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

		ORIGINAL DATE	1/20/06		
SPONSOR	Gonzales	**LAST UPDATED**	1/27/06	**HB**	200
SHORT TITLE	Advanced Energy Product Tax Credit Act			**SB**	
				ANALYST	Schardin

REVENUE (dollars in thousands)

Estimated Revenue			**Recurring or Non-Rec**	**Fund Affected**
FY06	**FY07**	**FY08**		
	(175.0)	Increasing	Recurring	General Fund
	(25.0)	Increasing	Recurring	Local Governments

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to HB128 and SB254.

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
Energy Mineral and Natural Resources Department (EMNRD)
Economic Development Department (EDD)
New Mexico Environment Department (NMED)

SUMMARY

Synopsis of Bill

House Bill 200 creates the Advanced Energy Product Manufacturers Tax Credit for businesses that manufacture advanced energy products, which are defined as motor vehicles propelled in whole or in part by electricity that have a hybrid motor, fuel cell systems, renewable energy systems, or any component of hybrid vehicles, fuel cell systems, renewable energy systems, or clean coal technologies.

A credit of up to 5 percent of a taxpayer's expenditures on advanced product manufacturing equipment may be deducted from a taxpayer's total liability from state gross receipts tax, compensating tax, withholding tax, interstate telecommunications gross receipts tax, 911 emergency surcharge, network and database surcharge, and telecommunications relay service surcharge.

Any unused tax credit may be carried forward for three years.
To qualify for the credit, the manufacturer must employ at least one more full-time employee than in the previous year for every $500 thousand of equipment expenditures up to $30 million, and at least one more full-time employee than in the previous year for every $1 million of expenditures over $30 million. Existing employees can count toward the employment requirements if the taxpayer trained the existing employee, or the employee was hired to use the qualified equipment.

Advanced energy product manufacturers may apply for the credit any time within the calendar year following the calendar year in which they purchased qualified manufacturing equipment.

If a taxpayer who receives this credit ceases operations in New Mexico for 180 or more consecutive days within two years after applying for the credit, the taxpayer rights to the credit and must pay all taxes for which the credit was awarded.

The effective date of this bill is July 1, 2006.

FISCAL IMPLICATIONS

TRD assumes that investments eligible for the new tax credit will total $4 million each year. With a gross receipts tax of 5 percent, this means credits will total $200 thousand per year. TRD anticipates that tax liability for claimants of the credit will be large enough to absorb the entire $200 thousand.

The credit will primarily impact the general fund, but several other funds will experience small impacts. Claims against the gross receipts and compensating taxes will impact the general fund and local governments. Overall, general fund revenue will be reduced by about $175 thousand and local government revenue will be reduced by about $25 thousand.

SIGNIFICANT ISSUES

According to EMNRD and EDD, this bill will create jobs in and generate revenues from the advanced energy technology sector. The bill encourages the recruitment and retention of an advanced energy cluster economy. They note that in combination with New Mexico's world-class renewable energy resources and the technical expertise existing at New Mexico's universities and national laboratories, this incentive will make the state more attractive for the relocation of advanced energy businesses. Further, jobs created by this bill will tend to be in economically depressed rural and semi-rural parts of the state.

PERFORMANCE IMPLICATIONS

EMRND states that recruitment and retention of advanced energy businesses would significantly assist the Energy Conservation and Management Division in achieving targets relating to renewable energy, energy efficiency and clean-burning alternative transportation fuels.

NMED states that recruitment of advanced energy manufacturers would help the Air Quality Bureau achieve two performance measures related to improved visibility and air quality by decreasing the likelihood that new dirtier power sources will be constructed. In addition, the bill promotes two of Governor Richardson's priority goals, increasing New Mexico's use of clean energy and reducing greenhouse gas emissions.

ADMINISTRATIVE IMPLICATIONS

TRD reports that the bill would require 1/8 FTE to evaluate applications and maintain logs of credits approved and claimed.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

The bill is similar to House Bill 128 and Senate Bill 254, but these bills have tighter language than House Bill 200.

TECHNICAL ISSUES

TRD believes that the employment requirements stated in Section 5 of the bill should be clarified so that all of a taxpayer's employees must be counted in determining the calculation, and so that the replacement of one worker by another does not count as adding an employee.

TRD also believes the word "not" should be added to page 7, line 10 after the word employee so that the tax credit is contingent on increases in employment.

Several language differences exist between House Bill 200 and similar bills House Bill 128 and Senate Bill 254. While House Bill 200 allows the credit for manufacturers of equipment for "clean coal technologies," the other bills allow the credit for "integrated gasification combined cycle coal facilities," which is a specific type of clean coal technology. EMNRD recommends amending House Bill 200 so that it becomes a duplicate of House Bill 128 and Senate Bill 254.

OTHER SUBSTANTIVE ISSUES

TRD notes that a presentation sponsored by Sandia National Laboratories on state and local tax incentives and wage subsidies for manufacturers estimated that existing subsidies, such as the technology jobs tax credit, renewable energy production tax credit, and industrial revenue bonds, are enough to offset between 55 and 67 percent of initial capital investment. To prevent excessive subsidies, TRD recommends limiting eligibility for the advanced energy manufacturer tax credit to expenditures not eligible for other credits and incentives.

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