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## FISCAL IMPACT REPORT

SPONSOR Leavell ORIGINAL DATE 02/25/13  
 LAST UPDATED 03/01/13 HB \_\_\_\_\_

SHORT TITLE Rural Job Tax Credit Definitions SB 557/aSCORC

ANALYST Walker-Moran

### REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY13	FY14	FY15	FY16	FY17		
	Minimal	Minimal	Minimal	Minimal	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Related to SB 211 and SB 542

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Taxation and Revenue Department (TRD)  
 Department of Finance and Administration (DFA)  
 Economic Development Department (EDD)  
 Workforce Solutions Department (WSD)

### SUMMARY

#### Synopsis of SCORC Amendment

The Senate Corporations and Transportation Committee amendment to Senate Bill 557 adds that the purpose of the rural job tax credit is to encourage businesses to start new businesses in rural areas of the state.

#### Synopsis of Original Bill

Senate Bill 557 (SB 557) amends Section 7-2E-1.1 NMSA 1978, to add clarification on qualifying jobs not eligible for a rural jobs credit. The Section is also amended to change the definition of wages to include all compensation paid by an eligible employer to an eligible employee through the employer's payroll system, but not including benefits or the employer's share of payroll taxes.

This bill excludes a job from the rural jobs credit eligibility if: (1) the job is created due to a business merger, acquisition or other change in organization; (2) the eligible employee was

terminated from employment in New Mexico by another employer involved in the merger, acquisition or other change in organization; (3) the job is performed by: (a) the person who performed the job or its functional equivalent prior to the business merger, acquisition or other change in organization; or (b) a person replacing the person who performed the job or its functional equivalent prior to the business merger, acquisition or other change in organization; and (4) if the job is created due to an eligible employer entering into a contract or becoming a subcontractor to a contract with a governmental entity that replaces one or more entities performing functionally equivalent services for the governmental entity in New Mexico unless the job is a qualifying job that was not being performed by an employee of the replaced entity.

The effective date of this bill is July 1, 2013. There is no sunset date. The Legislative Finance Committee (LFC) recommends adding a sunset date.

### **FISCAL IMPLICATIONS**

The SCORC amendment has no impact on the fiscal implications. SB 557 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.

As reported by the Taxation and Revenue Department (TRD), according to the New Mexico 2012 Tax Expenditure Report, about \$180 thousand in rural jobs tax credit was granted for 49 claims in 2008; about \$423 thousand was granted for 119 claims in 2009; about \$665 thousand was granted for 78 claims in 2010; and only about \$296 thousand was granted for 28 claims in 2011. Recognizing that the rural jobs tax credit provides a \$1,000 (6.25% × \$16,000) annual benefit for each job it supports, it can be asserted that the tax credit has provided direct benefit to approximately 200 to 700 new jobs per year in rural New Mexico from 2008 to 2011. The definition change of “wages” is expected to have a minimum fiscal impact since the credit claimed amount is based on the first \$16,000 in wages paid. It is difficult to estimate how many jobs would be excluded from the eligibility of the credit pursuant to Subsection J and L on pages 5-6. Based on the historical data of credit amount claimed and number of claims, a minimal impact is expected due to the eligibility exclusion provision.

### **SIGNIFICANT ISSUES**

As reported by the Workforce Solutions Department (WSD):

SB 557 clarifies the application of the rural job tax credit. Every eligible employer may apply for the rural job tax credit through the TRD for each qualifying job the employer creates. The Economic Development Department (EDD) determines which employers are eligible and reports the listing of eligible employers to the TRD. The maximum tax credit amount with respect to each qualifying job is equal to 25 percent of the first \$16,000 in wages paid for the qualifying job if the job is performed in a tier one area, or 12.5 percent of the first \$16,000 in wages paid for a qualifying job performed in a tier two area.

The respective Cabinet Secretaries of the EDD, TRD, and the WSD annually evaluate the effectiveness of the rural job tax credit in stimulating economic development in rural areas. The respective Cabinet Secretaries make a joint report of their findings to the legislature as long as the rural job tax credit is in effect. The effectiveness of the rural job tax credit in stimulating economic development in the rural areas of New Mexico requires interagency cooperation.

The bill states that the “economic development department shall determine which employers are eligible employers and shall report the listing of eligible businesses to the taxation and revenue department in a manner and at times the departments shall agree upon.” Therefore, the EDD will need to refine its determination process to further screen applicants for the new conditions making a qualifying job ineligible for the tax credit.

The employment tables below, which provide a snapshot of job gains and new hires numbers by quarter for 2011, may be useful to the TRD and EDD in revising their estimates from the earlier analysis.

Year	QWI Quickfacts	Total	Less MSAs
2011 1	Job Creation	41,742	14,443
2011 2	Job Creation	70,423	22,429
2011 3	Job Creation	43,257	15,893
2011 4	Job Creation	49,492	12,313

Job Gains (FrmJobGain) - The number of new jobs that are created by either new area businesses or the expansion of employment by existing firms.

Year	QWI Quickfacts	Total	Less MSAs
2011 1	New Hires	100,063	33,028
2011 2	New Hires	132,747	43,431
2011 3	New Hires	137,217	45,879
2011 4	New Hires	110,271	35,129

New Hires (HirNew) - Total number of accessions that were also not employed by that employer during the previous four quarters.

New hires number is larger because it is looking at specific SSN-employer combinations.

The table below provides 2011 employment and wage data for New Mexico’s four balance-of-state (non-metropolitan) areas.

AREA	YEAR	TITLE	EMP	ENTRY	MEAN	MEDIAN	EXP
Northern and West Central	2011	Total all occupations	63,730	\$18,276.23	\$34,599.85	\$26,952.02	\$42,762.17
Eastern	2011	Total all occupations	123,620	\$18,625.02	\$37,463.82	\$28,890.32	\$46,883.22
Southwestern	2011	Total all occupations	26,290	\$17,960.17	\$36,022.63	\$25,947.59	\$45,054.37
Los Alamos County	2011	Total all occupations	15,960	\$35,117.41	\$81,928.01	\$74,030.60	\$105,332.79

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