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## FISCAL IMPACT REPORT

ORIGINAL DATE 1/24/07

SPONSOR Sanchez, M. LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE National Lab Small Business Tax Credits SB 1

ANALYST Schardin

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	(1,200.0)		Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates House Bill 236

### SOURCES OF INFORMATION

LFC Files

Responses Received From

Economic Development Department (EDD)

### SUMMARY

#### Synopsis of Original Bill

Senate Bill 1 expands the existing laboratory partnership with small business tax credit. The bill increases the credit that a national laboratory can claim against its gross receipts tax liability for assistance to each small business in Bernalillo County from \$5 to \$10 thousand per year, and increases the credit that a national laboratory can claim for assistance to each small business outside of Bernalillo County from \$10 to \$20 thousand per year. The total amount of credits that can be claimed by a national laboratory is increased from \$1.8 to \$2.4 million per year.

The bill will also require national laboratories claiming this credit to submit a joint annual report to the Taxation and Revenue Department (TRD), the Economic Development Department (EDD), and the appropriate legislative interim committee by October 15 of each year. The report will summarize program results, describe projects funded, provide results of surveys of small businesses that received assistance, quantify the total amount of credits claimed, and include an economic impact study of jobs created and retained.

If more than one national lab claims the credit, those labs will be required to coordinate their efforts.

Senate Bill 1 also expands eligibility requirements for claiming the laboratory partnership with small business tax credit. To be eligible for the credit, the national laboratory providing small business assistance will be required to 1) offer each small business receiving assistance the option of obtaining ownership of license to property developed through the assistance; 2) acknowledge that the small business assistance is rendered once it is completed; and 3) provide forms for small business assistance requests and for completion of small business assistance that are in accordance with state and federal laws.

The effective date of these provisions is July 1, 2007.

### **FISCAL IMPLICATIONS**

Under current law, Sandia National Laboratories (SNL) and Los Alamos National Laboratory (LANL) are each eligible to claim \$1.8 million per calendar year in credits (LANL became eligible for the credit in 2006 when its new contract made it liable for the gross receipts tax). By increasing the total amount of credits that each national laboratory can claim to \$2.4 million per calendar year, the bill will reduce state gross receipts tax collections from each lab by \$600 thousand per year, for a total of \$1.2 million per year. The fiscal impact assumes that SNL will be able to reach the higher cap of \$2.4 million in calendar year 2007, while LANL will not reach the cap until calendar year 2008.

Since this gross receipts tax credit can only be claimed against the state portion of gross receipts tax liability it has no impact on local governments.

### **SIGNIFICANT ISSUES**

LFC notes that while individual credits, deductions and exemptions from the gross receipts tax may have small fiscal impacts, their cumulative effect significantly narrows the gross receipts tax base. Narrowing the gross receipts tax base increases revenue volatility and requires a higher tax rate to generate the same amount of revenue.

EDD reports that this credit has enabled SNL to help New Mexico businesses create 449 jobs with an average salary of \$37 thousand per year over the last five years. According to TRD, this credit benefited 278 small businesses in 2004.

By doubling the cap on assistance a national laboratory may provide to each small business from \$5 to \$10 thousand in Bernalillo County and from \$10 to \$20 thousand in the rest of the state, the bill is likely to result in a smaller number of businesses receiving assistance, but those that do receive assistance will receive a larger amount.

### **ADMINISTRATIVE IMPLICATIONS**

The bill will have minimal administrative impacts on TRD.

### **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

Senate Bill 1 duplicates House Bill 236.

**TECHNICAL ISSUES**

TRD notes that to qualify for the program, small businesses must certify that assistance is not available at a reasonable cost through private sources. There is currently no mechanism in place to verify these assertions.

SS/csd