



*Tax Structures – Are We Giving the
Middle Finger to Business?*

Presented to MVEDA Regional Economic Development
Forum

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NMTRI Principles of Good Tax Policy

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N.M. Tax Research Institute is a non-profit, non-partisan member-supported organization dedicated to advancing the following principles of good tax policy in New Mexico:

- **Adequacy**
 - Revenues should be sufficient to fund needed services
- **Efficiency**
 - Interference with the private economy should be minimized
- **Equity**
 - Taxpayers should be treated fairly
- **Simplicity**
 - Laws, regulations, forms and procedures should be as simple as possible
- **Comprehensiveness**
 - All taxes should be considered when evaluating the system
- **Accountability**
 - Exceptions should be rare and should be carefully evaluated and justified



BURNOUT

ATTITUDES ARE CONTAGIOUS. MINE MIGHT KILL YOU.

Tax and Incentive Policy - Historic

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- New Mexico corporate income tax has remained largely unchanged for decades; in contrast:
- The tax structure was created around the economy that we had: primarily federal spending and natural resources
- New Mexico gross receipts taxes have seen explosive growth in narrow deductions and retail base erosion
 - Retail base has been narrowed (generally not desirable)
 - Gross receipts tax rates have increased sharply
 - ✦ Aggravates “tax pyramiding”

New Mexico General Tax Overview Relative to Other States

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- **New Mexico imposes a fairly high tax burden on new business investment**
 - **Gross Receipts Tax**
 - ✦ Broadly imposed on many business inputs, services in particular
 - ✦ Rates increasing
 - Both aggravate “tax pyramiding”
 - **Corporate Income Tax**
 - ✦ Higher than average rate (7.6 vs. 6.7%)
 - ✦ Highest rate in region except for CA
 - ✦ No real beneficial apportionment schemes or options for exporters beyond standard 3-factor formula
 - Majority of states do offer

Source: Ernst & Young NM Business Tax Competitiveness Study 2011

New Mexico General Tax Overview Relative to Other States

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- **New Mexico imposes a fairly high tax burden on new business investment –cont'd**
 - **Property Tax**
 - ✦ New Mexico among lowest tax rates in NM, but:
 - Albuquerque rates close to national average
 - ✦ No “split roll” system
 - **Personal Income Tax**
 - ✦ Ranges from 1.7-4.9% (hits top rate quickly)
 - ✦ Rate lower than national average rate
 - Comparable to surrounding jurisdictions that impose income taxes except California; TX and NV do not impose PIT.
 - ✦ 50% Capital Gain Exclusion
 - More generous than competing states

How Do New Mexico's Business Taxes Compare?

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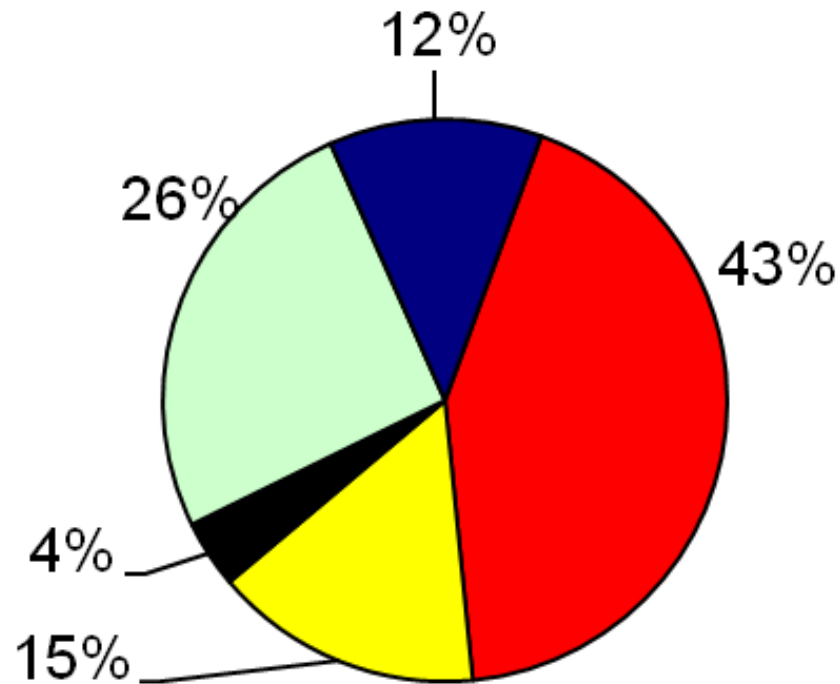
Tax	New Mexico	U.S. Average	NM – U.S. Aver.
	(% of GSP)	(% of GSP)	Annual Revenue
Property Tax	0.8%	1.7%	(\$600 million)
Sales Tax on Inputs	1.9%	1.1%	\$520 million
Excise	0.5%	0.6%	(\$60 million)
Corp. Income Tax	0.5%	0.5%	--
UI Tax	0.2%	0.3%	(\$70 million)
Ind. Income Tax on Bus. Income	0.1%	0.2%	(\$45 million)
Other	2.1%	0.5%	\$955 million
Total	6.0%	4.9%	\$700 million

Source: "Total state and local business taxes," Ernst & Young, Council on State Taxation, January 2009.

Economic Environment

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FY12 General Fund Revenue



■ Sales ■ Energy ■ Other ■ Income ■ Investments

Source: Consensus Revenue Estimate

Economic Environment- Rate Growth and Pyramiding/Regressivity

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- What is pyramiding?
 - Pyramiding is when a general consumption or transaction tax (like a sales tax or the NM gross receipts tax) is charged on business inputs (business-to-business sales) and becomes embedded as part of the cost of the ultimate goods or services sold to the consumer.
- GRT is also regressive (hit's poorer households harder relative to income).
- State, muni's, counties and others in competition for tax base
 - Counties increasingly dependent on GRT – some now receiving more revenue from GRT than property tax.

Pyramiding Illustration

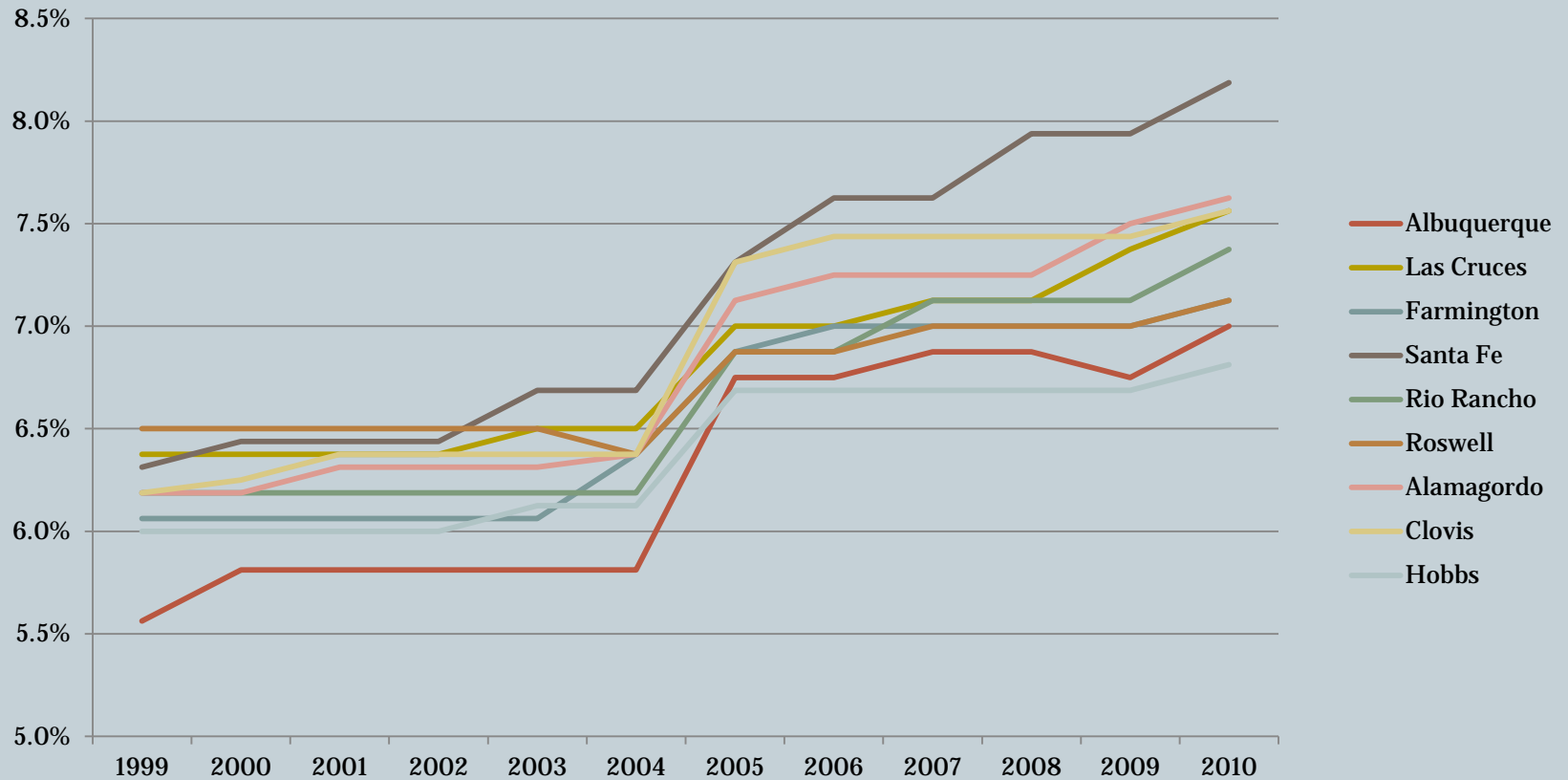
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	Sales	GRT
Drilling contractor	\$100	\$7.40
Natural gas producer	\$200	\$14.80
Electric Utility	\$400	\$29.60
Commercial power consumer	\$800	\$59.20
Total final value/Tax	\$800	\$111.00
Effective tax rate		13.88%

Pyramiding can raise effective tax rates sharply, creating strong incentives to avoid tax by importing, or bringing operations in-house.

Economic Environment- Rate Growth and Pyramiding

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New Mexico Loses Opportunity

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- **Solar manufacturer chooses Mesa, AZ**
 - Gets “deal” in Arizona
 - Company cites some tax concerns
 - ✦ Absence of single sales factor option (corporate income tax)
 - ✦ GRT on electricity
 - Targets costliest input
 - Consumes as much power as Santa Fe
 - Mayor Berry wants to address “problem”
 - Advisors suggest credible study of tax competitiveness
 - ✦ Recall 1997 KPMG Barents Group Study by EDD, Silver City
 - ✦ But, time consuming and expensive

New Study Published

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- Council on State Taxation (“COST”) commissioned Ernst & Young’s Quantitative Economic and Statistics group to perform 50 state study:
 - Looks at \$100M investment in:
 - ✦ C-corporation
 - ✦ Largest City (property tax)
 - ✦ Statewide Average (sales tax)
 - ✦ Five sectors
 - Durable Goods Manufacturing
 - Non-durable Goods Manufacturing
 - Office and call center facilities
 - Research and Development facilities
 - Headquarters facilities

New Study Published

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**Study looked at effective tax rate/after tax
ROI over 30 year investment**

AND NEW MEXICO RANKED...

New Study Published

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51!

* Study included District of Columbia

Study Comments on New Mexico Tax

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And the winners were (weighted by capital investment):

- ✦ 1 - Maine (3.0%)
- ✦ 2 - Oregon (3.8%)
- ✦ 3 - Ohio (4.4%)
- ✦ 4 - Wisconsin (4.5%)

Rounding out the bottom:

- ✦ 47 - Kansas (11.2%)
- ✦ 49 - Rhode Island (11.5%)
- ✦ 50 - District of Columbia (16.6%)
- ✦ 51 - New Mexico (16.6%)

Study Comments on New Mexico Tax

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“New Mexico uses an equally weighted corporate income apportionment formula... For the hypothetical facilities, this means that roughly two thirds of the additional income attributable to the new investment will be subject to tax in New Mexico. In addition, New Mexico’s corporate tax rate is slightly above average (7.6% in New Mexico compared to a nation-wide average of 6.7%).”

- New Mexico’s corporate tax rate is highest in the region with the exception of California

Enhanced Study Commissioned

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“New Mexico imposes a gross receipts tax on virtually all business activity. The tax is levied at a relatively high tax rate for a gross receipts tax (5.125% at the state level) plus a local tax comparable to retail sales taxes. However, unlike a retail sales tax, it applies to most services... Therefore, this analysis treats the tax as a sales tax with few exemptions, **resulting in a significant tax burden for facilities that purchase a large amount of services and other inputs typically exempt from (other states’) state and local sales taxes.** In sharp contrast to New Mexico, Ohio, ranked the 4th most competitive state, imposes a gross receipts tax at a rate of 0.26%.”

Study Has Flaws and Limitations

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- **Study did not include incentives**
 - i.e. states that don't tax manufacturing equipment “got credit”, while our Investment Credit did not count
 - IRB's not in model, nor JTIP , HWJTC, TJTC, etc
- **Used simple corporate income assumptions**
 - Combined filing not modeled
 - NM filing options not considered/evaluated
- **Modeling GRT difficult**
 - Mistakes likely
- **Taxes certainly not only determinative factor in site selection and overall cost**

Enhanced Study Commissioned

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Multi-Client Coalition Supporting Study:

- Albuquerque Mayor Berry initiates study, engages NMTRI
- Other supporting entities:
 - Bernalillo County, PNM, GACC, NMML, NAIOP, GAAR, SWMLS, MCA, SMACCA
- State Executive and Legislative support:
 - EDD
 - TRD
 - DFA
 - LFC

Enhanced Study Commissioned

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NMTRI engaged E&Y to:

- **Include incentives in tax calculations for eight states**
 - AZ, CA, CO, NV, OK, OR, TX, UT
- **Add rural location (Deming)**
- **Add industries**
 - Computer & electronic mfg, electrical equip, aerospace products and parts, management scientific, and technical consulting, and food processing
- **Ask additional policy questions**
 - Effect of rate changes, deductions, etc.

In addition, NM detail validated by NMTRI/TRD/DFA

Enhanced Study Commissioned – Cont'd

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Using model with incentives, study estimates impacts of these policy options on competitiveness:

- Changing Corporate income tax rates
- GRT deductions for manufacturing and other sectors' inputs
 - ✦ electricity sold to manufacturers or , natural gas, other “consumables”, etc.
- Single and double-weighted sales factor elections (corporate income tax)
- Other incentives/wage subsidies (i.e. Utah)

Enhanced Study Commissioned

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Goal: Provide an analytically sound way of addressing questions of perennial interest to the Legislature and Administration and local governments, economic developers and other interested New Mexicans:

- How does NM's tax on new investment compare with other states?
- Which components of NM's taxes are most/least competitive?
- How would policy changes affect NM's competitiveness?

The results will be presented to interim legislative committees and others

Results Without Incentives

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Compared to the average in the eight other states, New Mexico's ETR is 1.7 times higher than the average for the services industries and 2.7 times higher than the other-state average for manufacturing. For all industries combined, New Mexico is more than double the average for the other eight states.

It is clear from the figures that New Mexico's relatively higher business tax burdens (as measure by ETRs) is due to a combination of relatively high corporate income taxes and sales taxes on business purchases under the gross receipts tax.

Source: Ernst & Young LLP

Results Without Incentives

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Effective Tax Rate Ranking Before Incentives

Industry	NM's Effective Rate
Headquarters	1 st Highest
Research and Development	1 st Highest
Renewable Energy Equipment Manufacturing	1 st Highest
Business Support Services	1 st Highest
Food Products Manufacturing	1 st Highest
Computer & Electronics Manufacturing	1 st Highest
Electrical Equipment Manufacturing	1 st Highest
Aerospace Products and Parts Manufacturing	1 st Highest
Management, Scientific and Tech. Consulting Services	1 st Highest

Results Without Incentives

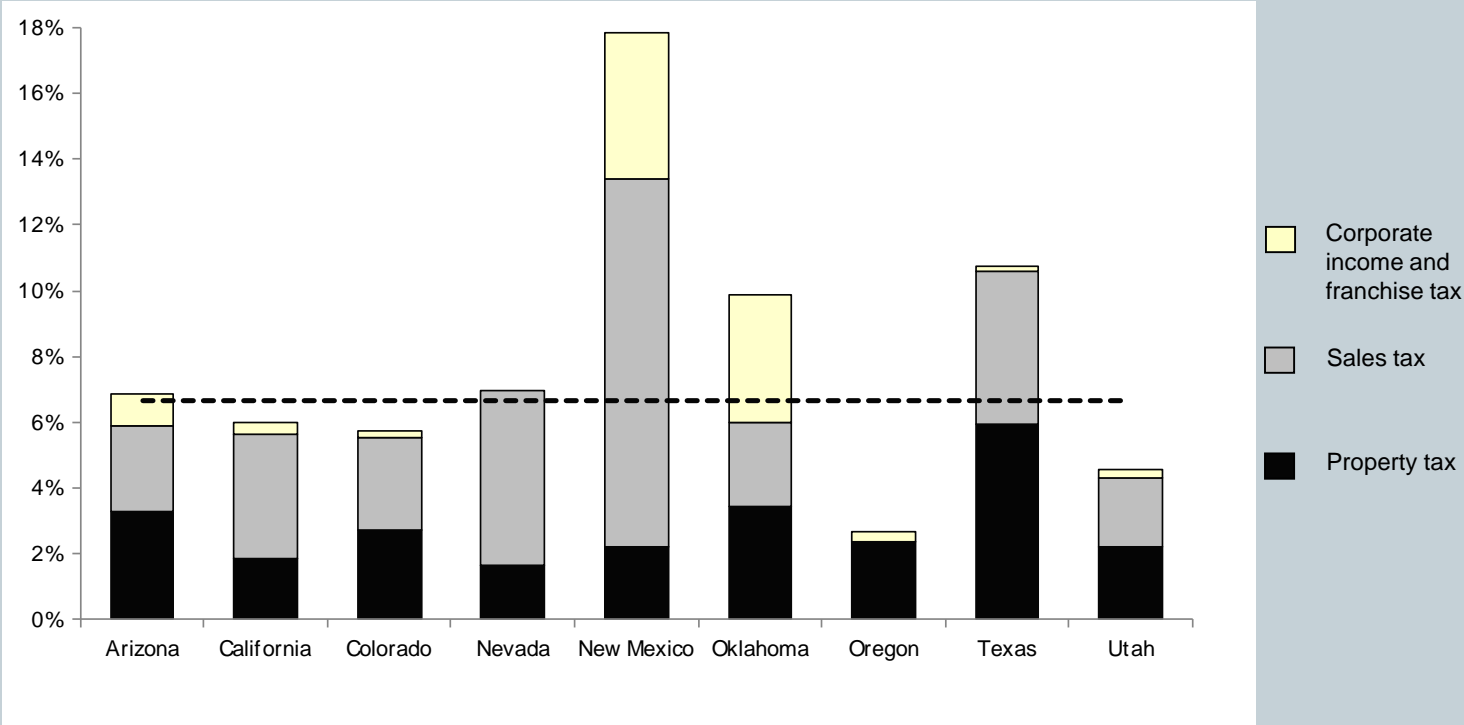
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Average Effective State and Local Business Tax Rates by Investment Type Before Incentives

State	Services		Manufacturing		All Industries	
	ETR	Rank	ETR	Rank	ETR	Rank
Arizona	10.3%	3	6.9%	5	8.4%	4
California	10.2%	4	6.0%	6	7.9%	5
Colorado	7.7%	6	5.8%	7	6.6%	7
Nevada	6.9%	7	6.9%	4	6.9%	6
New Mexico	13.4%	1	17.9%	1	15.9%	1
Oklahoma	12.0%	2	9.9%	3	10.8%	2
Oregon	2.0%	9	2.7%	9	2.4%	9
Texas	7.9%	5	10.8%	2	9.5%	3
Utah	6.9%	8	4.5%	8	5.6%	8
<i>Other States' Average ETR</i>	8.0%		6.7%		7.3%	

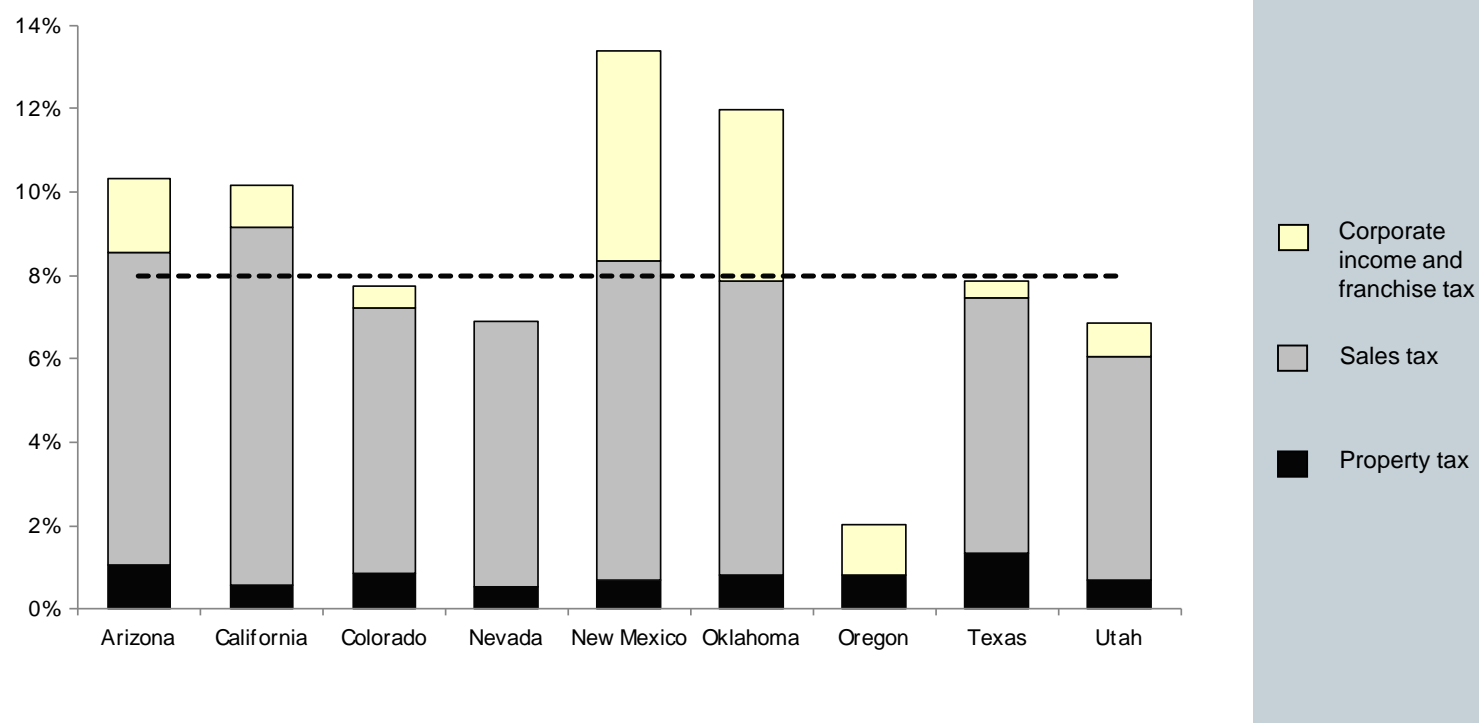
Results Without Incentives

Average Effective Tax Rates for Manufacturing Industries



Results Without Incentives

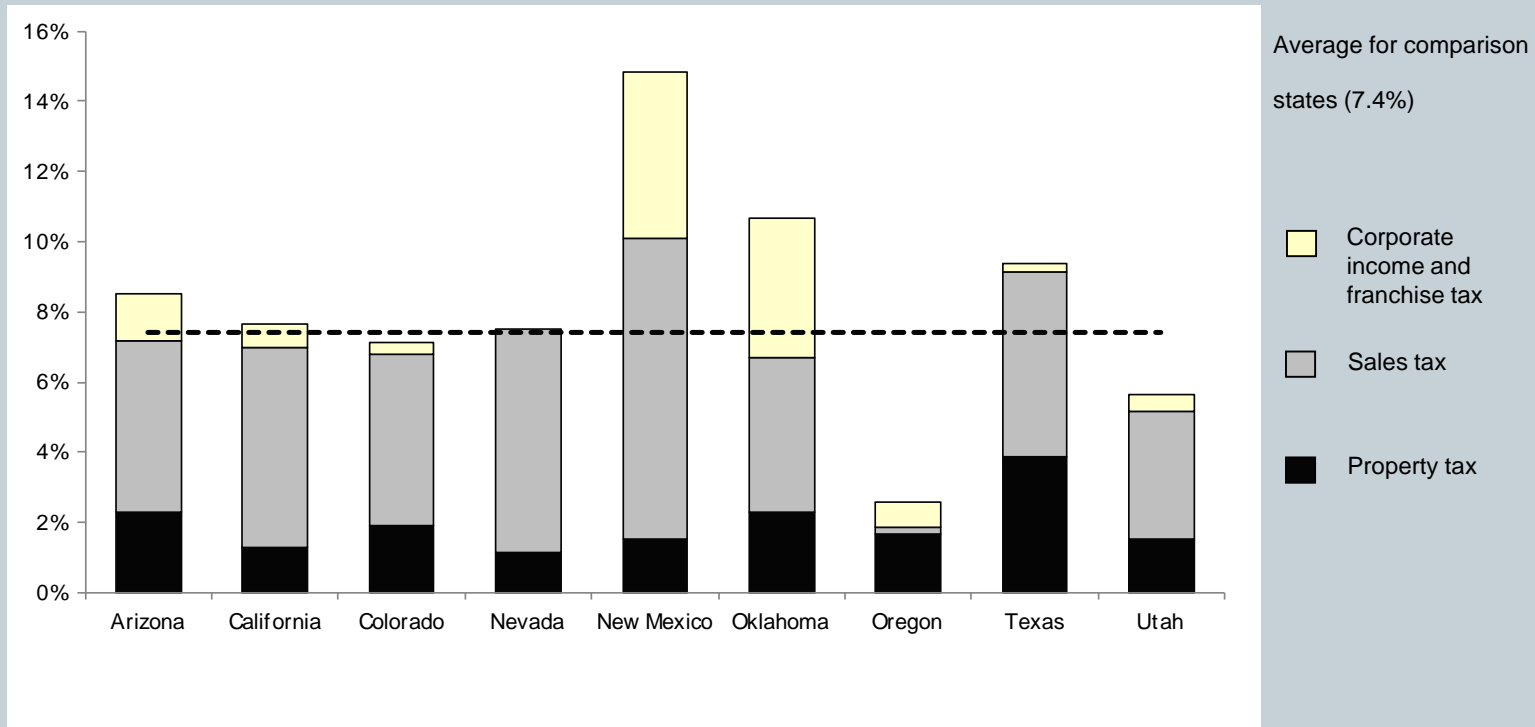
Average Effective Tax Rates for Services



Results Without Incentives

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Overall Average Effective Tax Rates for All Included Industries



Results With Incentives

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Effective Tax Rate Ranking After Incentives

Industry	NM's Effective Rate
Headquarters	1 st Highest
Research and Development	9 th Highest (Lowest)
Renewable Energy Equipment Manufacturing	1 st Highest
Business Support Services	8 th Highest
Food Products Manufacturing	1 st Highest
Computer & Electronics Manufacturing	3 rd Highest
Electrical Equipment Manufacturing	1 st Highest
Aerospace Products and Parts Manufacturing	9 th Highest (Lowest)
Management, Scientific and Tech. Consulting Services	9 th Highest (Lowest)

Results With Incentives

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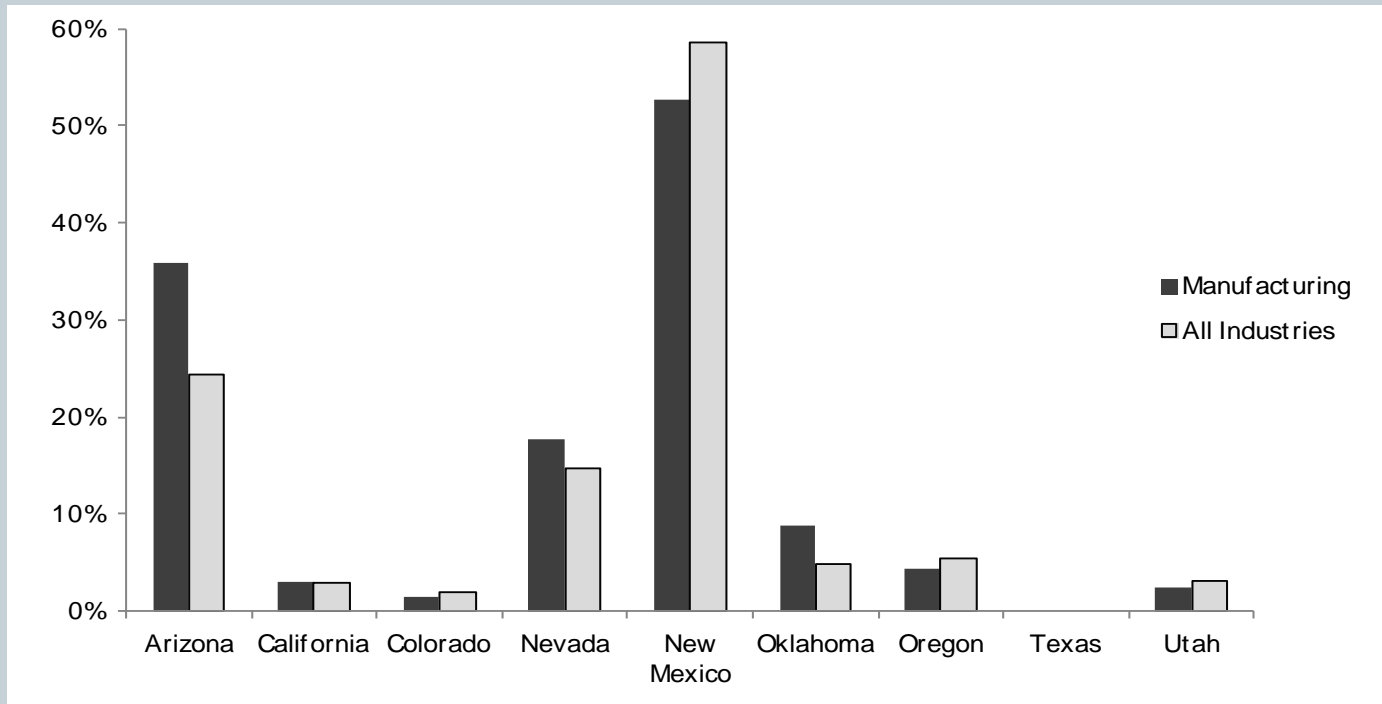
Average Effective State and Local Business Tax Rates, After Credits by Investment Type

State	Services		Manufacturing		All Industries	
	ETR	Rank	ETR	Rank	ETR	Rank
Arizona	9.0%	3	4.4%	8	6.5%	5
California	9.8%	2	5.8%	4	7.6%	3
Colorado	7.5%	5	5.7%	6	6.5%	4
Nevada	6.3%	7	5.7%	5	6.0%	7
New Mexico	3.4%	8	8.1%	3	6.0%	6
Oklahoma	12.0%	1	9.0%	2	10.3%	1
Oregon	1.9%	9	2.6%	9	2.2%	9
Texas	7.9%	4	10.8%	1	9.5%	2
Utah	6.5%	6	4.4%	7	5.3%	8
<i>Other States' Average ETR</i>	7.6%		6.1%		6.7%	

Results With Incentives

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Potential Reduction in Total State and Local Effective Tax Rate from Statutory Credits, (Percentage Reduction in Pre-Credit Overall Effective Tax Rate)



Results With Incentives

State and Local Effective Tax Rates Net of Statutory Credits, by Industry and State

State	Headquarters	Research and Development	Renewable Energy Equipment Manufacturing	Business Support Services	Food Products Manufacturing	Computer & Electronics Manufacturing	Electrical Equipment Manufacturing	Aerospace Products and Parts Manufacturing	Management, Scientific, and Technical Consulting Services
Arizona	1.3%	8.1%	3.7%	15.9%	3.5%	5.2%	5.4%	4.3%	10.8%
California	0.7%	8.9%	5.1%	17.8%	4.6%	6.7%	6.1%	6.6%	11.8%
Colorado	0.5%	7.2%	4.3%	13.4%	6.3%	5.5%	6.2%	6.1%	9.0%
Nevada	0.2%	5.2%	6.0%	11.8%	5.2%	5.7%	5.7%	5.9%	7.8%
New Mexico	4.7%	-0.7%	8.3%	11.5%	11.2%	7.1%	13.5%	0.6%	-1.9%
Oklahoma	4.4%	11.4%	7.8%	18.0%	7.2%	9.6%	9.6%	10.9%	14.2%
Oregon	0.4%	3.3%	2.3%	2.8%	2.4%	1.7%	3.5%	2.9%	0.9%
Texas	0.4%	8.3%	7.9%	13.6%	6.5%	10.1%	13.1%	16.1%	9.2%
Utah	0.4%	6.4%	3.6%	11.6%	3.4%	5.0%	5.0%	5.2%	7.4%
<i>Other States' Avg.</i>	1.0%	7.4%	5.1%	13.1%	4.9%	6.2%	6.8%	7.3%	8.9%

Results With Incentives

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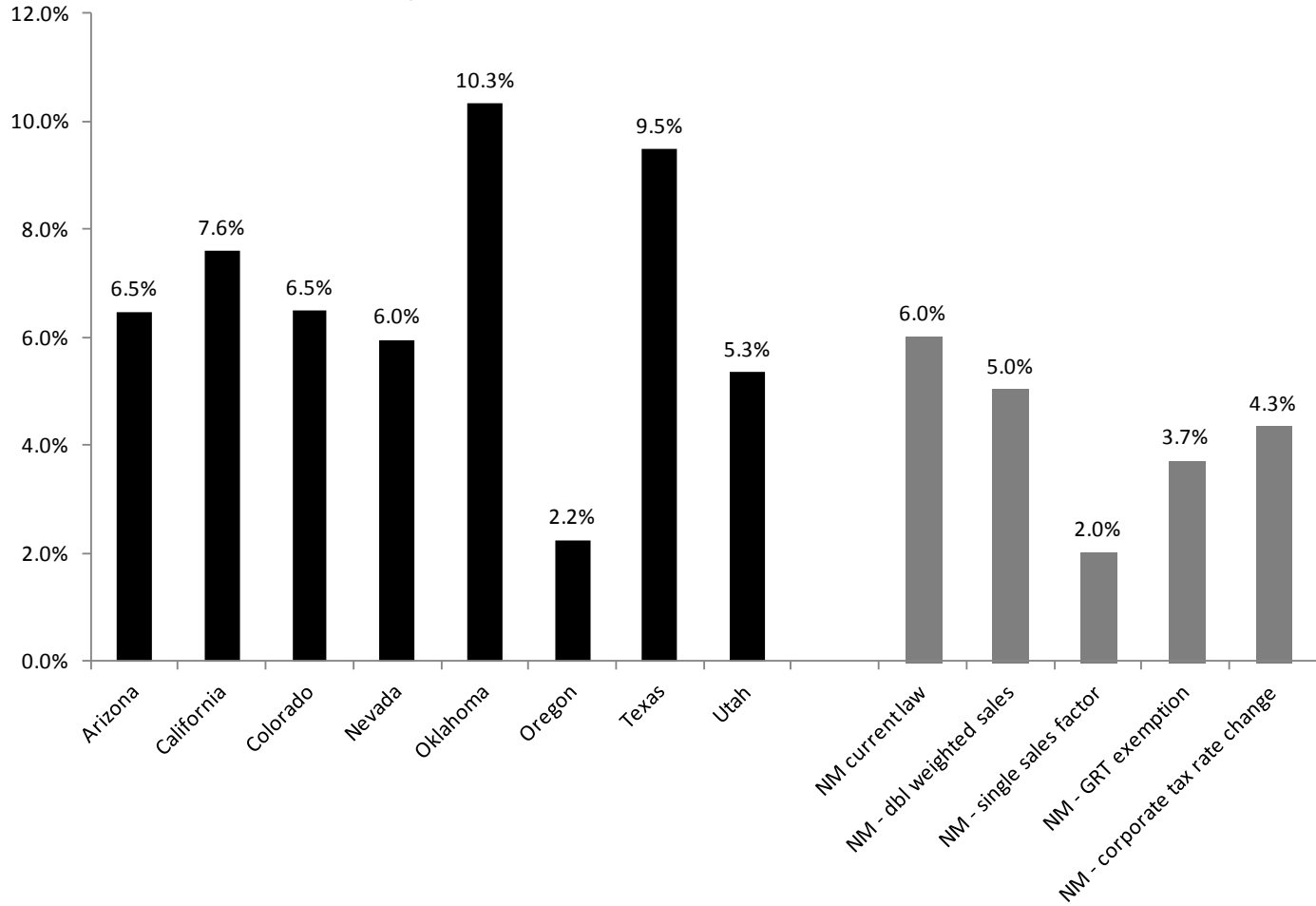
Percentage Reduction in Total State and Local Business Effective Tax Rates Due to Statutory Credits

State	Headquarters	Research and Development	Renewable Energy Equipment Manufacturing	Business Support Services	Food Products Manufacturing	Computer & Electronics Manufacturing	Electrical Equipment Manufacturing	Aerospace Products and Parts Manufacturing	Management, Scientific, and Technical Consulting Services
Arizona	0.0%	-21.2%	-37.3%	-11.3%	-37.6%	-29.6%	-28.8%	-45.6%	-8.4%
California	0.0%	-7.1%	-3.3%	-3.0%	-3.1%	-2.8%	-2.9%	-2.8%	-1.6%
Colorado	-0.6%	-4.8%	-2.0%	-3.2%	-1.4%	-1.6%	-1.3%	-1.5%	-1.2%
Nevada	-13.4%	-16.9%	-17.1%	-6.9%	-18.1%	-13.7%	-18.4%	-21.1%	-7.0%
New Mexico	-4.2%	-105.9%	-52.9%	-43.0%	-27.3%	-53.1%	-33.1%	-97.3%	-111.3%
Oklahoma	0.0%	0.0%	-10.8%	0.0%	-10.6%	-5.9%	-7.0%	-9.9%	0.0%
Oregon	0.0%	-9.6%	-3.5%	-7.5%	-2.6%	-7.5%	-2.6%	-5.2%	-9.7%
Texas	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Utah	0.0%	-9.3%	-2.9%	-5.8%	-3.1%	-2.1%	-2.1%	-2.0%	-1.6%
<i>Other States' Avg.</i>	-1.7%	-8.6%	-9.6%	-4.7%	-9.5%	-7.9%	-7.9%	-11.0%	-3.7%

E&Y Conclusions

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Comparison of After-Tax Effective Tax Rate for Comparison States and New Mexico under Selected Policy Options



E&Y Conclusions

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Comparison of ETR after Credits under Current Law and Selected Policy Scenarios

Proposal	Headquarters	Research and Development	Renewable Energy Equipment Manufacturing	Business Support Services	Food Products Manufacturing	Computer & Electronics Manufacturing	Electrical Equipment Manufacturing	Aerospace Products and Parts Manufacturing	Management, Scientific, and Technical Consulting Services
Current Law									
ETR	4.7%	-0.7%	8.3%	11.5%	11.2%	7.1%	13.5%	0.6%	-1.9%
Rank	1	9	1	8	1	3	1	9	9
Corporate Rate Change									
ETR	3.1%	-2.5%	6.7%	9.5%	9.6%	5.5%	11.9%	-1.0%	-3.6%
Rank	2	9	3	8	1	6	2	9	9
Double-Weighted Sales Apportionment									
ETR	3.6%	-1.5%	7.2%	10.6%	10.1%	6.0%	12.5%	-0.5%	-3.0%
Rank	2	9	3	8	1	4	2	9	9
SSF Apportionment									
ETR	0.5%	-3.8%	4.1%	8.1%	7.0%	2.9%	9.3%	-3.6%	-6.4%
Rank	5	9	6	8	2	8	3	9	9
GRT Consumable Exemption									
ETR	4.7%	-0.7%	3.5%	11.5%	8.3%	3.6%	8.0%	-3.6%	-1.9%
Rank	1	9	8	8	1	8	3	9	9

E&Y Conclusions

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- **New Mexico business taxes, before credits, rank highest for all nine industries included in the analysis. Compared to the all-industry average effective tax rate for the other eight states included in the analysis, New Mexico's average ETR is more than twice as high.**
- **The burden of the New Mexico corporate income tax, before credits, is significantly higher than the burden of the business entity taxes imposed by other states.**

E&Y Conclusions

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This is due to both New Mexico's corporate income apportionment formula weights, which equally weight property, payroll and sales, and the 7.6% statutory corporate income tax rate, the highest rate among the included states. Five of the states use only the sales factor to apportion nationwide income to the state. This formula lowers the effective tax rates on new investments in the state for industries that sell into national markets. New Mexico and Oklahoma use an equally-weighted formula, while Arizona allows industries to weight sales 80% and payroll and property 10%. Nevada has no corporate income tax.

E&Y Conclusions

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- **New Mexico imposes a significant sales tax burden on manufacturers. It has the highest before-credit ETR among comparison states for all of the study industries.**
- **Business tax credits in New Mexico increase the competitiveness of the tax system by reducing the overall state and local tax burden by an average of more than 55%. Including the effects of statutory credits, New Mexico's business tax ranking varies from 1st for headquarters, renewable energy equipment, food product and electrical equipment manufacturing to 9th for research and development, aerospace products and parts manufacturing and management, scientific, and technical consulting services. However, the current tax credits vary significantly in their impact by industry and financial characteristics of a taxpayer's operations in New Mexico.**

E&Y Conclusions

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- However, the results show a large variance in the industry-by-industry impacts of New Mexico's credits on business tax competitiveness. In some cases New Mexico's credits fall short of overcoming the states' relatively high ETRs, and in other cases the credits more than offset the state's competitive tax disadvantage.
- **The findings demonstrate how difficult it is to use targeted tax credits that are sensitive to the economic and financial characteristics of specific firms to provide the more uniform tax reductions across all industries needed to overcome New Mexico's non-competitiveness.**
- **Firms considering new investments in New Mexico must navigate through a complex and uncertain tax credit and incentive system in order to determine the net business taxes that New Mexico imposes on the initial investments and on-going operations of firms investing in the state.**

E&Y Conclusions

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New Mexico's state and local business tax system is almost certainly impeding economic growth. Because new capital investment is the channel through which innovative, competitive technology is added to the state's economic base, it is ultimately the source of growth in New Mexico's economy. Importantly, the expanded capital base is also a key driver of the labor productivity that generates a higher standard of living for New Mexico's citizens. With corporate income and sales taxes that are out-of-line with comparison states, New Mexico risks deterring new investment and added jobs.

NMTRI Conclusions

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New Mexico is uncompetitive without incentives.

With Incentives, New Mexico is more or less competitive depending on industry/facts

- New Mexico is more reliant on incentives to manage effective tax rate
- If facts and law don't provide for incentive eligibility, a NM business faces high ETR's

Numerous options, targeted or broad based, can reduce the ETR, however other trade-offs, costs, and policy issues arise

And Then the 2012 Session Happened...

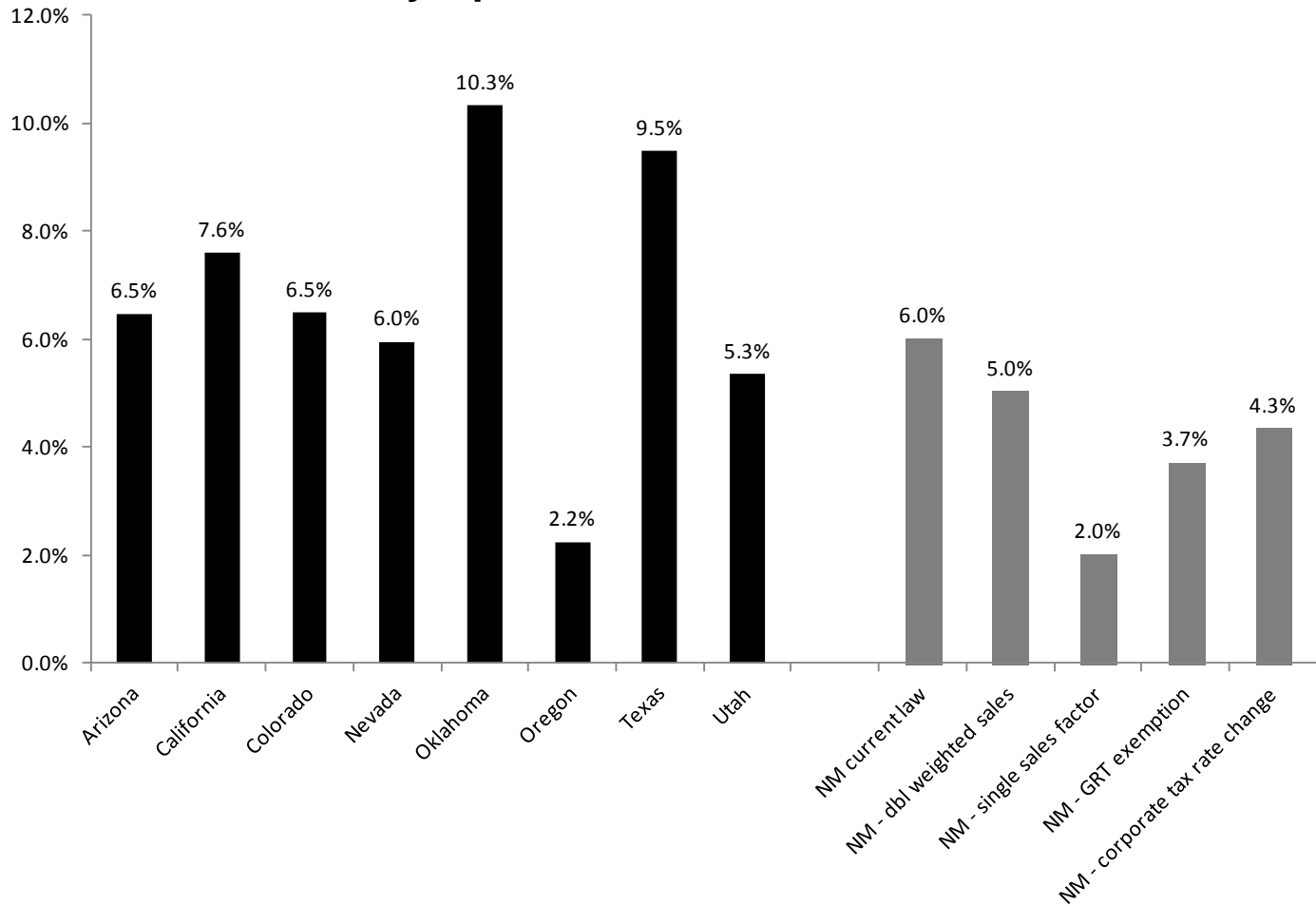
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- **HB 184CS – Doyle – Construction Service for Gross Receipts**
 - CS includes provisions from Rep James' HB 256
 - Expands current manufacturing inputs GRT deduction to include “consumables”
 - ✦ i.e. electricity, natural gas, industrial gases, cleaning solvents, etc.
 - ✦ Phased-in over 5 years in 20% increments
 - ✦ Manufacturing definition in GRTA quite broad
 - Expands current construction services deduction to include project related non-construction services
 - ✦ i.e. architectural, engineering, security, sanitation
 - Creates new deduction for leasing equipment associated with construction projects
 - ✦ i.e. generators, saws, scaffolding, backhoes, etc.
- **Addresses “pyramiding” and represents a significant change in NM law/policy**

Remember this? We Did the 4th one...

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Comparison of After-Tax Effective Tax Rate for Comparison States and New Mexico under Selected Policy Options



Results With Incentives

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Effective Tax Rate Ranking After Incentives with HB 184

Industry	NM's Effective Rate Before HB 184	NM's Effective Rate After 184
Headquarters	1 st Highest	1 st Highest
Research and Development	9 th Highest (Lowest)	9 th Highest (Lowest)
Renewable Energy Equipment Manufacturing	1st Highest	8th Highest
Business Support Services	8 th Highest	8 th Highest
Food Products Manufacturing	1 st Highest	1 st Highest
Computer & Electronics Manufacturing	3rd Highest	8th Highest
Electrical Equipment Manufacturing	1st Highest	3rd Highest
Aerospace Products and Parts Manufacturing	9 th Highest (Lowest)	9 th Highest (Lowest)
Management, Scientific and Tech. Consulting Services	9 th Highest (Lowest)	9 th Highest (Lowest)

So What Happened This Year?

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- **House Bill 641 Signed 4/4 (“Tax Package”)**
 - ✦ **Corporate Tax Relief/Reform**
 - Rate Reduction (7.6-5.9% over 5 years)
 - Mfg Single Weighted Sales Factor (5 year phase-in)
 - “Big Box” Mandatory Unitary Combined Filing
 - ✦ **Narrowing of Mfg GRT deduction**
 - ✦ **Hold Harmless Repeal (2+15 yr phase, rate authority for local governments)**
 - ✦ **HWJTC Fix**
 - Closed “loopholes”, raised thresholds
 - ✦ **“Breaking Bad” Film Credit Expansion**

State Corporate Income Tax-Calculation

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Because it takes all elements to calculate the corporate income tax, no one element of the corporate income tax can be analyzed separately from the other elements – they all matter.

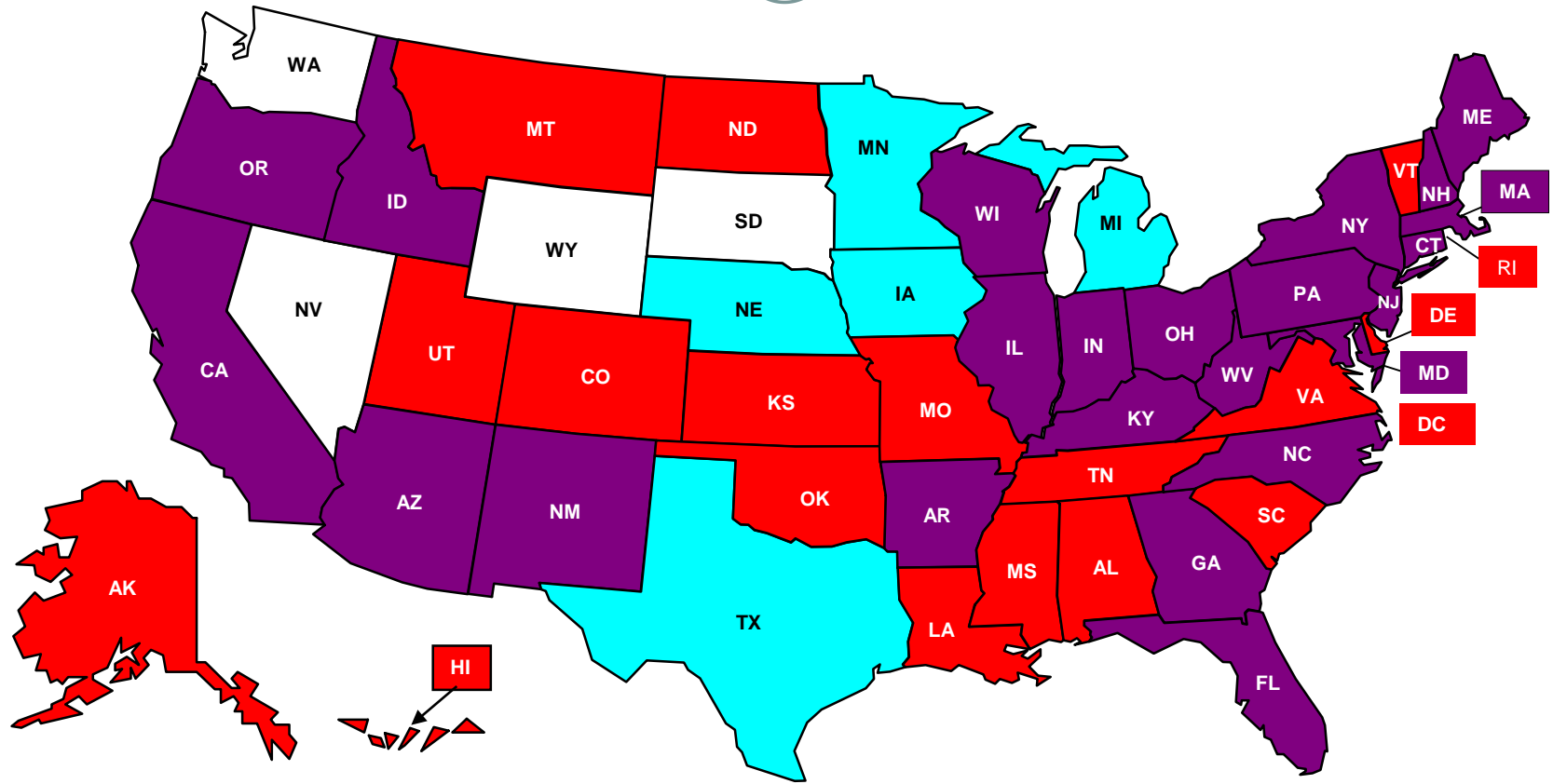
Tax Due = Filing Group Taxable Income x State % x Tax Rate

- The apportionment for a given state, “**State X**”, is typically computed as follows (std. 3 factor formula):

$$\text{State}\% = \frac{\frac{\text{State X Property}}{\text{Total Property}} + \frac{\text{State X Payroll}}{\text{Total Payroll}} + \frac{\text{State X Sales}}{\text{Total Sales}}}{3}$$

- Single Weighted Sales Factor: **State %** = $\frac{\text{State X Sales}}{\text{Total Sales}}$

Apportionment Formulas* - 1998



*Does not address industry-specific or optional formulas

- Equally weighted three factor formula
- Double weighted sales factor
- Triple or greater weighted or single sales factor

So What Else Happened?

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- **EDD New Century Economy Jobs Agenda**
 - ✦ **Corporate Tax Relief/Reform**
 - **Rate Reduction**
 - **Single Weighted Sales Factor**
 - ✦ **LEDA Funding (\$10M “closing fund”)-(got \$3M)**
 - ✦ **JTIP funding (\$4.75M)-(got \$3.3M)**
 - ✦ **Spaceport Informed Consent (got it)**
 - ✦ **Capital Outlay Reform (didn’t happen)**
 - ✦ **Increased Main Street Funding (got it)**

See: www.newcenturyeconomy.com

- **Tourism Department Marketing Budget Increased**

So What Else Happened?

Other Tax Incentives Passed and Signed

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- **SB 17 (Wirth/Trujillo) – Extend Sustainable Building Tax Credit**
- **SB 81 (Beffort) – Liquor Tax Microbrew Volume Limit**
- **SB 116 (Smith) – Liquor Tax Small Winegrower Volume Limit**
- **SB 557 (Leavel) – Rural Jobs Tax Credit Definitions**
- **HB 120 (Lundstrom) – Locomotive Fuel Gross Receipts**

Tax and Incentive Policy – Path Forward

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- **New Mexico will be increasingly reliant on relatively small non-gov't related private sector**
 - Federal spending growth will continue to slow
 - Natural resources historically volatile
- **New Mexico tax policy work well in the 1960's but world has changed.**
 - Business and capital are more mobile
 - ✦ More tax sensitive
 - Changes in gov't contracting practices have changed
 - National and international competition greater than ever

Tax and Incentive Policy – Path Forward

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- **First, DO NO HARM**
 - Avoid further retail GRT base erosion
 - Avoid GRT rate growth
- **New Mexico tax policy work well in the 1960's but world has changed.**
 - Impact of GRT tech services should be carefully reviewed
 - Overall tax structure should be thoughtfully reviewed in light of current business practices

Tax Reform Opportunity

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Lots of interest in improved tax structure, but...

Obstacles:

- Revenue outlook & stability
- Spending needs/priorities
- Other unforeseen costs (including tax)
- Absence of plan/focus
- Politics

Tax Reform Opportunities

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INCREMENTAL TAX REFORM ANYONE?

What do we need?

- A tax reform plan
- Good Tax Policy rather than New Tax Deals

NMTRI Conclusions

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INCREMENTAL TAX REFORM ANYONE?

Questions

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