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

SPONSOR Cisneros **ORIGINAL DATE** 3/1/19 **LAST UPDATED** **HB**

SHORT TITLE Technology Readiness Gross Receipt Tax Credit **SB** 572

ANALYST Clark

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY19	**FY20**	**FY21**	**FY22**	**FY23**		
$0	Up to ($5,000.0)	Up to ($5,000.0)	Up to ($5,000.0)	Up to ($5,000.0)	Recurring	General Fund

Parenthesis ( ) indicate revenue decreases

SOURCES OF INFORMATION
LFC Files

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

SUMMARY

Synopsis of Bill

Senate Bill 572 creates a new tax expenditure named the technology readiness gross receipts tax (GRT) credit. It provides a credit to a national laboratory that provides technology readiness assistance to a business registered in New Mexico and which has licensed a technology from the national laboratory or is a participant in a cooperative research and development agreement (CRADA) with the laboratory. The credit may be taken against state GRT liability and is equal to the amount of qualified expenditures incurred by the laboratory to provide this assistance to a business, not to exceed $250 thousand for technology that reaches technology maturation.

Each laboratory may claim up to a total of $2.5 million in these credits annually. The bill prohibits a laboratory from claiming this credit and the laboratory partnership with small business tax credit within the same tax year for any assistance provided to the same business.

The purpose of the tax credit is to help promote the maturation of technologies developed at the national laboratories and boost technology commercialization and increase economic development in the state. Certification of the taxpayer claiming the credit will be done by the Economic Development Department (EDD) and meet various specifications demonstrating evidence the technology readiness assistance performed resulted in technology maturation. To claim the credit, the taxpayer shall apply to the Taxation and Revenue Department (TRD). That portion of the tax credit that exceeds the taxpayer's tax liability in the taxable month in which the credit is claimed may be carried forward to succeeding months. The national laboratory that claims the credit shall submit an annual report in writing to TRD, EDD, and an appropriate legislative interim committee.

The credit sunsets at the end of FY30.

The effective date of this bill is July 1, 2019.

FISCAL IMPLICATIONS

This bill narrows the gross receipts tax (GRT) base. See *Significant Issues* for more information.

The annual cap of $2.5 million per laboratory could result in a general fund cost of up to $5 million annually for both national laboratories. The laboratories essentially reach the cap set up for their other GRT credit each year, so it appears reasonable the same case would occur here.

This bill creates or expands a tax expenditure with a cost that is difficult to determine but likely significant. LFC has serious concerns about the significant risk to state revenues from tax expenditures and the increase in revenue volatility from erosion of the revenue base. The committee recommends the bill adhere to the LFC tax expenditure policy principles for vetting, targeting, and reporting or be held for future consideration.

This bill may be counter to the LFC tax policy principles 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

This bill narrows the gross receipts tax (GRT) base. Many of the efforts over the last few years to reform New Mexico’s taxes focused on broadening the GRT base and lowering the rates. Narrowing the base leads to continually rising GRT rates, increasing volatility in the state’s largest general fund revenue source. Higher rates compound tax pyramiding issues and force consumers and businesses to pay higher taxes on all other purchases without an exemption, deduction, or credit.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is met with the bill's requirement 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.

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

Does the bill meet the Legislative Finance Committee tax expenditure policy principles?

1. **Vetted**: The proposed new or expanded tax expenditure was vetted through interim legislative committees, such as LFC and the Revenue Stabilization and Tax Policy Committee, to review fiscal, legal, and general policy parameters.
2. **Targeted**: The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals.
3. **Transparent**: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies.
4. **Accountable**: The required reporting allows for analysis by members of the public to determine progress toward annual targets and determination of effectiveness and efficiency. The tax expenditure is set to expire unless legislative action is taken to review the tax expenditure and extend the expiration date.
5. **Effective**: The tax expenditure fulfills the stated purpose. If the tax expenditure is designed to alter behavior – for example, economic development incentives intended to increase economic growth – there are indicators the recipients would not have performed the desired actions "but for" the existence of the tax expenditure.
6. **Efficient:** The tax expenditure is the most cost-effective way to achieve the desired results.

LFC Tax Expenditure Policy Principle	**Met?**	**Comments**
Vetted	✘	
Targeted		
Clearly stated purpose	✓	
Long-term goals	✘	
Measurable targets	✘	
Transparent	✓	
Accountable		
Public analysis	?	
Expiration date	✓	
Effective		
Fulfills stated purpose	?	
Passes "but for" test	?	
Efficient	?	
Key: ✓ Met ✘ Not Met ? Unclear		

JC/sb