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FISCAL IMPACT REPORT

SPONSOR: Nava DATE TYPED: 03/16/01 HB _____
 SHORT TITLE: Allocation of Nonresident Border Income SB 541/aSf1 #1/aHTRC
 ANALYST: Williams

REVENUE (See Text)

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY01	FY02			
	\$ (150.0)	\$ (500.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files
 Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of HTRC Amendment

The House Taxation and Revenue Committee amendment strikes the technical fix of the incremental payroll increase calculation, and inserts new language to deal with the technical issue. Qualification is based on the first month of the current year for new and existing businesses compared to previous year's first month payroll. The attached TRD fir contains a timeline of events and timing of fiscal impacts pursuant to the HTRC qualifications. The amendment also extends the effective date to January 1, 2002.

Synopsis of SFl #1 Amendment

The Senate Floor No. 1 amendment extends the qualifying zone by five miles to 20 miles from the international border and clarifies a technical issue.

Synopsis of Original Bill

The bill would expand the income allocation and apportionment language in current statute to authorize compensation to be allocated to the taxpayers' state of residence for certain businesses. The language would be effective beginning tax year 2001. To qualify, a manufacturing business would pay compensation for activities, labor or services performed when the business has at least 5 full time employees in New Mexico and is located within 15 miles of an international border with either:

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- a total payroll in New Mexico for in-state residents that grows by 10 percent per calendar year or
- a total payroll in New Mexico for in-state residents, with no comparable payroll in the prior year.

Significant Issues

If a qualifying plant were built in Santa Teresa, employees from Texas could apportion their wage and salary income to Texas, which does not have a personal income tax. The bill sets a precedent for exempting from taxation the wages of non-New Mexicans who work in the state.

FISCAL IMPLICATIONS

Synopsis of HTRC Amendment

TRD now reflects the potential cost of the bill as reducing recurring general fund revenues by \$150.0 in FY 02, \$500.0 in FY03 and \$1,000.0 for a subsequent full year impact. TRD notes “although the HTRC amendments clarify the concept, they do not materially decrease the general fund exposure”.

Note that just one major plant relocation involving hundreds of employees could reduce general fund revenues by more than \$1,000.0 annually. To be certain of the maximum fiscal impact, the legislation could be amended to include a cap.

Synopsis of SFI #1 Amendment

The revenue loss is calculated at \$1,200 per Texas employee per year, assuming an average weekly wage of \$700. Net general fund revenue loss is projected by TRD at \$500.0 and \$1,000.0 in FY02 and FY03, respectively.

Synopsis of Original Bill

Note that just one major plant relocation involving hundreds of employees could reduce general fund revenues by more than \$1,000.0 annually. To be certain of the maximum fiscal impact, the legislation could be amended to include a cap.

ADMINISTRATIVE IMPLICATIONS

TRD notes minimal impacts.

TECHNICAL ISSUES

TRD notes:

- Qualification (ii) should read: “and the first *monthly* payroll of the new calendar year”

OTHER SUBSTANTIVE ISSUES

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TRD believes the legislation is directed to one plant per year, and has evaluated the fiscal impact accordingly. TRD notes the bill may violate the constitutional prohibition on local or special legislation (Article IV, Section 24).

AW/ar
Attachment