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

ORIGINAL DATE 02/20/13
SPONSOR Campos **LAST UPDATED** **HB**

SHORT TITLE Lab Partnership with Business Tax Credit **SB** 509

ANALYST Smith

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY13	FY14	FY15	FY16	FY17		
$0.0	($600.0)	($1,200.0)	($1,200.0)	($1,200.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates HB 535

SOURCES OF INFORMATION

LFC Files

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

SUMMARY

Synopsis of Bill

Senate Bill 535 amends Section 7-9E-6 NMSA 1978 to add the requirement that, to be eligible for the credit, a national laboratory must provide one million two hundred thousand dollars each calendar year to facilitate the development and maintenance of professional networks that provide certain access in a rural area. The bill amends Section 7-9E-3 NMSA 1978, to add language to the definition of “contractor.” The bill also amends Section 7-9E-9 NMSA 1978, to provide an additional credit amount, not to exceed $100,000 in a calendar year per program, related to funding of programs to train small businesses and facilitate small businesses development and maintenance of professional networks. Lastly, Section 7-9E-8 NMSA 1978 is amended to increase the cap of the credit to three million six hundred thousand dollars per calendar year. Language is also added to that section to limit that credits claimed by all national laboratories for qualified expenditures for a specific program to facilitate professional networks shall not exceed $100,000.

The bill expands the scope of the programs that may be eligible for the laboratory partnership with small business tax credit to facilitate the development and maintenance of professional networks that provide access to financial capital, relevant resources and information in a rural area. To accomplish this, this bill amends the definition of "contractor" to include entities with the capacity to train people and facilitate the development and maintenance of professional networks that provide access to financial capital, relevant resource and information, and expands the maximum funding allowed from $2.4 million to $3.6 million. Individual programs to facilitate networks located in rural areas are limited to $100,000.

Effective Date: Not specified; 90 days following adjournment (June 14, 2013); Applicable to taxable years beginning on or after January 1, 2014.

FISCAL IMPLICATIONS

TRD notes that fiscal impact is limited to the claim for tax credits against gross receipts tax liability, but is limited by the initial funding from the National Laboratory Endowed Fund. With an effective date of January 1, 2014, the FY impact is estimated at 50 percent of the maximum annual impact increase that is implemented under the bill. The fiscal impact is explicitly not allowed to impact any local government tax distributions.

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 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.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is <u>not</u> met since TRD is <u>not</u> required in the bill to report annually to an interim legislative committee 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

This bill does not contain a sunset date. The LFC recommends adding a sunset date.

POSSIBLE QUESTIONS

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/blm