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FISCAL IMPACT REPORT

ORIGINAL DATE 1/30/08

SPONSOR Lujan, B. LAST UPDATED _____ HM 37

SHORT TITLE Study Manufacturing Incentives SB _____

ANALYST Earnest

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY08	FY09		
NFI	NFI		

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

SUMMARY

Synopsis of Bill

House Memorial 37 requests that the Economic Development Department and the Taxation and Revenue Department examine the effectiveness of current tax incentives and other incentives to attract and retain manufacturing operation to the state. The memorial also requests that these departments report the results of their examination and their recommendations for any new legislation to the legislative finance committee and the interim revenue stabilization and tax policy committee no later than November 1, 2008.

FISCAL IMPLICATIONS

No significant fiscal impact. There may be some administrative impact on TRD and EDD to carry out the examination.

SIGNIFICANT ISSUES

According to the final report of the Tax Incentive and Accountability Task Force, released by EDD in April 2006, among the most frequently used and costly incentives are the manufacturing investment tax credit, high wage job tax credit, rural jobs tax credit, technology jobs tax credit, and research and development small business tax credit. The report laid out a plan for evaluating tax incentives biannually.

LFC proposed legislation in the 2007 session to address tax expenditures and tax incentive accountability. The bill on tax incentive accountability, House Bill 697, failed to pass and the bill

on tax expenditures, House Bill 235, was vetoed through the governor's inaction. In the 2007 interim, LFC joined with the Taxation and Revenue Department (TRD) and the Economic Development Department to educate members and the public on the importance of monitoring the tax structure. The main thrust of the presentations was the need for accountability and adherence to sound tax principles:

- Adequacy: Revenue should be adequate to fund government services.
- Efficiency: Tax base should be as broad as possible to minimize rates on any group.
- Equity: Tax should be fairly applied across similarly situated taxpayers and incomes.
- Administrability: Tax collection should be simple and easily understood by taxpayers to maximize compliance.
- Accountability: Deductions, credits, and exemptions should be easy to monitor and evaluate.

Each new tax proposal should be evaluated on these principles to determine how the proposal fits into the existing tax structure. The appendix includes a sample of "tax expenditures," or deviations from established tax policy, and TRD has begun a multi-year study of tax expenditures beginning with a review of existing business tax credits. One major step was the creation of a tax form for corporate income tax credits similar to the one for personal income tax.

BE/bb