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FISCAL IMPACT REPORT

ORIGINAL DATE 01/27/12

SPONSOR Powdrell-Culbert LAST UPDATED _____ HB 123

SHORT TITLE Extend Angel Investment Tax Credit SB _____

ANALYST Smith

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY12	FY13	FY14		
	(\$150.0)	(\$270.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation Revenue Department (TRD)

State Investment Council (SIC)

SUMMARY

This bill extends the angel investment credit through December 31, 2016. The Angel Investment credit expired pursuant to the current law on December 31, 2011.

Effective Date: Not specified; 90 days following adjournment (May 16, 2012).

FISCAL IMPLICATIONS

Historical angel investment credit claims were used to estimate the fiscal impact. The Department has data for the Angel Investment Tax Credit claims for fiscal years 2008 to 2011. About 32 claims for an average \$204,000 were claimed in each of these four fiscal years. However, there were 44 claims for \$248,682 in latest year FY11. The last three-year growth rate and claim amounts for this credit were used to calculate future year impacts. Approximately $\$6,100/25\% = \$24,400$ was invested in New Mexico for each claim per year; hence total qualified investments would be \$895,000 per year.

SIGNIFICANT ISSUES

TRD reports that the utilization of this credit has not increased over time.

The bill would benefit New Mexico companies engaged in “high-tech research or manufacturing” while excluding other industry, including finance, construction, restaurants, real estate, publishing, media, etc.

While the bill offers obvious tax benefits to New Mexico angel investors, the legislation primarily adds benefit to in-state early and seed stage high tech companies. The New Mexico entrepreneurial community has been increasingly active over the past decade, though in practice, these investors serve to primarily supplement larger or institutional venture capitalists.

OTHER SUBSTANTIVE ISSUES

Does the bill meet the Legislative Finance Committee tax policy principles?

- 1. Adequacy:** Revenue should be adequate to fund needed government services.
- 2. Efficiency:** Tax base should be as broad as possible and avoid excess reliance on one tax.
- 3. Equity:** Different taxpayers should be treated fairly.
- 4. Simplicity:** Collection should be simple and easily understood.
- 5. Accountability:** Preferences should be easy to monitor and evaluate

SS/amm:svb