F I S C A L   I M P A C T   R E P O R T

ORIGINAL DATE 02/03/12
SPONSOR Doyle **LAST UPDATED** 02/06/12 **HB** 245

SHORT TITLE High-Wage Jobs Tax Credit Application **SB**

ANALYST Smith

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY13	FY14	FY15		
	See Narrative		Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates 299, Conflicts with SB10

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 245 makes several changes to the High-Wage Jobs Tax Credit. Credit applications would have to be made within one year following the end of the calendar year in which the qualifying period for the credit closes. Credit would not be allowed for jobs created due to a merger or other change in organization if the same job was terminated by the change and the previous employer was not approved for the credit. Jobs for which credit has been applied for prior to an organizational change would remain eligible after the change for the balance of the original qualifying period. Jobs created due to a contract with a governmental entity that replace other entities performing functionally equivalent services would not be eligible unless the job was not being performed by an employee of the replaced entity. A definition of "benefits" is provided that includes all remuneration other than wages. An eligible employer must be one that exports more than 50 percent of the goods or services produced in New Mexico. The definition of "wages" is modified to include all gross wages and other compensation, replacing a definition tied to the Internal Revenue Code. HB-245 also extends the credit until July 1, 2018, from July 1, 2015.

Effective Date: Emergency clause; effective upon the Governor's signature. Applicable to taxable years beginning on or after January 1, 2011.

FISCAL IMPLICATIONS

While all analysts agree that this bill has a positive and important fiscal impact, there is technical debate among analyst as to whether this actually adds a knowable amount to the current revenue estimate that can be used in the FY13 budget. This issue will have to be resolved by economists from both branches in the context of the consensus revenue estimate.

TRED's comments are printed below verbatim:

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2012	FY2013	FY2014	FY2015	FY2016		
0	1,000	2,000	3,000	4,000	R	General Fund

* In thousands of dollars. Parentheses ( ) indicate a revenue loss. ** Recurring (R) or Non-Recurring (NR).

The broader definitions of wages and benefits in the bill may have the effect of increasing credit claims to some extent. Other provisions may have the effect of limiting the number of jobs or eligible employers that would qualify for the credit, thus reducing the amount of credit that will be paid out each year. Credit claims were $15 million in FY11 and are on pace to reach as much as $20 million or more in FY12. The estimate in the table assumes the total for FY 12 will reach approximately $20 million and would have grown by 10 percent per year (roughly $2 million per year) under present law, but the provisions of the proposal will reduce this growth rate to 5% (or roughly $1 million per year). There is some potential of a substantially larger potential fiscal impact if present law is interpreted to apply to jobs "created" through a merger or through the assumption of an existing contract to operate one of the government facilities in the state. By clarifying that credits would not apply in these cases, the proposal will help to prevent potentially large negative fiscal impacts.

SIGNIFICANT ISSUES

The revised definitions of "benefits" and "wages" in the bill are generally more expansive than under current law, but are more appropriate to be used in an economic development/job creation context. This definition of "wages" is limited to cash compensation, and would not include non-cash remuneration, such as stock options or the provision of a house or car. The proposal provides important "clean-up" of the Credit by limiting eligibility under circumstances where there is a change of business ownership but not necessarily an expansion of the total number of jobs created in the state. It also targets the Credit more carefully at businesses producing goods and services in New Mexico for export.

OTHER SUBSTANTIVE ISSUES

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

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

SS/amm:svb