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

ORIGINAL DATE 02/01/11

SPONSOR Beffort **LAST UPDATED** ______ **HB** ______

SHORT TITLE Family Assistance Employer Tax Credits **SB** 135

ANALYST Golebiewski

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY11	**FY12**	**FY13**		
	($50.0)	($55.0)	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		$110.0	$110.0	$220.0	Recurring	TRD and DWS

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From
Department of Workforce Solutions (DWS)
Taxation and Revenue Department (TRD)
Attorney General's Office (AGO)

SUMMARY

Synopsis of Bill

Senate Bill 135 provides Personal and Corporate Income Tax credits for private sector employers qualified to claim the federal work opportunity tax credits for providing jobs to long-term family assistance recipients located in high-unemployment counties. The purpose of the program is to supplement federal work opportunity tax credits and to provide an additional incentive to employers to hire individuals who are long-term family assistance recipients.

The bill also requires "the department" to compile an annual report that includes the number of taxpayers approved to receive a work opportunity income tax credit and the aggregate amount of those credits approved by the department. The Revenue Stabilization and Tax Policy Committee is also required to review the program's success every five years beginning in 2013.

FISCAL IMPLICATIONS

TRD:

Historical New Mexico Personal and Corporate Welfare-to-work credit data was used to estimate the work opportunity income tax credit amounts. Historical count and amount growth patterns were used to estimate the amount for future years.

SIGNIFICANT ISSUES

AGO:

SB 135 makes some cosmetic changes to NMSA 1978, Section 7-2-18.5 to reflect changes in federal law. Specifically, references to "welfare-to-work" have been changed to "work opportunity tax" and citations to 26 U.S.C. Section 51A have been changed to 26 U.S.C. 51. SB 135 also explains the purpose of the tax credit.

Without the change in verbiage proposed in Senate Bill 135, what was formerly known as the "welfare-to-work" program would not continue in New Mexico because of the change in federal law. The reporting and oversight mandates improve the program to allow the state to better assess the costs and benefits of the program.

ADMINISTRATIVE IMPLICATIONS

DWS:

DWS would require two full time equivalent (FTE) employees to administer the proposed tax credit program in order to ensure New Mexico businesses prompt service. Impact on the current budget would include an increase to the operating budget in the 200 category (personal services and employee benefits) to include two FTEs at a cost of $43,000 each for salaries and benefits, and an increase of the 400 category (other) by $4,000 for cost center overhead, for a total increase of $90,000.

TRD:

Moderate systems impact with an effective date of 90 days following adjournment, system modifications would be considered for current tax year (750 hours; $67,500). If the change is effective beginning tax year 2012, the impact is significantly reduced to Low impact (200 hours; $18,000). All changes could be handled during new year configuration that is typically undertaken. In addition, tracking and monitoring the credit and creating an annual report will require additional manual resources, at a cost of $20,000 for 1/3 of an FTE. One-time costs include revising PIT and CIT forms and coordinating with Workforce Solutions to develop processes at a cost of about $4,000.

TECHNICAL ISSUES

TRD:

Section 9-15-56 NMSA 1978 imposes the requirements described below on new economic development incentives. If the provisions of that section apply to SB-135, they appear to require some amendments to the legislation.

9-15-56. Economic development tax incentives; guidelines.

A. An economic development tax incentive shall include in the enabling statute the following minimum provisions:

(1) a statement of purpose;

(2) the designation of a responsible agency to establish measurable policy goals, track state expenditures, quantify the state's return on investment and report regularly to the interim revenue stabilization and tax policy committee and the legislative finance committee;

(3) a requirement that the economic development department track job creation;

(4) specific standards for the taxpayer to qualify for the incentive;

(5) reporting requirements for the taxpayer;

(6) a description of the financial obligation of the taxpayer if the specific standards are not met; and

(7) a mandatory review of the incentive no more than every seven years.

B. The economic development department shall publish annually an aggregate list of the economic development tax incentives used by each taxpayer.

C. For the purposes of this section, "economic development tax incentive" means a credit, deduction, rebate, exemption or other tax benefit for the primary purpose of promoting economic development or offering an advantage to a particular industry or type of business to do business in New Mexico.

D. Nothing in this section shall be construed to conflict with current confidentiality rules or statutes.

The effective date leaves some uncertainty whether the credit applies to the entire year of 2011 potentially making the bill difficult and costly to administer. An applicability date describing the first tax year to which the provisions apply would clarify.

Senate Bill 135 should also clarify which “department” is required to submit an annual report – not clear whether it is Taxation and Revenue Department or Department of Workforce Solutions.

JAG/svb