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

SPONSOR:	Sanchez, R.G.	DATE TYPED:	02/17/00	HB	262/aHTRC/aSFC
SHORT TITLE:	Technology Jobs Tax Credit Act			SB	
			ANALYST:	Williams	

REVENUE

Estimated Revenue		**Subsequent Years Impact**	**Recurring or Non-Rec**	**Fund Affected**
FY00	**FY01**			
	$ (5,160.0)	$ (5,640.0)	Recurring	GF

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to SB25, SB28, SB42, SB43, HB52

SOURCES OF INFORMATION

LFC files

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of SFC Amendment

The amount of both the basic and additional credit is reduced from 5% to 3%.

The amendment strikes the recapture and reporting language in the HTRC amendment. The new recapture language indicates if the taxpayer or successor in business ceases operation in New Mexico for at least one hundred eighty consecutive days within a two year period after the taxpayer claimed the basic or additional credit at a given facility, then the taxpayer would no longer be eligible for the credit. Any amounts not claimed would be eliminated. Then, within thirty days, the taxpayer must repay any credits taken. Reasonable periods for maintenance or retooling or for the repair or replacement of facilities damaged or destroyed or during the continuance of labor disputes are exempted.

Beginning October 2003, TRD must report annually to the LFC and RSTP committees on the fiscal and economic impacts of the Technology Jobs Tax Credit Act using the most recent available data for two prior fiscal years. The report must include the number of taxpayers receiving the credits, amounts, geographic locations of qualified facilities and payroll increases related to additional credits, subject to confidentiality requirements.

Synopsis of HTRC Amendment

The amendment would limit eligible expenditures to those that are not reimbursed by a third-party. In other words, once the R&D firm begins work on a project for a specific paying client, the expenses it incurs are no longer creditable. If an expenditure for which the credit is claimed is an allocation of an expenditure, the language would require the cost accounting methodology used for the allocation of the expenditure be the same as that used by the taxpayer in its other business activities. The amendment would require that expenditures for which the credit is taken be made after the bill's effective date. The amendment also increases the payroll threshold on the second credit to $75,000 per $1,000,000 of expenditure claimed.

A new section is added to recapture the credit under certain conditions. If the taxpayer ceases operation for at least 180 days within a two-year period after claiming either credit, then additional credits will not be granted for that facility. Further, unclaimed basic and additional credits will be zeroed out. Within 30 days after the 180th trigger day, back gross receipts tax, compensating tax or withholding tax must be paid.

Certain exemptions are available for the 180 day trigger.

Finally, the amendment would require TRD to report to the Legislative Finance Committee and the Revenue Stabilization and Tax Policy Committee in October 2003 and annually thereafter on the fiscal and economic impacts of the legislation using the most recent two fiscal years' data. This report must include the number of taxpayers receiving basic or additional credits and associated amounts, the geographic locations of the qualified facilities and the payroll increases subject to confidentiality provisions.

Synopsis of Original Bill

Endorsed by the Economic and Rural Development and Telecommunications Committee. Authorizes two credits, each equal to 5% of qualified expenditures, for qualified research at a qualified facility. Qualified expenditures include certain research, payments for land, improvements, and expenses for operation and maintenance of facilities, buildings, equipment, computer software and upgrades, consultants, New Mexico-based subcontractors, payroll, technical books and manuals and test materials. Expense for equipment used in conjunction with an industrial revenue bond project or which has received a credit under the Capital Equipment Tax Credit Act or the Investment Credit Act would not be eligible. Base payroll is allowed to escalate for inflation.

These credits are doubled if the firm is located in a rural area. The credits are split if a married couple files separately. The credits can be rolled over.

The first credit, the "basic credit", can be applied against gross receipts, compensating and withholding taxes. The second credit, the "additional credit", would be available if payroll increases by at least $50,000 over the base payroll expense and if there is at least a $50,000 increase in payroll expense for every $1,000,000 of expenditure claimed. Payroll expenses are defined as cash and non-cash remuneration for "services performed by an employee for an employer". The second credit can be taken against personal or corporate income taxes. The effective date of the bill would be July 1, 2000.

FISCAL IMPLICATIONS

SFC Amendments

TRD has not released a new, revised analysis of the fiscal impacts of the amendments. However, in preliminary analysis, TRD staff agree with LFC that the potential impact is estimated at approximately $5,160.0 in FY01 and $5,640.0 in subsequent years.

HTRC Amendments

After the amendment, TRD estimates the General fund recurring revenue loss of the bill at $8,600.0 for FY01 and $9,400 for a full year. This represents the total impact after all the limitations are incorporated into the bill. The non-reimbursable expenses provision limits creditable expenses to an estimated 25 percent to 33 percent of a typical research and development firm's qualified expenditures. The payroll threshold change is viewed as having only a small effect as expenditures of $1,000,000 by a firm employing highly skilled workers would likely include a $75,000 increase in payroll even in the absence of an income tax credit.

Original Bill

TRD originally estimated the recurring general fund revenue loss of the bill at $16,000.0 in FY01 and $18,000.0 for a full year.

TECHNICAL IMPLICATIONS

TRD recommends carry-forward period should be limited to no more than 5 years.

Ordinarily firms moving out-of-state would no longer be eligible for the credit.

Fiscal impact assumes Sandia National Laboratories are excluded.

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