Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the Legislature. LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

FISCAL IMPACT REPORT

SPONSOR	Sens. Padilla and Soules/Reps. Hernandez, Garratt and Dixon	**LAST UPDATED**	
		ORIGINAL DATE	2/5/2025
SHORT TITLE	Quantum Testing & Evaluation GRT Credit	**BILL NUMBER**	Senate Bill 212
		ANALYST	Faubion

REVENUE*
(dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
GRT	$0.0	Up to ($15,000.0)	Up to ($15,000.0)	Up to ($15,000.0)	Up to ($15,000.0)	Recurring	General Fund

Parentheses ( ) indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
TRD	$45.3	$2.5	$0.0	$47.8	Nonrecurring	General Fund
Total	$45.3	$2.5	$0.0	$47.8	Nonrecurring	General Fund

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

Relates to Senate Bill 211.

Sources of Information

LFC Files

Agency Analysis Received From
Economic Development Department (EDD)
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Senate Bill 212

Senate Bill 212 (SB212) establishes the quantum testing and evaluation gross receipts tax credit, allowing national laboratories in New Mexico to claim a tax credit against their state gross receipts tax liability for federally funded quantum research, testing, and device fabrication. The credit matches the amount of federal funds received, with a $15 million annual cap and a total aggregate $60 million cap through July 1, 2035. Laboratories must apply for certification from the Economic Development Department, coordinate claims if multiple labs qualify, and submit annual reports.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns, or June 20, 2025, if enacted. The provisions of the bill apply to taxable years 2025 through 2035.

FISCAL IMPLICATIONS

This bill creates or expands a tax expenditure with a cost that is difficult to determine but likely significant. LFC has serious concerns about the substantial risk to state revenues from tax expenditures and the increase in revenue volatility from erosion of the revenue base. The committee recommends the bill adhere to the LFC tax expenditure policy principles for vetting, targeting, and reporting or action be postponed until the implications can be more fully studied.

The state fiscal impact of this bill includes a potential reduction in gross receipts tax revenue of up to $60 million over the program's duration, with up to $15 million revenue losses annually. The fiscal impact assumes the maximum aggregate credit is awarded each year until the credit is exhausted. Actual fiscal impacts can vary depending on the size and timing of claims.

SIGNIFICANT ISSUES

The "but for" concept in tax policy refers to whether a tax incentive is necessary to influence a business or research activity—essentially, whether the activity would not occur but for the existence of the tax credit. In the case of the quantum testing and evaluation gross receipts tax credit, the key question is whether national laboratories in New Mexico would still participate in quantum testing, evaluation, and fabrication without this tax incentive. If they would continue their work regardless, because they are already federally funded or have strategic commitments to quantum research, then the tax credit may function more as an offset for existing federal investments rather than a true incentive. This would mean the state is forfeiting tax revenue without necessarily generating additional economic activity.

Because national laboratories primarily operate under federal mandates and funding, it is unclear whether this tax credit would significantly influence where quantum research and evaluation occur, raising doubts about its adherence to the "but for" standard. The U.S. Department of Energy (DOE) oversees 17 national laboratories, including Los Alamos and Sandia in New Mexico, which focus on critical scientific research. While these labs have some discretion in directing resources, their ability to reallocate funds in response to state-level incentives like the proposed quantum tax credit is limited. The impact of this credit depends on factors such as federal funding levels, mission priorities, and existing commitments. While it may enhance New Mexico's appeal for quantum research, its direct effect on laboratory funding decisions is likely constrained by federal directives and budgetary restrictions.

The Economic Development Department (EDD) and the Taxation and Revenue Department provide some background on the federal dollars this credit aims to match:

> SB212 would provide a state match for the deployment of up to $60 million from the Defense Advanced Research Projects Agency (DARPA) to Sandia and Los Alamos national laboratories for the establishment of DARPA's Quantum Benchmarking Initiative (Validation and Verification) program in New Mexico.

The bill is a companion to the federal joint award in July 2024 to New Mexico and Colorado of $41 million from the federal Economic Development Administration to advance the region's quantum information technology sector as one of 12 tech hubs selected nationally. Toward this effort, Colorado has committed $74 million, and New Mexico has committed $10 million.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is likely met with the bill's requirement to report annually to an interim legislative committee. However, the bill does not specify what must be included in the annual report. The credit should be included in TRD's tax expenditure budget regarding the data compiled from the reports from taxpayers taking the credit and other information to determine whether the credit is meeting its purpose, but this requirement is not specified in the bill.

ADMINISTRATIVE IMPLICATIONS

While the legislation would require new administrative duties for Economic Development Department staff, because the department is required to issue certification of eligibility for the tax credit, additional staff positions are not anticipated to be required due to the limited scope of credit eligibility.

TRD will make information system changes and update forms, instructions, and publications. TRD's Administrative Services Division (ASD) estimates that implementing the bill will require the existing 2 FTE to work 40 hours. Implementing this bill will have a moderate impact on TRD's Information Technology Division (ITD), approximately 680 hours or about four months, for an estimated staff workload cost of $45,315.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Relates to Senate Bill 211, which offers an income tax credit for private investment in quantum technologies in the state.

TECHNICAL ISSUES

TRD notes the following technical issues:

Subsection C, page 2, on line 11, limits the amount of the credit "claimed in a calendar year." As the effective date is July 1, 2025, and the duration is 10 years, ending on July 1, 2035, TRD suggests changing "calendar" year to "fiscal" year. This will also aid in forecasting general fund revenue by fiscal year.

Subsection E, page 3, lines 4 and 5, requires the taxpayer to claim the credit "within one year" of receiving federal matching funds. TRD suggests the "within one year" be tied to the certification from EDD in Subsection D. TRD suggests striking the language starting on page 3, line 5 "of the end of the year in which the taxpayer receives federal matching funds for quantum testing and evaluation or the fabrication of quantum devices." And replacing it with "of receiving final certification from the economic development department."

In subsection C, page 2 the amount of the credit is "equal [to] the amount the taxpayer receives in federal matching fund," while in subsection G, page 3, the term used is "qualified expenditures." These definitions may need further clarification and definition for EDD to certify the taxpayer's project for eligibility and ensure coordination between national laboratories.

OTHER SUBSTANTIVE ISSUES

In assessing all tax legislation, LFC staff considers whether the proposal is aligned with committee-adopted tax policy principles. Those five principles:

- **Adequacy**: Revenue should be adequate to fund needed government services.
- **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
- **Equity**: Different taxpayers should be treated fairly.
- **Simplicity**: Collection should be simple and easily understood.
- **Accountability**: Preferences should be easy to monitor and evaluate

In addition, staff reviews whether the bill meets principles specific to tax expenditures. Those policies and how this bill addresses those issues:

Tax Expenditure Policy Principle	Met?	Comments
Vetted: The proposed new or expanded tax expenditure was vetted through interim legislative committees, such as LFC and the Revenue Stabilization and Tax Policy Committee, to review fiscal, legal, and general policy parameters.	✗	No record of an interim committee hearing can be found.
Targeted: The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals. Clearly stated purpose Long-term goals Measurable targets	✗	There are no stated purposes, goals, or targets.
Transparent: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies	✓	The credit must be reported on annually. The credit does have an expiration date.
Accountable: The required reporting allows for analysis by members of the public to determine progress toward annual targets and determination of effectiveness and efficiency. The tax expenditure is set to expire unless legislative action is taken to review the tax expenditure and extend the expiration date. Public analysis Expiration date	✓	
Effective: The tax expenditure fulfills the stated purpose. If the tax expenditure is designed to alter behavior – for example, economic development incentives intended to increase economic growth – there are indicators the recipients would not have performed the desired actions "but for" the existence of the tax expenditure. Fulfills stated purpose Passes "but for" test	?	There are no stated purposes, goals, or targets with which to measure effectiveness or efficiency.
Efficient: The tax expenditure is the most cost-effective way to achieve the desired results.	?	
Key: ✓ Met ✗ Not Met ? Unclear		

JF/hg