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FISCAL IMPACT REPORT

ORIGINAL DATE 2/18/09

SPONSOR Sandoval LAST UPDATED _____ HB 626

SHORT TITLE Investment Credit Time Period SB _____

ANALYST Gutierrez

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
		(\$2,750)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

Relates to HB75

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)
 Department of Finance and Administration (DFA)
 Economic Development Department (EDD)

SUMMARY

Synopsis of Bill

House Bill 626 extends the Investment Tax Credit (ITC) by changing the end dates in the statute from 2011 to 2016.

Under current law, the method to value equipment for the purposes of the ITC is the adjusted basis per the US Internal Revenue Code of 1986. Beginning 2011, the method changes to be the purchase price of the equipment or the reasonable value if the equipment has been owned for over a year with a maximum value allowed of \$2 million. HB626 extends the time for the current law valuation until 2016.

To qualify for the ITC, current law requires the taxpayer to have hired an additional employee for every \$500 thousand of qualified equipment up to a value of \$30 million and an additional employee for every \$1 million for equipment valued over \$30 million. Beginning 2011, the taxpayer is required to employ one additional person for every \$100 thousand claimed. HB626 extends the current employment requirements to tax year 2016.

The bill has no effective date so will become effective June 19, 2009.

FISCAL IMPLICATIONS

TRD reports that the impact will be a \$2.75 million reduction in general fund revenue in FY11 because the change takes place in January 1, 2011. The full year impact is \$5.5 million.

Changing the dates on the ITC will not have an impact until FY11. Under current law, the ITC would have decreased significantly because of the tighter employment requirements. The current amount of the credit fluctuates based on investment cycles but the average is approximately \$5.5 million. When a manufacture makes a major expansion or investment, the credit tends to increase dramatically. If a company makes a million dollar investment now, it would need to hire 2 additional employees to qualify for the credit (which would be worth \$50,000). In 2011, the company would have to hire 10 additional employees when making a one million dollar investment.

SIGNIFICANT ISSUES

The ITC has been a central tool used to promote New Mexico with major manufacturers and has been cited as a reason to pick NM. Intel's NM managers have repeatedly reported that the credit is crucial to defending investment decisions and keeping major investments coming to New Mexico. When paired with the industrial revenue bond (IRB), the incentive is significant. Designed to offset the compensating tax on imported equipment, set at 5 percent, it is allowable even when equipment is purchased with an IRB. In other words, if a company uses IRB financing, it saves the compensating tax because a local government is technically purchasing the equipment and it also can apply for the ITC, yielding a net credit of 10 percent of the equipment value.

RELATIONSHIP

This bill relates to HB75 which extends the ITC credit to 2020 and extends the “double weighted sales factor” apportionment method for manufacturers.

The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:

- 1. Adequacy:*** revenue should be adequate to fund government services.
- 2. Efficiency:*** tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.
- 3. Equity:*** taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.
- 4. Simplicity:*** taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.
- 5. Accountability/Transparency:*** Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.

More information about the LFC tax policy principles will soon be available on the LFC website at www.nmlegis.gov/lcs/lfc

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Valuation and employment requirements will become more stringent in 2011 for the ITC.

BLG/mt