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

ORIGINAL DATE 2/27/13

SPONSOR Maestas **LAST UPDATED** ______ **HB** 596

SHORT TITLE Latin American Trade Tax Credits **SB** ______

ANALYST van Moorsel

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY13	FY14	FY15	FY16	FY17		
		($820.0)	($930.0)	($120.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 596 amends the Income Tax Act and the Corporate Income and Franchise Tax Act to create the nonrefundable and nontransferable “Latin American trade income tax credit” for the purpose of encouraging businesses to engage in international trade with Latin America. A taxpayer who during tax years 2014-2017 exported more than 20 percent of its goods or services produced in New Mexico to persons in Latin America may claim a $5 thousand tax credit against a taxpayer’s personal income tax (PIT) or corporate income tax (CIT) liability.

To be eligible for the tax credit, the taxpayer must claim the tax credit within one year following the end of the calendar year in which the requisite exports were made, and the credit may not be carried forward. The taxpayer must submit an application to the EDD that identifies the total goods or services produced in New Mexico and the percentage exported to Latin America.

The bill requires that EDD adopt rules governing the administration of the credit that must ensure that a taxpayer claims a tax credit only once. TRD must audit the records of the Latin American trade income tax credit maintained by the EDD to ensure effective administration of the credit.

The effective date of this bill is January 1, 2014, and the provisions of the bill are applicable to taxable years beginning on or after that date. The sunset date of this tax credit is December 31, 2017.

FISCAL IMPLICATIONS

The TRD cites data from the U.S. Chamber of Commerce, in its analysis of the fiscal impact of HB 596. According to this data, there are 1,008 exporters in New Mexico; and the state's second-largest export market was Mexico. New Mexico posted merchandise exports of $618 million (21 percent of the state's total merchandise exports) to Mexico in 2012. TRD assumes that about 30% of the 1,008 exporters in New Mexico would export more than 20% of its goods or services produced in New Mexico to persons in Latin America, thus qualifying for the credit. The February Global Insight forecasted growth rate for exports of goods and services was applied to the number of eligible taxpayers to estimate the fiscal impact in the out years.

A taxpayer can claim the tax credit based only once – the estimated impact is based on the assumption that 50% of qualifying taxpayers would claim the credit in 2014, and 50% and newly eligible taxpayers would claim the credit in 2015. For taxable year 2016, only newly qualifying taxpayers would qualify for this credit.

This bill may be counter to the LFC tax policy principle of adequacy, efficiency and equity. Due to the increasing cost of tax expenditures revenues may be insufficient to cover growing recurring appropriations.

Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for a tax expenditure may be ambiguous, further complicating the initial cost estimate of the expenditure's fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures.

SIGNIFICANT ISSUES

According to the office of the United States Trade Representative, Mexico was the United States' 2nd largest goods export market in 2011. U.S. goods exports to Mexico in 2011 were $198.4 billion, up 21.4% ($34.9 billion) from 2010, and up 77.6% from 2000. U.S. exports to Mexico accounted for 13.4% of overall U.S. exports in 2011.

However, TRD's analysis reports that even with increasing exports to Mexico, New Mexico ranks lower than all but five states in exporting; based on the value of goods that the state exported through October 2012, New Mexico ranked forty-fifth in the nation, with approximately $2.5 billion worth of exported goods.

According to data from the U.S. Chamber of Commerce, just 1,899 jobs in New Mexico were supported by exports out of the country in 2011, with 42.9 percent of those jobs attributable to exports to Canada and Latin America. However, the trade industry in the United States has steadily grown during the last decade, primarily due to an increase in free trade agreements and trade liberalization and New Mexico's economy would benefit by following this trend. New Mexico's trade activity in general, and especially its trade with Mexico and other Latin

American countries could benefit the state economy.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is met with the bill's requirement to report annually to the interim Revenue Stabilization and Tax Policy Committee and the LFC regarding the data compiled from the reports from taxpayers taking the deduction and other information to determine whether the deduction is meeting its purpose.

TECHNICAL ISSUES

The provisions of HB 596 make the tax credit available to each taxpayer only once, based on exports to Latin America during tax years 2014-2018. Because of the sunset of the tax credit in 2018, it may not be necessary that TRD report it LFC and the Revenue Stabilization and Tax Policy committee every three years after 2015. Perhaps a final report after the credit's sunset would be sufficient.

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

PvM/blm