



New Mexico Fiscal Policy Project

ECONOMIC DEVELOPMENT TAX CREDITS IN NEW MEXICO: ARE THEY DOING THE JOB?

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INTRODUCTION

Like most states, New Mexico provides numerous tax incentives intended to encourage certain types of economic activity, such as job creation and the advancement of nascent technologies like alternative energy. Other credits improve New Mexicans' quality of life by encouraging efforts such as energy and water conservation, sustainable building, and employment benefits such as job training programs and employer-provided child care.

The cost of this array of tax credits is substantial, with the state spending more than \$41 million in FY06 and more than \$33 million in FY07. These credits are just a fraction of the total economic incentives available in New Mexico. Other public incentives include industrial revenue bonds (IRBs), job training programs such as JTIP, capital outlay, and local incentives of land, buildings or other infrastructure.

Economic development tax credits represent revenue the state chooses to forego, which means the rest of us have to either make up that revenue in the form of higher taxes or live with cuts in programs such as education, health care and public safety. If the tax credits have the positive economic impact they're designed to, it may

prove to be a fair trade off. The problem is, the state does not know what the positive economic impacts of these tax breaks are—or, even if there is a positive economic impact at all.

Since the credits involve tax dollars, there should be much more information available to the public about the impact of the credits. This information would also allow policymakers to make more informed decisions about enacting additional tax credits in the future—or, if the money is better spent in some other way. Investments in programs like universal health care, comprehensive early care and education, or increasing the public school funding formula may be better long-term investments for the state.

This paper will describe economic development tax credits, assess their cost¹, and make recommendations for improvements in the state's system of tracking their effects. In most cases, information on the cost of the incentives is available and the New Mexico Taxation and Revenue Department tracks them. But information is sorely lacking on whether the incentives are having their intended impact on procurement, employment, wages, or other economic activity.

*This paper was updated in September 2009 after an error was discovered. The Solar Market Development tax credit was accidentally listed twice, which changed the tax incentive totals in the text and on Table V.

ECONOMIC DEVELOPMENT TAX CREDITS

There are four kinds of business tax incentives available in New Mexico:

- Conservation and Historic Preservation Tax Credits
- General Industry Incentive Tax Credits
- Specific Industry Tax Credits
- Employment Enhancement Tax Credits

Conservation and Historic Preservation tax credits are intended to encourage businesses to invest in activities that conserve energy and to engage in historic preservation. There were ten tax credits under this rubric in FY06 and FY07. However, many of these credits were enacted by the Legislature in 2007, so cost information is not yet available. Those credits—Advanced Energy Tax Credit, Agricultural Water Conservation, Alternative Energy Product Manufacturers, Biodiesel Blending Facility, Blended Biodiesel Fuel, and Sustainable Building—are not listed on Table I.

Table I
Conservation/Historic Preservation Tax Credits

| (Dollars in Thousands) | | |
|--------------------------------|------------|----------|
| Cost to State General Fund | FY06 | FY07 |
| Cultural Property Preservation | \$260.50 | \$173.80 |
| Land Conservation Incentives | \$606.20 | \$114.40 |
| Renewable Energy Production | \$8,250.30 | \$0.00 |
| Totals | \$9,117.00 | \$288.20 |



As Table I shows, the Renewable Energy Production credit was the most costly, at \$8.25 million, in FY06, and the Cultural Property Preservation and Land Conservation credits had significant costs in both FY06 and FY07.

Table II
General Industry Incentive Tax Credits

| (Dollars in Thousands) | | |
|--|-------------|-------------|
| Cost to State General Fund | FY06 | FY07 |
| Electronic Card-Reading Equipment (2001) | \$0.40 | \$0.30 |
| Investment Tax Credit | \$14,789.40 | \$6,095.20 |
| Small Business Research & Development Credit | \$0.00 | \$303.10 |
| Technology Jobs Tax Credit (2000) | \$4,186.60 | \$5,358.40 |
| Totals | \$18,976.40 | \$11,757.00 |

General Industry tax incentives are intended to encourage overall economic development activity in New Mexico. They are also the most expensive, costing nearly \$20 million in FY06. The Investment and Technology Jobs tax credits are the largest of this group. As Table II shows, the Investment tax credit cost nearly \$15 million in FY06. Unfortunately, any actual economic development impact of these credits is unknown. Three of the credits in the category—Business Facility Rehabilitation Credit (instituted in 1994), Intergovernmental Business (2001), and Services for Resale (Pyramiding) Credit (2005)—are not currently being taken advantage of and are not shown on Table II.

The Specific Industry Incentive tax credits encourage the expansion of designated industries in the state. These industries are selected for a variety of public policy purposes. The largest of the specific industry tax credits by far is the film tax credit—a \$10.8 million cost in FY06, and \$17.6 million in FY07—which was introduced to foster the growth of the film industry in New Mexico. That film production in New Mexico has increased is quite clear. Whether the economic activity these productions have created matches or exceeds the credit is under debate. A study done by New Mexico State's Arrowhead Center for the Legislative Finance Committee

found that for every dollar spent in tax incentives less than 15 cents went back to the state in tax revenue. A study commissioned by Governor Richardson, however, found that \$1.50 was returned in revenue for every dollar in tax incentives.

Table III
Specific Industry Incentive Tax Credits

| (Dollars in Thousands) | | |
|--|--------------------|--------------------|
| Cost to State General Fund | FY06 | FY07 |
| Affordable Housing Tax Credit | \$27.20 | \$48.30 |
| Film Production Tax Credit | \$65.80 | \$72.30 |
| Film Tax Credit | \$10,808.30 | \$17,650.50 |
| National Laboratory Small Business Partnership | \$1,454.30 | \$1,694.40 |
| Solar Market Development | \$340.80 | \$525.10 |
| Totals | \$12,630.60 | \$19,918.30 |

The National Laboratory Small Business Tax Credit and the Solar Market Development credit have also posted a significant cost, while the Double Local Option Penalty Credit and Hospital Gross Receipts Tax Credits have cost the state nothing. Cost information is not available for Biodiesel Blending Facility Credit, and Unpaid Doctor Services, both of which were enacted in 2007.

The final set of credits—Employment Enhancement—is intended to foster job growth of a specific kind. The High Wage Jobs tax credit and the Rural Jobs tax credit are the two important credits in this category because New Mexico has a high percentage of low-wage jobs, and not enough employment opportunities in its rural

Table IV
Employment Enhancement Tax Credits

| (Dollars in Thousands) | | |
|----------------------------|-----------------|-------------------|
| Cost to State General Fund | FY06 | FY07 |
| High Wage Jobs Tax Credit | \$673.80 | \$1,330.90 |
| Job Mentorship Tax Credit | \$15.20 | \$10.30 |
| Rural Job Tax Credit | \$189.90 | \$113.40 |
| Welfare-to-Work Tax Credit | \$1.50 | \$12.40 |
| Totals | \$880.40 | \$1,467.00 |



areas. Qualifying businesses must meet certain criteria for obtaining the credit, but there is no information available on the number and types of jobs created.

Corporate-Supported Child Care has cost the state nothing to date and is not shown on Table IV.

As Table V shows, the total cost of this array of business credits is substantial—between \$33 and \$41 million for the two most recent years in which data is available. The benefits, on the other hand, are unknown.

Table V
Tax Incentive Totals

| (Dollars in Thousands) | | |
|----------------------------|--------------------|--------------------|
| Cost to State General Fund | FY 2006 | FY 2007 |
| Totals | \$41,604.40 | \$33,430.50 |

RECOMMENDATIONS FOR IMPROVEMENT

The economic impact of these tax credits could be calculated by looking at the number of jobs created, the wages of those jobs, and the procurement costs for each company receiving a credit. Also, the total cost of incentives, including other direct subsidies such as infrastructure and training subsidies, should be included in this calculation.

CONCLUSION

Since the credits involve tax dollars, there should be much more information available to the public about their impact. An economic impact analysis of the success of these credits would enable policymakers to make better decisions about whether the credits are worth their costs—particularly during an economic downturn.

An annual tax expenditure budget should also be released prior to each legislative session so this indirect spending

can receive the same kind of scrutiny that's given to direct spending. Investments in early care and education, K-12 education, and universal health care and Medicaid, also reap long-term economic benefits, but spending on them is generally not considered an 'economic incentive.' If policymakers approached these programs from an economic stimulus perspective, the funding paradigm might change as well.

Transparency is a hallmark of good government and creates good will between the state and its taxpayers. In the new era of budget constraint, this is the responsible approach to policy making.

ENDNOTES

¹ Cost information for fiscal years 2006 and 2007 is the most recent available. Data for all tables calculated by New Mexico Voices for Children are from *New Mexico Taxation and Revenue Department: Report on Manufacturing Incentives in New Mexico*, November 2008.

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