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FISCAL IMPACT REPORT

ORIGINAL DATE 3/7/19

SPONSOR Campos LAST UPDATED _____ HB _____

SHORT TITLE Frontier Community Investment Tax Credits SM 80

ANALYST Clark

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY19	FY20	FY21	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		Indeterminate			Nonrecurring	TRD & EDD Operating Budgets

Parenthesis () indicate expenditure decreases

Relates to SB474

SOURCES OF INFORMATION

LFC Files

SUMMARY

Synopsis of Memorial

Senate Memorial 80 discusses the economic challenges facing rural parts of New Mexico and the idea and possible benefits of a frontier community investment income tax credit. It then resolves that the potential benefits of such credits be reviewed and considered.

Copies of the memorial shall be given to the Taxation and Revenue Department and the Economic Development Department.

FISCAL IMPLICATIONS

It is unknown what resources would be required to evaluate the potential benefits of such a credit, but it would be an additional operating budget impact of some level for the two agencies.

SIGNIFICANT ISSUES

Estimating the cost (or in this case, the potential benefits) 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.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

This relates to SB474, which would create a frontier community investment income tax credit.

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.