

**BILL ANALYSIS AND FISCAL IMPACT REPORT**  
**Taxation and Revenue Department**

**January 22, 2024**

**Bill:** SB-107

**Sponsor:** Senator William E. Sharer

**Short Title:** Increase Rural Job Tax Credit

**Description:** This bill amends Section 7-2E-1.1 NMSA 1978 to remove the carryforward and transferability provisions of the Rural Job Tax Credit, and instead make it refundable. The credit is also increased by allowing it to apply to the first \$32,000 of wages, up from \$16,000.

**Effective Date:** Not specified; 90 days following adjournment (May 15, 2024). Applicable for Rural Job Tax Credit claims against a taxpayer's modified combined tax liability, for qualified jobs created in calendar quarters beginning on or after July 1, 2024; and for Rural Job Tax Credit claims against a taxpayer's personal income tax liability or corporate income tax liability, for qualified jobs created in taxable years beginning on or after January 1, 2024.

**Taxation and Revenue Department Analyst:** Sara Grubbs

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2024	FY2025	FY2026	FY2027	FY2028		
--	(\$1,410)	(\$1,710)	(\$2,080)	(\$2,530)	R	General Fund

\* In thousands of dollars. Parentheses ( ) indicate a revenue loss. \*\* Recurring (R) or Non-Recurring (NR).

**Methodology for Estimated Revenue Impact:** The Taxation and Revenue Department (Tax & Rev) reviewed the historical claims of the Rural Job Tax Credit. The average aggregate amount applied towards personal income tax (PIT), modified combined tax, and corporate income tax (CIT) liability in the last three fiscal year years is \$435,000. Use of this credit widely varies from year-to-year with overall growth of 7.9%.

Tax & Rev incorporated a 61% growth rate on the base amount of the credit to account for the newly introduced refundability of the credit. This growth rate was calculated based on the amount of credit claimed for three other credits that were amended from nonrefundable to refundable: the New Solar Market Development Income Tax Credit, the Renewable Energy Tax Credit, and the Technology Jobs and Research & Development Tax Credit.

Using a sample of taxpayers that have claimed the credit between 2020 and 2022, Tax & Rev estimated the impact of doubling the credit by tier from \$16,000 to \$32,000. Tax & Rev also applied the percentage of approved claim amounts to applied claim amounts as some claims are partially approved or denied.

To account for the variability in the aggregate expenditure of the Rural Job Tax Credit, Tax & Rev assumes a growth rate of 22% from FY2026 and forward.

**Policy Issues:** While tax incentives can support specific industries or promote desired social and economic behaviors, the growing number of such incentives complicate the tax code. Introducing more tax incentives has two main consequences: (1) it creates special treatment and exceptions within the code, leading to increased tax expenditures and a narrower tax base, which negatively impacts the General Fund; and (2) it imposes a heavier compliance burden on both taxpayers and Tax & Rev. Increasing complexity and exceptions in the tax code is generally not in line with sound tax policy.

The Rural Job Tax Credit is only available to taxpayers in rural areas. This will continue to affect horizontal equity in state income taxes by offering one taxpayer a competitive advantage over another. Historically, the number of taxpayers that apply for this credit can be as little as one and the aggregate credit amount of the credit has fallen since 2019. There is a possibility that awareness of this credit has dwindled over time. It is also possible that the compliance requirements are offsetting the attractiveness of the credit. However, increasing the maximum wages and adding refundability may increase its attractiveness to employers.

The bill does not have a sunset date. Tax & Rev supports sunset dates for policymakers to review the impact of a credit before extending them. Given the increase in wages for this credit and the uncertain cost to the state, a sunset date would force an examination of the benefit of this credit versus the cost.

Additional analysis of Section 7-2-34 NMSA 1978 can be found in the 2023 New Mexico Tax Expenditure Report.<sup>1</sup>

**Technical Issues:** None.

**Other Issues:** The removal of the carryforward and transferability provisions would simplify administration.

**Administrative & Compliance Impact:** Tax & Rev will make information system changes and update forms, instructions, publications. These changes will be included in annual tax year changes.

Tax & Rev’s Administrative Services Division (ASD) will test credit sourcing, update reports and perform other systems testing. It is anticipated this work will take approximately 40 hours split between 2 Full-Time Equivalent (FTE) of a pay band 70 and pay band 80 at a cost of approximately \$2,900.

Implementing this bill will have a moderate impact on Tax & Rev’s Information Technology Division (ITD), approximately 440 hours or 3 months and \$24,420 of staff workload costs.

There is a slight impact for the Tax & Rev’s Revenue Processing Division (RPD) workload, which will include refund work. However, this workload is offset by reducing the number of claims processed for multiple periods for carryforward.

Estimated Additional Operating Budget Impact*				R or NR**	Fund(s) or Agency Affected
FY2024	FY2025	FY2026	3 Year Total Cost		
--	\$2.9	--	\$2.9	NR	Tax & Rev – ASD – Staff workload
--	\$24.4	--	\$24.4	NR	Tax & Rev – ITD – Staff workload

\* In thousands of dollars. Parentheses ( ) indicate a cost saving. \*\* Recurring (R) or Non-Recurring (NR).

<sup>1</sup> See <https://www.tax.newmexico.gov/forms-publications/>  
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