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

SPONSOR Ivey-Soto **ORIGINAL DATE** **LAST UPDATED** **HB**

SHORT TITLE High-Wage Jobs Tax Credit Eligibility **SB** 151

ANALYST Graeser

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY16	**FY17**	**FY18**	**FY19**	**FY20**		
	($10,000.0) to ($20,000.0)	($10,000.0) to ($20,000.0)	($10,000.0) to ($20,000.0)	($10,000.0) to ($20,000.0)	Recurring	General Fund (PIT, CIT, GRT, COMP)

Parenthesis ( ) indicate revenue decreases

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY16	FY17	FY18	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	$14.0	$14.0	$14.0	$42.0	Recurring	TRD Operating

Parenthesis ( ) indicate expenditure decreases

SOURCES OF INFORMATION
LFC Files

Responses Received From
Economic Development Department (EDD)

SUMMARY

Senate Bill 151 reduces the wage threshold at which a job qualifies for the High Wage Jobs Tax Credit. After July 1, 2016, urban jobs that pay $45,000 and rural jobs that pay $35,000 would qualify for the credit. Currently, jobs must pay $60,000 in an urban area and $40,000 in a rural area to qualify.

There is no effective date of this bill. It is assumed that the new effective date is 90 days after this session ends (May 18, 2016). The change in threshold wages would be applicable for jobs created on or after July 1, 2016.

FISCAL IMPLICATIONS

The amount of High-Wage Tax Credit is 10% of qualifying wages, excluding benefits, for up to four years. If the job is located within 10 miles of a municipality of over 60,000 population, then the floor minimum wages will be $45,000, while in current statute, this floor is $60,000. For rural jobs, the floor minimum wages will be $35,000, while in current statute, this floor amount is $40,000.

Prior to the 2013 legislative change, the floor amounts were $40,000 in urban communities and $28,000 in rural communities. At that time, although was some apparent inappropriate “mining” of credits, the amount paid out per year ranged from $3.3 million to $21.0 million. Amounts paid out as refunds or applied to liabilities for FY 2014 and 2015 totaled over $119 million. Judging from abnormally low net transfers in early FY 2016 for gross receipts tax and compensating tax, up to $60 million more in primarily high-wage jobs credits were paid or applied to liabilities.

For the December 2015 and January 2016 consensus revenue estimates, the revenue estimators expected the recurring level of claims to be reduced from the $60 million per year level to perhaps $25 million after FY 2016. This bill would not restore the wage floor levels to the FY 2013 level, but would about split the difference between the two laws.

There are only four municipalities in the state that exceed 60,000 population: Albuquerque, Las Cruces, Santa Fe and Rio Rancho. Los Alamos is also considered an urban area.

EDD points out that the static cost of a new high wage jobs tax credit can range up to $48,000 per job, this new high-wage job incumbent would be paying income tax on the wages, salaries and bonuses, gross receipts taxes on purchases of goods and services and property taxes directly or indirectly on housing. One old estimate was that the tax burden (all state and local household taxes) in the income range affected by this bill might be 7% to 8% of gross income. If 70% of household income is derived from the high-wage job, then perhaps total taxes paid per year for this hypothetical $120,000 job might total be close to $10,000. The general fund might be the recipient of $6,000. Thus, the job would have to persist for eight years before the general fund were whole.

As to the specific cost of this bill’s provision to lower the wage floor to $45,000 in urban areas and $35,000 in rural areas, LFC does not have sufficient data to estimate accurately. One effect that is sure is that the relative change in the floor for rural areas is minimal ($35,000 down from $40,000), while the relative change for urban areas is more significant ($45,000 down from $60,000). LFC staff expects the costs to return to $35 million to $45 million annually up from the $25 million currently estimated.

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.

EDD points out that the static impact would be reduced by increased revenues from additional jobs created due to the credit, but not those that would have been created but for the credit but would not have qualified.

SIGNIFICANT ISSUES

This is a hallmark job creation bill. In 2013, a number of features were adjusted so that there were demonstrable returns on the state's investment, even if the cost per job were on the high side of the range. It seems that it might be prudent to let the 2013 changes achieve an equilibrium impact before, once again, adjusting the provisions and implicit subsidies.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is not met since TRD is not 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.

In the recently released TRD 2015 Tax Expenditure report, TRD reports that its economists are in the process of developing a system to track job increases due to the HWJTC to better ascertain the direct cost per job. It is also developing strategies to measure the multiplier effect this economic-based incentive is intended to achieve. This will be the first attempt to assess benefits, not just costs of one of the more important economic development efforts.

ADMINISTRATIVE IMPLICATIONS

If the changed levels of claims attributable to the changed floors proposed in this bill materialize, then TRD would need approximately .25 FTE recurring to process and validate the claims. Needless to say, this has been an area of intense interest over the last few years.

TECHNICAL ISSUES

This bill does not contain a delayed repeal date. The LFC recommends adding a delayed repeal date. The original high-wage job tax credit was enacted in 2004 with a ten-year repeal. The 2013 clarifying legislation removed the repeal.

OTHER SUBSTANTIVE ISSUES

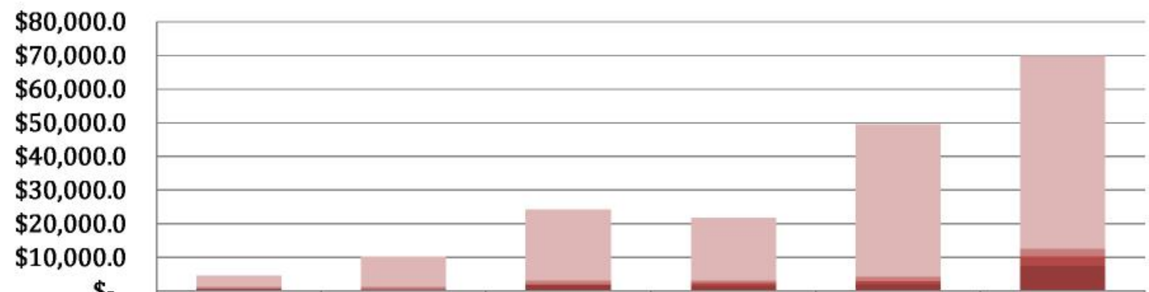
TRD's efforts to measure the direct and indirect impacts of the underlying high-wage jobs credit are commendable. Other economic development tax incentives could come in for similar cost-benefit studies and show that some tax incentives are productive and others are either ineffective, underutilized or obsolete.

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

LG/al

From TRD's 2015 Tax Expenditure Report:



	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
Refunded	$3,305.6	$9,085.4	$21,023.4	$18,563.9	$45,278.5	$57,218.8
Withholding	$614.2	$685.6	$1,081.6	$749.7	$1,306.2	$2,386.2
Comp Tax	$28.9	$101.1	$301.6	$738.0	$1,001.3	$2,875.4
GRT	$631.0	$438.8	$1,795.5	$1,650.6	$1,964.3	$7,439.2