FISCAL IMPACT REPORT

SPONSOR	Sens. Padilla and Soules/Reps. Dixon, Hernandez and Garratt	**LAST UPDATED**	
		ORIGINAL DATE	2/5/2025
SHORT TITLE	Quantum Facility Infrastructure Tax Credit	**BILL NUMBER**	Senate Bill 211
		ANALYST	Faubion

REVENUE*
(dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
PIT/CIT	($50,000.0)	($50,000.0)	($50,000.0)	$0.0	$0.0	Recurring	General Fund

Parentheses ( ) indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
EDD	Indeterminate but minimal	Indeterminate but minimal	Indeterminate but minimal	Indeterminate but minimal	Recurring	General Fund
TRD	Indeterminate but minimal	Indeterminate but minimal	Indeterminate but minimal	Indeterminate but minimal	Recurring	General Fund
Total	Indeterminate but minimal	Indeterminate but minimal	Indeterminate but minimal	Indeterminate but minimal	Recurring	General Fund

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

Relates to Senate Bill 212.

Sources of Information

LFC Files

Agency Analysis Received From
Economic Development Department (EDD)

Agency Analysis was Solicited but Not Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Senate Bill 211

Senate Bill 211 establishes two new tax credits—the quantum facility infrastructure income tax credit for individuals and the quantum facility infrastructure corporate income tax credit for corporations—to encourage investment in quantum technology infrastructure. Taxpayers who invest at least $3 million in qualified expenditures, such as land, rent, buildings, and

infrastructure for quantum facilities, can receive a tax credit worth 30 percent of their investment, up to $50 million per facility. The total lifetime statewide cap for these credits is $75 million, increasing to $150 million if New Mexico receives a National Science Foundation award for quantum technologies. To qualify, taxpayers must obtain preliminary certification from the Economic Development Department before making expenditures and apply for final certification within 12 months after construction. Any unused credits exceeding tax liability are refundable.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns, or June 20, 2025, if enacted. The provisions of the bill apply to taxable years 2025 through 2035.

FISCAL IMPLICATIONS

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 substantial 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 action be postponed until the implications can be more fully studied.

The total cost to the state general fund is capped at $75 million in aggregate tax credits. However, this cap increases to $150 million if the state receives a National Science Foundation regional innovation engines award for quantum technologies. This means the maximum potential revenue loss for the state from these tax credits would be $150 million over the program's duration.

Because the credit can be claimed in large tranches shortly after final certification, companies may utilize the full credit in a concentrated manner rather than spreading it out over several years. This clustering of claims could lead to significant, unanticipated reductions in tax revenue in particular fiscal years, making it challenging for the state to forecast and maintain a balanced budget. At the writing of this report, one new quantum company has announced investment in New Mexico. The fiscal impact assumes one facility claims the maximum credit per facility credit of $50 million each year until the credit is exhausted after three years. Actual fiscal impacts can vary depending on the size and timing of claims.

SIGNIFICANT ISSUES

The tax credit aggregate cap will double if the state wins a National Science Foundation (NSF) Regional Innovation Engine (NSF Engines) award. The NSF has established the NSF Engines program to foster innovation ecosystems across the United States, with a focus on advancing critical technologies, including quantum information science and engineering (see *Other Substantial Issues* for more on NSF Engines).

The "but for" test is a standard used in tax policy to determine whether an incentive is necessary to influence economic behavior. It asks whether a particular action—such as investing in infrastructure or expanding business operations—would still occur but for the existence of the tax credit. If the investment would happen anyway, the credit may not be an effective use of state resources, as it simply subsidizes an activity that was already planned.

In the case of the quantum facility infrastructure income tax credit, the "but for" test evaluates whether companies would build quantum infrastructure in New Mexico without the credit. Since quantum technology requires substantial capital investment, the credit could enhance the state's competitiveness, especially against states with similar incentives. However, New Mexico's existing assets—such as two national laboratories, research universities, and federal funding opportunities—may already make it an attractive location for quantum investment. If companies are likely to invest due to these factors alone, the credit may not be the decisive factor in their decision-making.

The debate over the effectiveness of tax incentives is particularly relevant to the proposed quantum facility infrastructure income tax credits in New Mexico. These credits could attract high-tech companies, positioning the state as a leader in quantum research. Because the credit is refundable, businesses may be more inclined to invest, knowing they will receive a direct financial benefit even if they lack sufficient tax liability.

However, tax incentives are often not the deciding factor in whether a company establishes operations in a given location. Factors such as workforce availability, infrastructure, and proximity to research institutions often weigh more heavily in decision-making. Studies have also shown that tax incentives can come at a high cost to the state and may not be the most effective way to spur economic development. Furthermore, if companies take advantage of the tax credit without making a long-term commitment to the region, New Mexico could see minimal lasting economic benefits.

Ultimately, the success of these tax credits will depend on whether they lead to sustainable industry growth beyond the incentive period and whether the state can effectively pair them with other economic development strategies, such as workforce training programs and research partnerships with universities.

The Economic Development Department notes that the state is optimally positioned to capitalize on the quantum industry's growth due to the presence of two national laboratories with world-renowned specialization in quantum technologies, as well as the University of New Mexico's premier quantum physics program and the state's overall appetite for innovation and economic development in science and technology. New Mexico is currently in the running for an NSF Regional Innovation Engines Award in quantum technologies – should that be awarded, additional quantum technology industry will look to be involved in the federally-funded work being done in the state, creating additional potential users of the expanded credit amount.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is not met because 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 credit and other information to determine whether the credit is meeting its purpose.

ADMINISTRATIVE IMPLICATIONS

If enacted, the legislation would require new administrative and technical duties for Economic Development Department (EDD) staff. The legislation requires EDD to issue both preliminary

and final certification of eligibility for the tax credits, which will require the department to develop new systems for eligibility determination, processing, and tracking.

The Taxation and Revenue Department will incur some nonrecurring, and possibly some recurring, cost to administer this credit.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB211 relates to Senate Bill 212, which offers a companion GRT tax deduction for quantum investment by the national labs.

OTHER SUBSTANTIVE ISSUES

In April 2024, the NSF awarded 14 additional NSF Engines Development Awards, each up to $1 million, to various institutions to plan and develop their regional innovation strategies. These two-year planning awards are designed to help communities build the necessary partnerships and infrastructure to support future innovation and economic development. These awards are part of the NSF's broader effort to catalyze regional innovation and position the United States at the forefront of critical technological advancements, including quantum technologies.

These are awarded based on several key criteria, including the proposal's potential to create a sustainable and inclusive regional innovation ecosystem that addresses critical societal or economic challenges. Successful proposals must demonstrate strong partnerships among industry, academia, nonprofits, Tribal Nations, and local governments to foster collaboration. They should also focus on advancing key technologies, particularly in areas like quantum research, while emphasizing technology translation and commercialization. Additionally, the proposal must outline a clear strategy for driving economic growth, creating high-quality jobs, and supporting equitable workforce development within the region. By meeting these criteria, regions can enhance their chances of securing NSF funding to accelerate innovation.

In assessing all tax legislation, LFC staff considers whether the proposal is aligned with committee-adopted tax policy principles. Those five principles:

- **Adequacy**: Revenue should be adequate to fund needed government services.
- **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
- **Equity**: Different taxpayers should be treated fairly.
- **Simplicity**: Collection should be simple and easily understood.
- **Accountability**: Preferences should be easy to monitor and evaluate

In addition, staff reviews whether the bill meets principles specific to tax expenditures. Those policies and how this bill addresses those issues:

Tax Expenditure Policy Principle	Met?	Comments
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.	✗	No record of an interim committee hearing can be found.
Targeted: The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals. Clearly stated purpose Long-term goals Measurable targets	✗	There are no stated purposes, goals, or targets.
Transparent: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies	✓	The credit must be reported publicly in the TER.
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. Public analysis Expiration date	✓	The credit does have an expiration date.
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. Fulfills stated purpose Passes "but for" test	?	There are no stated purposes, goals, or targets with which to measure effectiveness or efficiency.
Efficient: The tax expenditure is the most cost-effective way to achieve the desired results.	?	
Key: ✓ Met ✗ Not Met ? Unclear		

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