may, or may not, create jobs. NM should consider the design of a job creation tax credit that addresses the following:
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> - Design the tax credit to be tightly targeted at job creation. It should be difficult for employers to claim the credit unless they are actually expanding employment and payroll. [LFC comment: ideally, the credit should be designed to reward increases in measurable jobs, not just an increase in payroll.]
> - Consider the employer's [compliance burden]. New Mexico's tax system is complicated as it is so technical and administrative aspects [of a job creation tax credit] should be considered.
> - Due to the State's balanced-budget requirements, the state would have to finance this tax credit by reducing spending or increasing other taxes. Such measures at least partially offset any economic benefits of a job creation tax credit and may create other social costs.
> - A permanent statewide job creation tax credit may not have sufficient social benefits to justify its costs. The social benefits of creating jobs are much higher when and where unemployment is high.
> - From a recruiting perspective, a state-level job creation tax credit may attract jobs away from another state with a more depressed economy.
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> The federal job creation tax credit is not permanent and is reduced in the second year on the following assumptions:
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> - First, improved employment conditions in 2011 will reduce the need for the credit.
> - Second, as conditions improve, employers who would have expanded in the absence of the credit will still be able to take advantage of it, so reducing the second year credit helps control its cost.

[If the creation of a state-level job creation tax credit is found to benefit the state, the study should also consider whether the recommended state-level job creation tax credit should be temporary or permanent and/or whether the tax credit should be fixed or decline over time.]

EDD implicitly recommends that any state job creation tax credit be phased to provide maximum stimulus in the short term, a declining stimulus over the next two years and no stimulus when the State economy is back on track.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

EDD points out the rationale for a State level job creation credit by describing the consequences of not enacting a study of a job creation tax credit:

> The freeze of financial markets [during the recession] destroyed business confidence and led to big cuts in employment and capital investment. Such capital investment projects are labor intensive during the R&D and construction phase and in an operational facility, labor costs are mainly the reason companies downsize. Rewarding investments in people by subsidizing labor costs may improve our employment base.
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> A job creation tax credit in NM that is not permanent may stimulate the entrepreneur by giving a "limited time offer" to start new endeavors or expand their production.
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> On the other hand, due to the State's balanced-budget requirements, the state would have to finance this tax credit by reducing spending or increasing other taxes. Such measures at least partially offset any economic benefits of a job creation tax credit and may create other social costs.

LG/bym