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

SPONSOR King **DATE TYPED** 02/07/05 **HB** 247

SHORT TITLE RECYCLING EQUIPMENT TAX CREDITS **SB**

ANALYST Padilla-Jackson

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
(*)	($150.0)	Increasing	Recurring	General Fund
(*)	($100.0)	Increasing	Recurring	Local Governments

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 247 would add a new section to the Gross Receipts and Compensating Tax Act to provide a tax credit for 10 percent of the value of qualified recycling equipment. The value of the equipment is the purchase price or the reasonable value if the equipment has been imported into New Mexico and owned for more than one year prior to importation. The bill would not allow any taxpayer to claim a value of more than $1 million in any tax year. The tax may be applied against a taxpayer's compensating tax, gross receipts tax or withholding tax, not to exceed 85 percent of the sum of the three taxes due for that reporting period. The tax credit can be rolled over if not completely used in a given tax period.

Qualified recycling equipment is defined as being in New Mexico; incorporated or to be incorporated within one year into an operation to recycle material or produce products from recycled material; purchased or imported into New Mexico after July 1, 2005 by a business for the purpose of recycling; is owned by the taxpayer or the US agency or instrumentality of the United states or a political subdivision of the state and leased or subleased to the taxpayer; has not been previously used in New Mexico or not previously approved for a credit under the Investment Credit Act; and does not include a vehicle that leaves the site of the recycling operation for purposes of transporting people or property for which the taxpayer claims a credit.

No effective date was specified.

FISCAL IMPLICATIONS

According to the TRD analysis, the total fiscal impact of this bill is -$250 thousand in FY06, of which -$150 will impact the general fund and -$100 thousand will impact local governments.
The fiscal impact assumes there will be 50 claims per year for $5,000 credit each. TRD cautions that the fiscal impact is only a rough estimate because they do not have information on the amount of expenditures eligible for the proposed credit. See Other Substantive Issues for more information.

ADMINISTRATIVE IMPLICATIONS

TRD notes that the bill would require the department to process, review and track the proposed credits manually. Application and claim forms would be needed and instruction and publications would need to be modified. Taxpayer and staff education would be required. They estimate that one FTE would be needed to administer the proposed credits. It may prove difficult to implement this program by the effective date.

TECHNICAL ISSUES

TRD believes that the term "reasonable value" should be clarified. One method of clarification would be by linking it to the depreciation schedule or to the IRS code.

OTHER SUBSTANTIVE ISSUES

TRD provided the following area of concern:

The bill provides few standards as to what constitutes "recycling" or what is manufactured from recycled materials. Recycling of scrap metal is a standard industrial activity, not generally considered to require a tax subsidy. These scrap metals are commonly incorporated into any number of manufactured objects. General Motors reports that 17 million recycled rubber shoe soles are incorporated into its Chevy Trailblazer model alone. The bill could provide a tax credit for practically any equipment bought for a junkyard, save for vehicles, which appear to be specifically excluded. Another industry that performs extensive recycling of waste products is the lumber processing industry.

According to the US Environmental Protection Agency web pages, approximately 25 states currently allow some sort of tax incentive for recycling activities.

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