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

ORIGINAL DATE 01/30/12

SPONSOR Sanchez **LAST UPDATED** **HB**

SHORT TITLE Investment Tax Credit Participation **SB** 140

ANALYST Smith

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY12	FY13	FY14		
	($2,152.5)	($2,152.5)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY12	FY13	FY14	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		$6.0		$6.0	Nonrecurring	Taxation and Revenue Department

(Parenthesis ( ) Indicate Expenditure Decreases)

Related to SB 42

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
Economic Development Department (EDD)

SUMMARY

Synopsis of Bill

This bill amends Section 7-9A-7.1 NMSA 1978, to add a new qualification by which a taxpayer may qualify for the credit. A taxpayer could now qualify by increasing the aggregate wages paid to all full-time employees by an amount equal to the average wage paid to all full-time employees during the prior year. Small amendments are also made to Sections 7-9A-2, 7-9A-4 and 7-9A-5 NMSA 1978 for clarification purposes

FISCAL IMPLICATIONS

TRD draws on census data for this analysis. According to data from the 2007 Economic Census of NM, the computer and electronic product manufacturing industry in the state had an annual payroll of $508.5 million and employed 8,578 paid workers. This implies an average annual salary of around $60,000.

In a July 28th, 2011 Albuquerque Journal article entitled "NM Could Compete For Intel Expansion," Joshua Walden, vice president of Intel's technology and manufacturing group, stated that Intel spent $1 billion annually on capital investments on average since 1995 and employed over 3000 workers at its New Mexico plant.

This analysis assumes 3000 employees, zero percent job growth, an average annual salary starting at $60,000 per year, an additional 25% of annual income in the form of benefits, and a 3 percent annual cost of living increase to wages and benefits. Based on these assumptions, a computer and electronics manufacturer's payroll would increase by an amount equivalent to adding 72 new positions each year. The manufacturer could then make a qualified investment up to $42 million to earn a credit of up to $2.15 million. Also based on these assumptions, the manufacturer would have more than enough withholding liability to absorb the credit without any rollover.

Positive job growth could allow the taxpayer to qualify for the Investment Credit even in the absence of this amendment and is not considered as a contribution to the fiscal impact. In light of this amendment, however, job growth would create a secondary fiscal impact if new employees also experienced the same wage growth profile as existing employees. This analysis assumes that the computer and electronics manufacturing industry has developed to the point where capital replacement of labor is the most likely scenario. Current employment levels in that sector appear stable, though, and a zero percent job growth rate was deemed appropriate.

Sensitivity analysis of the estimate shows that average wage growth would have to exceed 5.9 percent in order for the credit earned to exceed withholding liability and result in a rollover of the remaining credit.

SIGNIFICANT ISSUES

EDD reports that the amendment would reward in increase in productivity which does not necessarily require an increase in the number of employees. TRD expand on the point:

"Although a newly created job is in many ways more tangible than a wage raise, an aggregate increase in statewide personal income would have the same economic effect whether it arises from an increase in employment or an increase in average wages. This bill recognizes that such a distinction is unnecessary in practice."

ADMINISTRATIVE IMPLICATIONS

SB-42, Manufacturing Investment Weighted Sales Factor, would create an interesting interaction with the existing Investment Credit Act.

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/svb:amm