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FISCAL IMPACT REPORT

ORIGINAL DATE 2/2/07

SPONSOR Cisneros LAST UPDATED 2/6/07 HB _____

SHORT TITLE Rural Jobs Tax Credit SB 495

ANALYST Schardin

REVENUE (dollars in thousands)

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

(Parenthesis () Indicate Revenue Decreases)

Duplicates HB 654

SOURCES OF INFORMATION

LFC Files

Responses Received From

Economic Development Department (EDD)

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 495 reenacts the rural job tax credit, which through a technical error was repealed as of July 1, 2006.

This credit may be claimed by employers in rural areas of New Mexico that have qualified through EDD for participation in the in-plant training program. The maximum credit for each job created will be \$4 thousand for each job created in a municipality with a population of 15 thousand or less or in any unincorporated area of a county, where the credit may be claimed for up to four years. In areas with a municipality with a population under 15 thousand but less than 30 thousand the maximum credit will equal \$2 thousand and may be claimed for two years.

The credit may be claimed against the personal or corporate income tax, the state portion of gross receipts tax, compensating tax or withholding tax paid by qualifying companies. The credit is equal to \$1,000 per qualified job and may be claimed for four years in municipalities and areas of counties with populations of 15 thousand or less and for two years in municipalities with a population of up to 30 thousand.

The credit will be nonrefundable but may be carried forward for up to three years.

The bill will require the secretary of EDD to annually evaluate the effectiveness of the credit in stimulating economic development in rural areas of New Mexico and report these findings to the legislature.

The bill will allow credits that could have been claimed in the interim period in which the credit was inadvertently repealed to be claimed.

The bill contains an emergency clause, which will cause it to take effect immediately upon signature by the governor.

FISCAL IMPLICATIONS

According to a TRD, an average of \$200 thousand worth of credits are being claimed per year. The bill will therefore reduce revenues by about \$200 thousand per year. While a small amount may be claimed against the compensating tax, to date TRD has applied all credits against the state's general fund distribution. Because the bill reinstates credits that could have been claimed while the credit was repealed, it will also affect FY07 revenue.

SIGNIFICANT ISSUES

In 2005, the legislature passed and the Governor signed a bill that intended to remove the sunset of the rural job tax credit (House Bill 410). However, a technical error in that bill allowed the credit to sunset anyway.

According to EDD, 84 thousand jobs have been created in New Mexico since January 2003. EDD has assisted in creation of over 7 thousand of these jobs in rural areas. EDD reports that the rural job tax credit has been a successful tool in helping attract companies to rural New Mexico.

This bill will cause medical service providers claiming the deduction created in Section 7-9-93 to be subject only to the regular gross receipts tax reporting penalty that applies to all taxpayers.

ADMINISTRATIVE IMPLICATIONS

Processes are already in place to administer this credit. Reenacting the credit will prevent TRD from having to revise tax forms and educate taxpayers.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Senate Bill 495 duplicates House Bill 654.

TECHNICAL ISSUES

TRD notes that the bill contains language to prevent “double dipping” with regard to the gross receipts tax and other sales taxes (Section 1(J)(4)), but does not contain similar language for individual or corporate income taxes. To prevent taxpayers from claiming more than one credit for the same job created, add a new subsection that prohibits claiming an income tax credit under these provisions for a job that is also claimed for other credits.

TRD also notes that Section 1(F) states that a taxpayer may apply tax credits against personal income tax liability. The term “personal” in this context is not a legally accurate way to refer to a liability under the Income Tax Act. The reference should be changed to “individual” income tax.

SS/nt