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FISCAL IMPACT REPORT

BILL NUMBER: Senate Bill 151

SHORT TITLE: Corporate Income Tax Changes

SPONSOR: Sens. Wirth and Berghmans/Rep. Parajon

LAST UPDATE: 2/4/2026 **ORIGINAL DATE:** 2/2/2026 **ANALYST:** Gray/Torres

REVENUE* (dollars in thousands)

Type	FY26	FY27	FY28	FY29	FY30	Recurring or Nonrecurring	Fund Affected
CIT	\$0.0	\$55,750.0 to \$60,750.0	\$111,500.0 to \$121,500.0	\$111,500.0 to \$121,500.0	\$111,500.0 to \$121,500.0	Recurring	General Fund

Parentheses indicate revenue decreases.

*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files

Agency or Agencies Providing Analysis

State Ethics Commission

Taxation and Revenue Department

Agency or Agencies That Were Asked for Analysis but did not Respond

Economic Development Department

SUMMARY

Synopsis of Senate Bill 151

Senate Bill 151 (SB151) decouples New Mexico's corporate income tax from three components of the 2025 reconciliation bill, P.L. 119-21, commonly known as House Resolution 1 (H.R.1). New Mexico is a rolling conformity state, meaning that absent legislative action, most provisions of the federal corporate income tax code are automatically incorporated into New Mexico's tax code. This bill decouples New Mexico from three OBBBA provisions:

- First-year bonus depreciation,
- First-year expensing for manufacturing facilities, and
- Business interest deductions.

In addition, the bill would add certain income from foreign-controlled corporations into the New Mexico tax base.

Summaries of each provision are provided in the background section of "Significant Issues." In general, this bill increases state tax, especially for capital-intensive businesses and manufacturing

businesses.

The provisions of the bill are applicable beginning tax year 2027.

FISCAL IMPLICATIONS

The Taxation and Revenue Department (TRD) estimates SB151 is expected to increase recurring general fund revenue by at least \$55.8 million and up to \$60.8 million in FY27 and by at least \$111 million and up to \$121 million in FY28. To estimate the fiscal impacts, the agency first extracted historical taxpayer information on the global intangible low-taxed income (GILTI) tax. The agency used the lowest two years, multiplied by a 5.9 percent tax rate, for the lower bound and the highest two years, multiplied by a 5.9 percent tax rate, for the upper bound.

To estimate the other provisions, the agency used the Consensus Revenue Estimating Group's (CREG) December 2025 corporate income tax forecast for H.R.1 and apportioned the costs of SB151's provisions based on a Tax Foundation estimated share by component.

Detailed TRD Estimated Revenue Impact of SB151 Provisions
(dollars in thousands)

	FY26	FY27	FY28	FY29	FY30
<i>H.R.1 decoupling provisions</i>					
Full expensing for certain business property (168k)	\$0.0	\$40,000.0	\$80,000.0	\$80,000.0	\$80,000.0
Special depreciation allowance for qualified production property (168n)	\$0.0	\$5,000.0	\$10,000.0	\$10,000.0	\$10,000.0
Modification of limitation on business interest (163j)	\$0.0	\$5,000.0	\$10,000.0	\$10,000.0	\$10,000.0
<i>Adding NCTI to state tax base</i>					
Adding apportioned NCTI to tax base	\$0.0	\$5,750.0 to \$10,750	\$11,500 to \$21,500	\$11,500 to \$21,500	\$11,500 to \$21,500
Grand Total	\$0.0	\$55,750.0 to \$60,750.0	\$111,500.0 to \$121,500.0	\$111,500.0 to \$121,500.0	\$111,500.0 to \$121,500.0

Source: TRD estimates

SIGNIFICANT ISSUES

In New Mexico, changes to the federal corporate income tax code automatically flow through to state corporate income tax code absent legislative action. H.R.1 made several changes to the federal corporate income tax code from which this bill decouples. This section provides details on each of these provisions and summarizes other states' recent legislative action. Given the complexity of the topic, this analysis begins with background on key concepts.

Background

Depreciation Concepts. Depreciation is an accounting method that spreads the cost of an asset over its useful life to reflect the gradual loss of value as the asset is used. When and how depreciation is allowed to be deducted for tax purposes determines how it reduces taxable income. Businesses subtract the loss in value by a portion of an asset's cost each year, thereby lowering current tax liability and deferring taxes to future periods. In general, business income taxes follow three steps:

1. Calculate businesses revenues,
2. Subtract business expenses to calculate taxable income, and
3. Multiply taxable income by the tax rate to determine total tax liability.

In general, a business can deduct most business expenses—like wages, maintenance, or services—to determine its taxable income because these reduce a business's net income. Calculating income becomes trickier when considering longer-term investments. When a business purchases a \$10 thousand machine, its net worth remains the same, but its cash is reduced by \$10 thousand.

The appropriate way to deduct the costs of these long-term investments has been a central debate in U.S. tax policy for many decades. The opposing approaches are called economic depreciation and full expensing.

The economic depreciation approach would allow an annual deduction equal to the decreased value of the asset. Under this, a \$10 thousand machine that lasts 20 years could receive a deduction of \$500 per year.

The full expensing approach allows a business to deduct the full \$10 thousand cost of the machine in the first year, which significantly increases the after-tax profits on a "present value" basis. Under full expensing, businesses effectively receive an interest-free loan from the government.

The changes made by H.R.1 direct U.S. tax policy closer to full expensing. Under the bill's changes, businesses can permanently claim 100 percent of the costs of certain capital investments in the year an investment is made.

Before 2017, businesses were generally permitted to deduct 50 percent of their investment costs in the first year, with the rest taken according to a depreciation schedule. The Tax Cuts and Jobs Act of 2017 (TCJA) added a temporary full first-year expensing provision. By 2025, the reduction was 40 percent of the investment costs in the first year. H.R.1 provided a permanent 100 percent expensing in the first year.

Under SB151, businesses in New Mexico would not be able to claim any bonus depreciation in the first year of an asset for state income tax purposes and instead would return to the pre-2001 system, applying the modified accelerated cost recovery system (MACRS) and offering no additional beneficial state tax treatment toward capital investments in New Mexico. The exact increased tax burden would vary by taxpayers. For those with zero or negative tax liabilities, SB151 would have a small or no impact. For those with tax liabilities but with limited capital expenditures, the bill could have a small negative impact. However, SB151 could significantly decrease after-tax profits in the long-term for businesses with tax liabilities that make significant capital expenditures. For example, LFC calculated the 20-year present value of after-tax profits would be 23 percent smaller for a \$10 thousand machinery investment under the SB151 scenario compared with the H.R.1 baseline.¹

¹ This estimate assumes economic depreciation rate of 5 percent, a pre-tax rate of return of 6.1 percent., and a 5.9 percent state tax rate. Under the SB151 scenario, this analysis used a 150 percent declining balance depreciation method. The analysis assumes no NOL carryforward.

Policy Considerations. In general, the prevailing view among academic economists is that full expensing is the preferred approach to capital taxation from a tax reform perspective. Expensing effectively reduces the marginal tax rate on new capital investment to zero—or below—thereby strengthening incentives to invest. This view is grounded in standard corporate finance theory, which assumes firms make investment decisions to maximize the net present value of expected after-tax cash flows. SB 151 would depart from this conventional tax policy framework by limiting expensing and moving toward a less generous treatment of capital costs.

Although economic theory suggests bonus depreciation and expensing can encourage investment, empirical research provides more mixed evidence. A 2024 Congressional Research Service review synthesizing more than a decade of studies reached several key conclusions. Research finds that bonus depreciation has been associated with increased domestic investment in eligible assets, but it is unclear how much of that investment would have occurred in the absence of the incentive. Evidence is mixed regarding whether the benefit is concentrated among larger or smaller firms. C corporations were more likely than pass-through businesses to claim expensing allowances, while firms with net operating losses or credit carryforwards were significantly less likely to benefit because their current cash flow did not increase from claiming the deduction. Finally, expensing was found to reduce the user cost of capital more for long-lived assets than for short-lived investments.

The Congressional Research Service further notes the effects of expensing on economic efficiency are mixed. On one hand, expensing may improve overall productivity, which can enhance economic efficiency. On the other hand, bonus depreciation may reduce efficiency because it disproportionately benefits profitable firms that can immediately use the deduction, while providing little or no benefit to firms with net operating losses or loss carryforwards. Efficiency may also be reduced because expensing applies only to certain tangible business assets with tax lives of less than 20 years, potentially distorting investment decisions by favoring equipment over longer-lived structures.

Policymakers should also recognize that the state-level implications of bonus depreciation differ from federal considerations. Neighboring states such as Texas do not levy a corporate income tax but rely more heavily on property taxes, which materially affect business investment decisions. Arizona does not conform to federal Section 168(k) bonus depreciation. In addition, the federal corporate income tax rate is more than three times higher than New Mexico's corporate income tax rate, meaning the value of bonus depreciation deductions—and therefore their incentive effect—is smaller at the state level than at the federal level.

Detailed SB151 Summaries

Full Expensing for Certain Business Property Section 168(k). H.R.1 provided a permanent first-year expensing—so called bonus depreciation—for some business capital investments placed in service after January 19, 2025. These generally include tangible property with a recovery period of 20 years or less, as well as specific other assets. SB151 decouples from this section of the Internal Revenue Code (IRC), removing all bonus depreciation from the New Mexico tax code. Over the last 20 years, bonus depreciation has been a significant component of the federal—and New Mexico—tax code. The history of bonus depreciation extensions is summarized below.

The History of Bonus Depreciation Extensions

Act	Depreciation Percentage*	Effective Dates
Job Creation and Worker Assistance Act of 2002	30%	2001–2004
Jobs and Growth Tax Relief Reconciliation Act	50%	2003–2006
Economic Stimulus Act of 2008	50%	2008
American Recovery and Reinvestment Act of 2009	50%	2009
Small Business Jobs Act of 2010	50%	2010
Tax Relief, Unemployment Compensation Reauthorization, & Job Creation Act of 2010	100%	2010–2011
Tax Relief, Unemployment Compensation Reauthorization, & Job Creation Act of 2010	50%	2012
American Taxpayer Relief Act of 2012	50%	2013
Tax Increase Prevention Act of 2014	50%	2014
Tax Cuts and Jobs Act	100%	2017–2022
Tax Cuts and Jobs Act	80%	2023
Tax Cuts and Jobs Act	60%	2024
Federal House Resolution 1 (H.R.1)	100%	2025

Source: Congressional Research Service, LFC Analysis

Special Depreciation Allowance for Qualified Production Property Section 168(n). H.R.1 newly added expensing for nonresidential property used in a qualified production activity, which mainly includes manufacturing and agricultural and chemical production. This provision expires January 1, 2031. SB151 removes this provision from the New Mexico tax code, increasing the tax liability of manufacturing businesses.

Modification of Limitation on Business Interest Section 163(j). H.R.1 made permanent a provision that allowed businesses to increase their business interest expense deductions. After January 1, 2022, businesses had to calculate taxable income to include depreciation and amortization deductions, which acted to decrease business's deductible interest expenses. H.R.1 permanently restored the more generous computation provision available and allows businesses to deduct a larger share of their interest and debt expenses each year, lowering taxable income. SB151 removes this provision from the New Mexico tax code.

Adding Apportioned Section 951A to Tax Base. H.R.1 expanded the taxation of multinational corporations by modifying the global intangible low-taxed income (GILTI) tax framework into a tax on net controlled foreign corporations (CFCs) tested income (NCTI). NCTI brings in all international income of a U.S. parent corporation's foreign subsidiaries and adds a new system of foreign tax credits that effectively only taxes the share that did not face substantial taxes abroad. This is meant to help distinguish between genuine activity abroad and simply transferring profits to low-tax countries, which both GILTI, and now NCTI, attempts to prevent.

SB151 adds the federal NCTI tax base into the New Mexico tax base. This represents a tax increase for business taxpayers that pay NCTI federally and have a nexus in New Mexico. The bill requires these taxpayers to apportion their income based on three factors: payroll, property, and sales, similar to all other apportionment in New Mexico. Unlike the federal system, SB151 does not provide taxpayers with a credit to offset taxes paid on genuine activity abroad. This could represent a form of double taxation, where a taxpayer pays both a foreign tax and a New Mexico tax on the same income, including on the tax paid to a foreign country. While the apportionment provision may address this in some cases, the incidence of double taxation will vary.

State Conformity

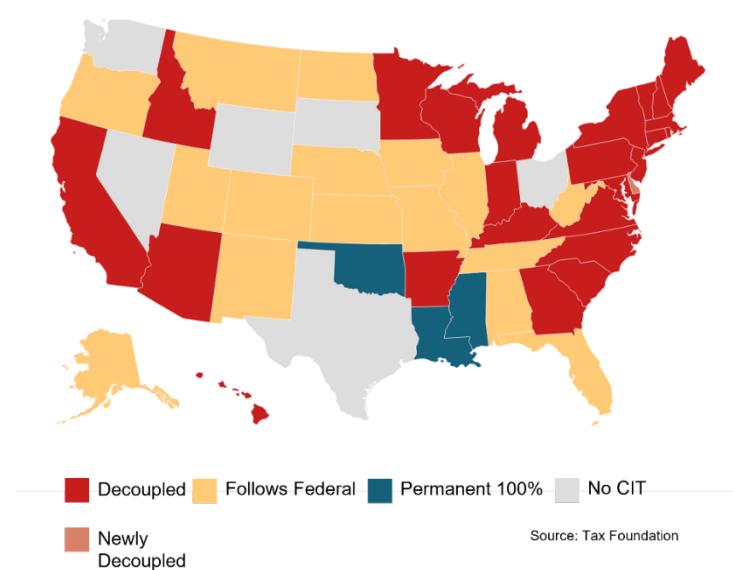
Like New Mexico, most states base their corporate income tax systems on the IRC. However, all states selectively decouple from certain federal provisions and modify others, and states differ

in how closely and how quickly they conform to changes in the IRC. Some states automatically adopt the current federal code, while others conform to the IRC as it existed on a prior date and may not incorporate new provisions for years, if at all.

In addition, several states have taken explicit steps to decouple from provisions enacted under H.R.1, reflecting concerns about revenue impacts and state-specific tax policy objectives.

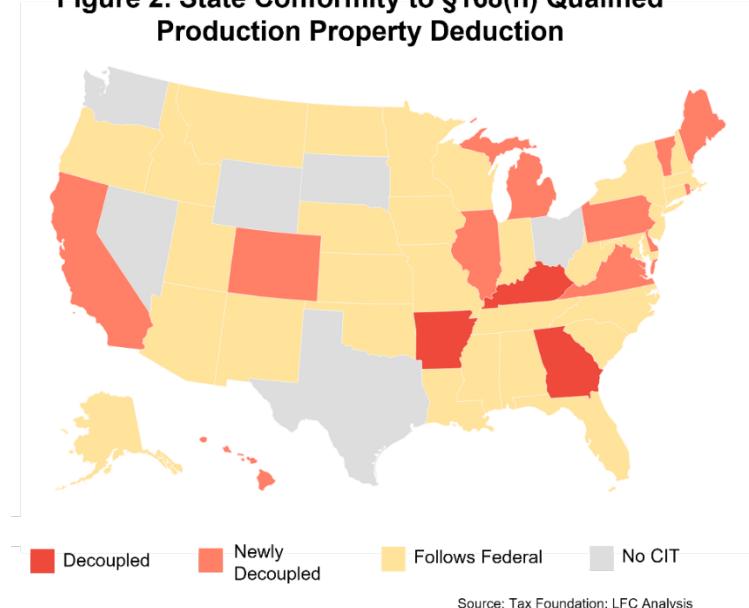
Full Expensing for Certain Business Property Section 168(k). Prior to H.R.1, 26 states had decoupled from federal bonus depreciation provisions, including Arizona. Since, at least one additional state has chosen to decouple from the provision. The latest summary of Section 168(k) conformity is provided in Figure 1.

Figure 1. State Conformity to §168(k) Bonus Depreciation



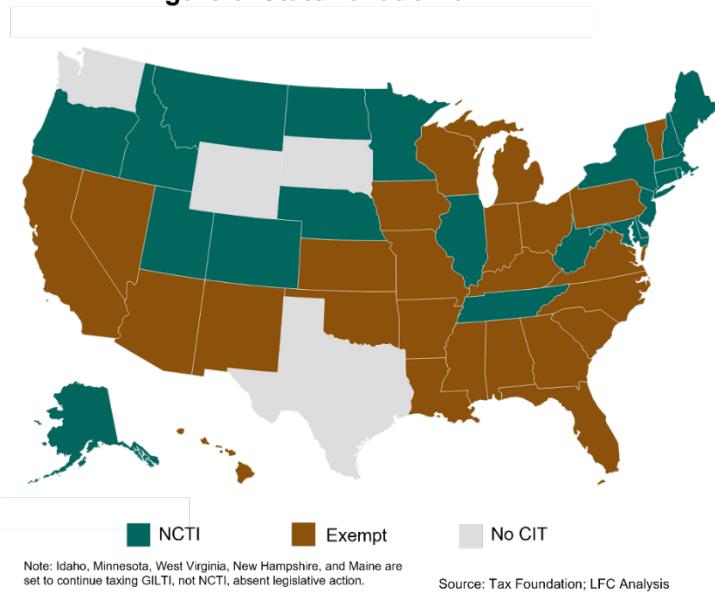
Special Depreciation Allowance for Qualified Production Property Section 168(n). Because Section 168(n) is a new provision, all but four states with corporate income taxes conformed to its provisions on enactment. Since then, 11 states have decoupled from the new additional depreciation for qualified production property. The latest summary of Section 168(n) conformity is provided in Figure 2.

Figure 2. State Conformity to §168(n) Qualified Production Property Deduction



Adding NCTI to Tax Base. Prior to H.R.1, 22 states included at least some GILTI (now NCTI) in their tax base, although many reduced the tax liability exposure. Sixteen states and the District of Columbia will automatically follow the federal government in switching from GILTI to NCTI. The latest summary of NCTI conformity is provided in Figure 3.

Figure 3. State Taxation of NCTI



Complexity

TRD analysis notes that federal conformity eases state tax administration:

New Mexico's corporate income tax structure is built on a conformity framework in which federal taxable income functions as the primary starting point of state CIT base income and state policy choices are implemented through a limited set of additions,

subtractions, and apportionment rules. Federal conformity eases many state administrative aspects of income tax programs and, for taxpayers, enables more seamless completion of federal and state income tax returns, leading to improved compliance. While New Mexico may choose to decouple from the federal tax base by bringing some federal tax expenditures back into the New Mexico's base income, it may increase complexity in compliance for taxpayers and administration the state administration.

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