



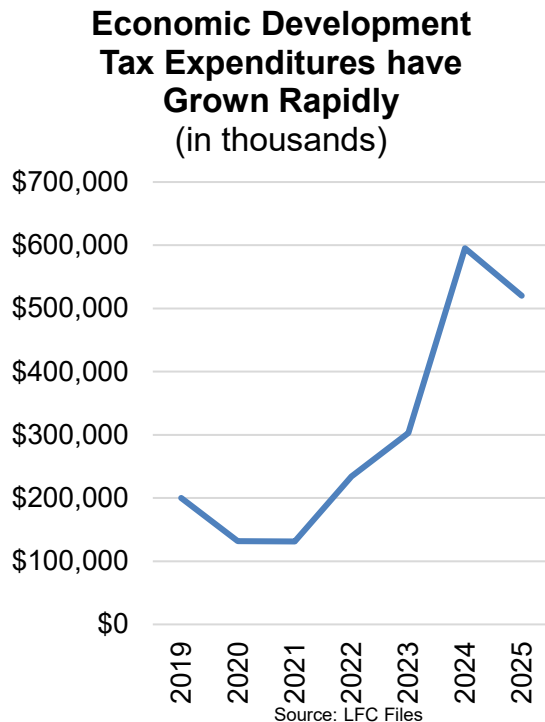
New Mexico Economic Development Tax Expenditure Assessment

Brendon Gray, LFC Economist

Revenue Stabilization and Tax Policy Committee

October 14, 2026

Economic development tax expenditures are growing in costs and have mixed return on investment.

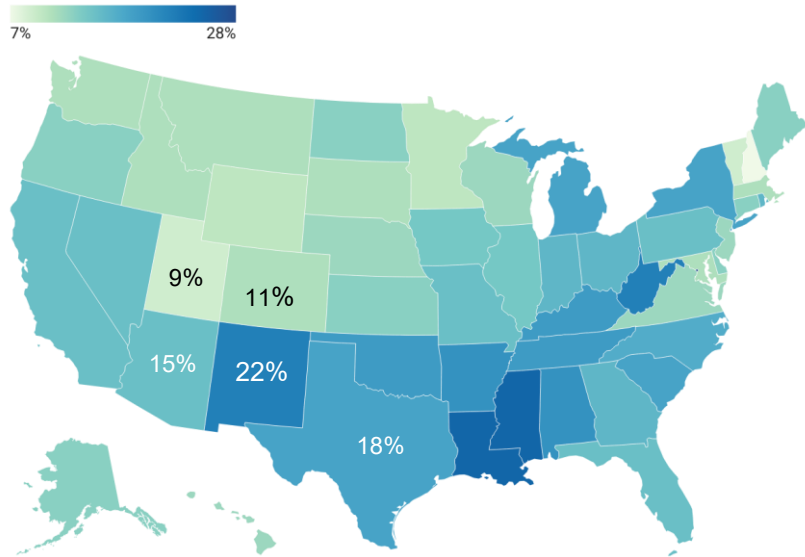


- Economic development tax expenditures cost New Mexico \$520 million in FY25.
- The net economic return on investment (ROI) is positive and is estimated to be 1.4 percent, meaning for every \$1 spent, the state economy grows by 1.4 cents.
- Some expenditures have a negative economic ROI.
- All expenditures cost more than they generate in new tax revenue. On average, for every \$1 spent on economic development tax expenditures, the state forgoes 91 cents and recaptures 9 cents in new tax revenue.



New Mexico's economy faces many obstacles.

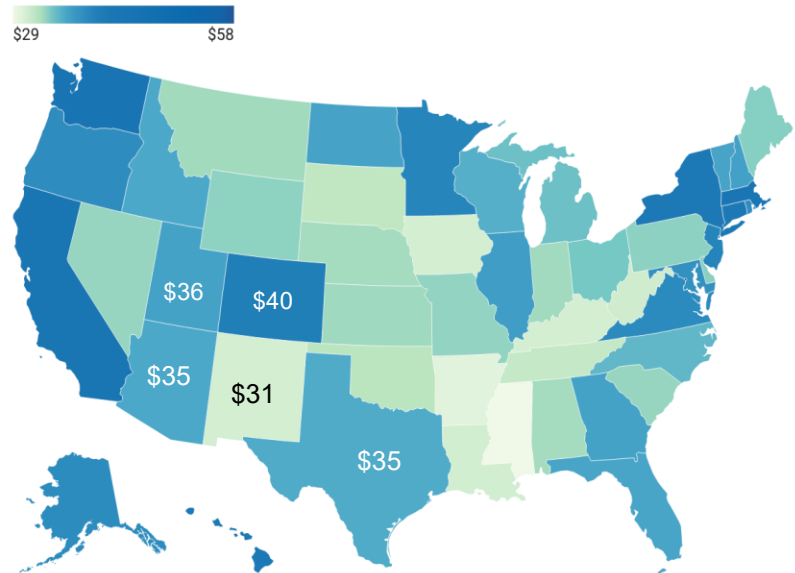
New Mexico Has High Childhood Poverty (percent of children under official poverty threshold, 2024)



Source: U.S. Census Bureau

In 2024, New Mexico's childhood poverty rate was 22 percent, ranked 47th.

...and Low Wages (average private hourly wage, March 2026)



Source: U.S. Bureau of Labor Statistics

In March 2026, the state's average hourly wage was \$31, ranked 48th.



Adults under official
poverty threshold¹
50th

Prime working-age
employment rate²
49th

Adults with
Bachelor's or higher³
47th

Source: (1) U.S. Census Bureau CPS ASEC 2022 to 2024 average; (2) analysis of U.S. Census Bureau data 2015-2019; (3) U.S. Census Bureau, 2024

Labor market and employment challenges are a major long-term headwind, leading to increased investment.

Table 1. New Mexico Industry Concentration Lags Neighboring States

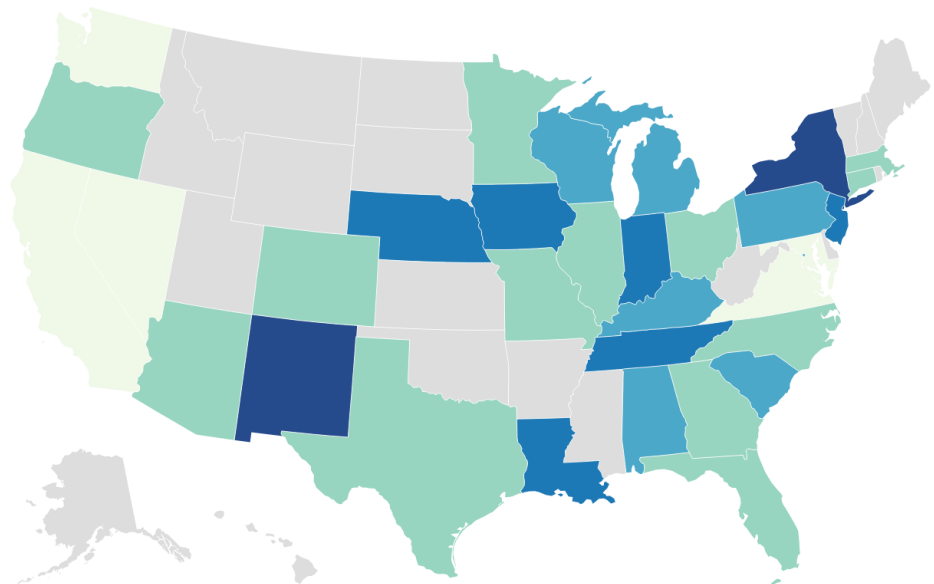
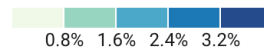
Super Sector	NM	AZ	CO
Natural resources & mining	3.18	0.97	1.14
Construction	1.18	1.34	1.23
Manufacturing	0.40	0.73	0.63
Trade, transportation, & utilities	0.90	1.04	0.94
Information	0.66	0.84	1.36
Financial activities	0.67	1.27	1.04
Professional & business services	0.97	1.00	1.17
Education & health services	0.97	1.01	0.79
Leisure & hospitality	1.07	1.05	1.13
Other services	0.82	0.90	1.05

Note: Value over 1 indicates industry is more concentrated in that state than in the United States.

Source: US BLS QCEW

New Mexico Leads on Economic Development Incentives Spending

Incentive spending as a share of total value added, 2015



Adapted from Bartik, Timothy J. 2017. "A New Panel Database on Business Incentives for Economic Development Offered by State and Local Governments in the United States."

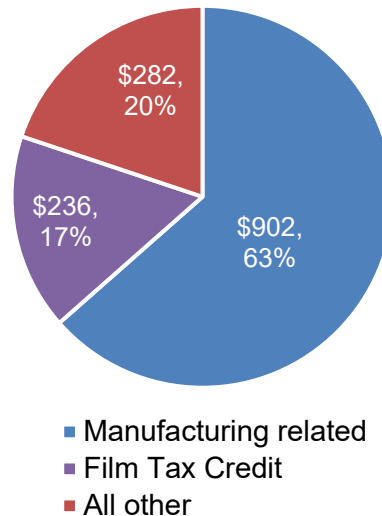


The state's 24 economic development tax expenditures cost \$1.7 billion over the last five years.

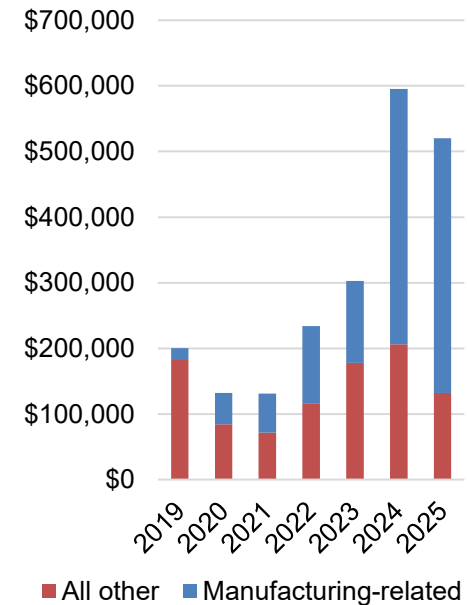
Economic Development Tax Expenditures

Fiscal Year	Amount (millions)
2021	\$131
2022	\$234
2023	\$302
2024	\$595
2025	\$520

FY23-FY25 Economic Development Expenditures by Beneficiary Type (dollars in millions)



Manufacturing Industry Expenditures Have Driven Growth (in thousands)



LFC conducted an economic impact analysis for each tax expenditure.

Economic ROI

- Considers the impact on the New Mexico economy, measured through GDP.

Return in Revenue (RIR)

- Considers state tax revenue collections attributable to the expenditure.

Analysis conducted using REMI Model, a dynamic simulation, input-output model that integrates econometric forecasting and regional economics.

Full report available at www.nmlegis.gov/Entity/LFC/Revenue_Economic_Reports_And_Tax_Policy



Summary of Economic and Revenue Impacts of Economic Development Tax Expenditures

Expenditure Name	FY25 Expenditure (millions)	Economic ROI	Return in Revenue
Investment Credit	\$3	139%	-84%
Lab Partnership with Small Business	\$7	97%	-89%
Investment Management Deduction	\$2	54%	-92%
Angel Investment Credit	\$1	50%	-91%
High-Wage Jobs Tax Credit	\$9	33%	-92%
Sales to Manufacturers Deduction	\$270	25%	-92%
Technology Jobs and R&D Credit	\$7	23%	-93%
Technology Readiness Credit	\$2	17%	-93%
LEDA GRT Distributions	\$11	9%	-93%
Film Production Tax Credit	\$34	8%	-94%
Sale of Software Dev. Services Deduction	\$17	-6%	-96%
Hosting World Wide Web Sites Deduction	\$2	-24%	-96%
Apportionment election of CIT for Headquarters	\$8	-36%	-96%
Sales of Services to Manufacturers Deduction	\$37	-36%	-96%
Commercial Vehicle Near Border Exemption	\$1	-37%	-95%
DoD Directed Energy & Satellites Deduction	\$11	-37%	-96%
Rural Job Tax Credit	\$1	-42%	-96%
Apportionment Election for Manufacturers	\$81	-42%	-96%
Border Zone Trade Support Company Deduction	\$0.4	-57%	-96%
Durable Medical Equipment Deduction	\$10	-63%	-98%
Jet Fuel Deduction	\$1	-73%	-98%
Aircraft Sales or Services Deduction	\$5	-73%	-98%
Sales to Credit Unions	\$2	-79%	-99%
Small Business Saturday Deduction	\$1	-86%	-99%

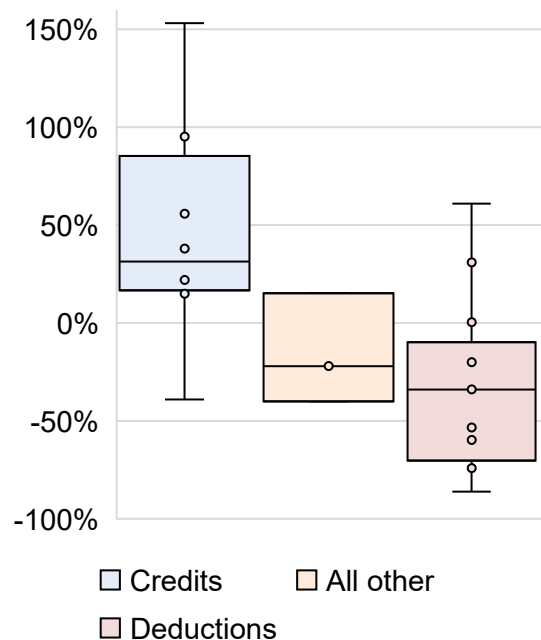
Economic ROI represents the impact an expenditure has on the New Mexico economy, measure through the GDP increase. An economic ROI of 50% means for every \$1 spent, the New Mexico economy grows by 50 cents. An economic ROI of negative 50% means for every \$1 spent, the New Mexico economy shrinks by 50 cents. The return in revenue is calculated as the impact to tax revenues. A return in revenue of negative 95% means that for every \$1 spent, the state forgoes 95 cents and recaptures 5 cents in new tax revenue. See "Methodology" for additional information on modeling and assumptions.

Source: LFC Analysis

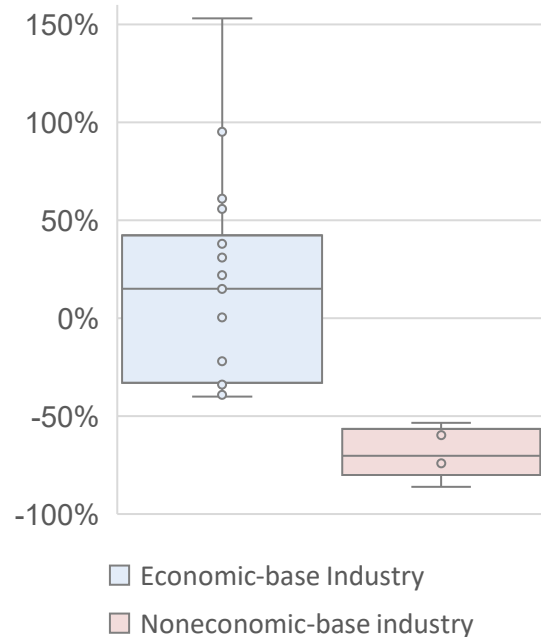


New Mexico findings are consistent with the national literature on development incentives.

Economic ROI by Expenditure Type

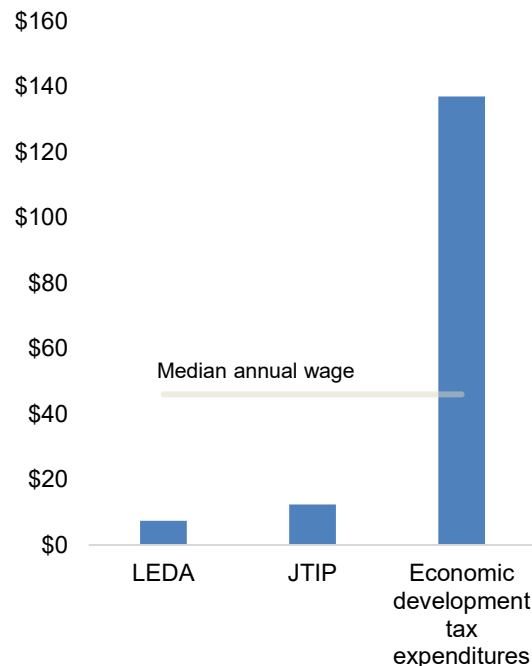


**Economic Base Industry
Expenditures have Higher Economic
ROI**



The average cost per job of economic development tax expenditures is estimated to be \$137 thousand.

Average Cost per Job of Select Economic Development Programs (in thousands)



Source: LFC Analysis

Cost per Job of Economic Development Tax Expenditures (in thousands)

Expenditure	Average Cost per Job
Investment Management Deduction	\$42
Investment Credit	\$53
Angel Investment Credit	\$73
Lab Partnership with Small Business	\$76
Technology Jobs and R&D Credit	\$99
High-Wage Jobs Tax Credit	\$103
Technology Readiness Credit	\$108
Sales to Manufacturers Deduction	\$112
LEDA GRT Distributions	\$118
Film Production Tax Credit	\$131
Hosting World Wide Web Sites Deduction	\$155
Vehicle within 10-miles of Border exemption	\$167
Apportionment election of CIT for Headquarters	\$182
DoD Directed Energy & Satellites Deduction	\$188
Sales of Services to Manufacturers Deduction	\$203
Rural Job Tax Credit	\$223
Border Zone Trade Support Company Deduction	\$239
Apportionment Election for Manufacturers	\$246
Sale of Software Development Services Deduction	\$247
Durable Medical Equipment Deduction	\$425
Sales to Credit Unions	\$570
Jet Fuel Deduction	\$574
Aircraft Sales or Services Deduction	\$575
Small Business Saturday Deduction	\$724



New framework allows for deeper analysis, including of additionality.

Abbreviated Economic Development Tax Incentives Logic Model

Inputs

Tax incentive funding and design



Outputs

New economic activity:

- New jobs
- Better sales
- More R&D
- Higher Investment
- Increased business creation, expansion, or relocation



Outcomes/Impact

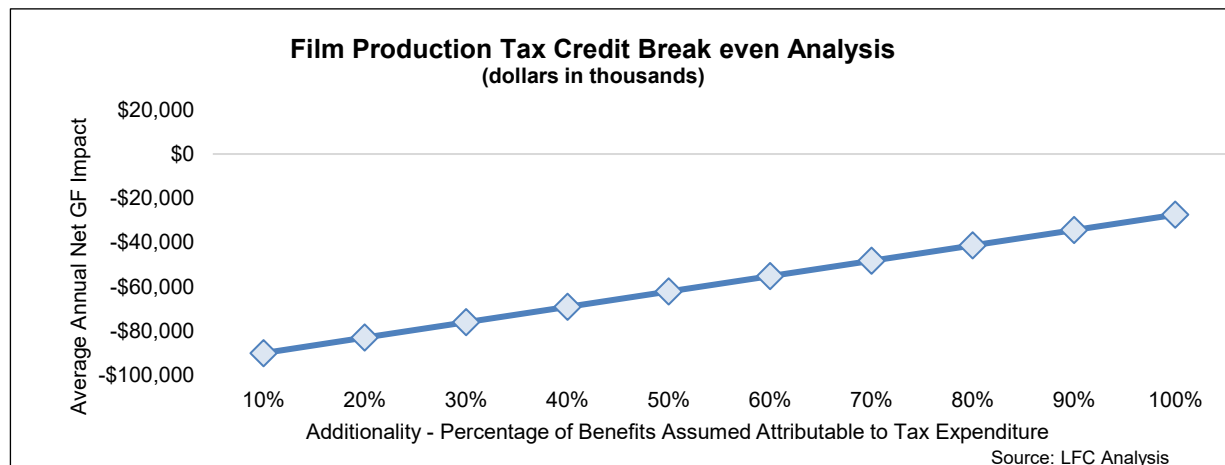
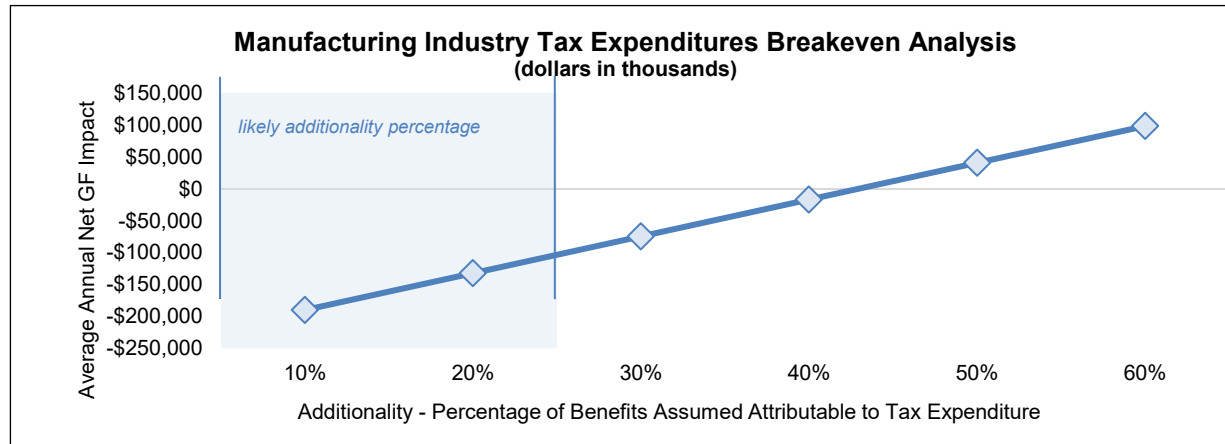
Improved measures:

- GDP
- Employment
- Wages

Additionality is the amount of economic activity that would not have taken place in the absence of state support. Sometimes referred to as “but for” test or “but for” percentage. Additionality is important to consider in impact analysis.



Breakeven analysis indicates some expenditures are never revenue positive.



Few economic development tax expenditures meet best-practice design standards.

Design Standards

1. Has an expiration date
2. Has an expenditure cap
3. Targets economically distressed areas
4. Targets traded industries
5. Meets statutory reporting requirements
6. Provides reliable data for monitoring

Findings

- Six expenditures lack a statutory requirement for taxpayers to report deductions, limiting legislative oversight and analysis.
- Most expenditures (16 of 24) lack an expiration date.
- Most expenditures (20 of 24) lack an expenditure cap.
- No expenditure targets investment to economically distressed areas.
- Expenditures benefiting non-economic base industries cost \$14 million.



Economic Development Tax Expenditures Impact and Design Analysis

Expenditure	Statutory Basis	FY25 Expenditure (millions)	Economic ROI	Return in Revenue	Meets Purpose	Has expiration date	Has expenditure cap	Targets distressed areas	Targets traded industry	Data Availability	Data Reliability
Investment Credit	7-9A.	\$3	139%	-84%							
Lab Partnership with Small Business	7-9E.	\$7	97%	-89%							
Investment Mgmt. of Advisory Services Deduction	7-9-108	\$2	54%	-92%	No purpose						
Angel Investment Credit	7-2-18.17	\$1	50%	-91%							
High-Wage Jobs Tax Credit	7-9G-1	\$9	33%	-92%							
Sales to Manufacturers Deduction	7-9-46	\$270	25%	-92%							
Technology Jobs and R&D Credit	7-9F.	\$7	23%	-93%							
Technology Readiness Credit	7-9-96.3	\$2	17%	-93%							
LEDA GRT Distributions	7-1-6.67	\$11	9%	-93%	No purpose						
Film Production Tax Credit	7-2F.	\$34	8%	-94%							
Sale of Software Development Services Deduction	7-9-57.2	\$17	-6%	-96%							
Hosting World Wide Web Sites Deduction	7-9-56.2	\$2	-24%	-96%	No purpose						
Apportionment election of CIT for Headquarters	7-4-10(C)	\$8	-36%	-96%	No purpose						
Sales of Services to Manufacturers Deduction	7-9-46.1	\$37	-36%	-96%							
Vehicle within 10-miles of Border exemption	7-15-3.2	\$1	-37%	-95%	No purpose						
DoD Directed Energy & Satellites Deduction	7-9-115	\$11	-37%	-96%							
Rural Job Tax Credit	7-2E-1.1	\$1	-42%	-96%							
Apportionment Election for Manufacturers	7-4-10(B)	\$81	-42%	-96%	No purpose						
Border Zone Trade Support Company Deduction	7-9-56.3	\$0.4	-57%	-96%	No purpose						
Durable Medical Equipment Deduction	7-9-73.3	\$10	-63%	-98%							
Jet Fuel Deduction	7-9-83	\$1	-73%	-98%	No purpose						
Aircraft Sales or Services Deduction	7-9-62.1	\$5	-73%	-98%	No purpose						
Sales to Credit Unions	7-9-61.2	\$2	-79%	-99%	No purpose						
Small Business Saturday Deduction	7-9-116	\$1	-86%	-99%							

Economic ROI represents the impact an expenditure has on the New Mexico economy, measure through the GDP increase. An economic ROI of 50% means for every \$1 spent, the New Mexico economy grows by 50 cents. An economic ROI of -50% means for every \$1 spent, the New Mexico economy shrinks by 50 cents. The return in revenue is calculated as the impact to tax revenues. A return in revenue of -95% means that for every \$1 spent, the state forgoes 95 cents and recaptures 5 cents in new tax revenue. See methodology for additional information on modeling and assumptions.

Key

- Yes
- Partial
- No

Recommendations

The Legislature should:

- Consider prioritizing expenditures with higher economic returns and limiting or restructuring expenditures with low or negative economic returns,
- Require separate reporting requirements for the six expenditures that are not separately reported,
- Add expiration dates to the 16 expenditures that currently lack them,
- Add expenditure caps to the expenditures with no cap or with partial caps,
- Add purpose statements to the 10 expenditures that lack them, and
- Add statutory or budget language directing state agencies to standardize, compile, and publish measures of economic distress to better target economic development investment to areas with weaker labor market conditions and greater economic need.



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QUESTIONS?



APPENDIX



LFC Tax Policy 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



LFC Tax Expenditure Policy Principles

- **Vetted:** The proposed new or expanded tax expenditure was vetted through interim legislative committees.
- **Targeted:** The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals.
- **Transparent:** The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies.
- **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.
- **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.
- **Efficient:** The tax expenditure is the most cost-effective way to achieve the desired results.



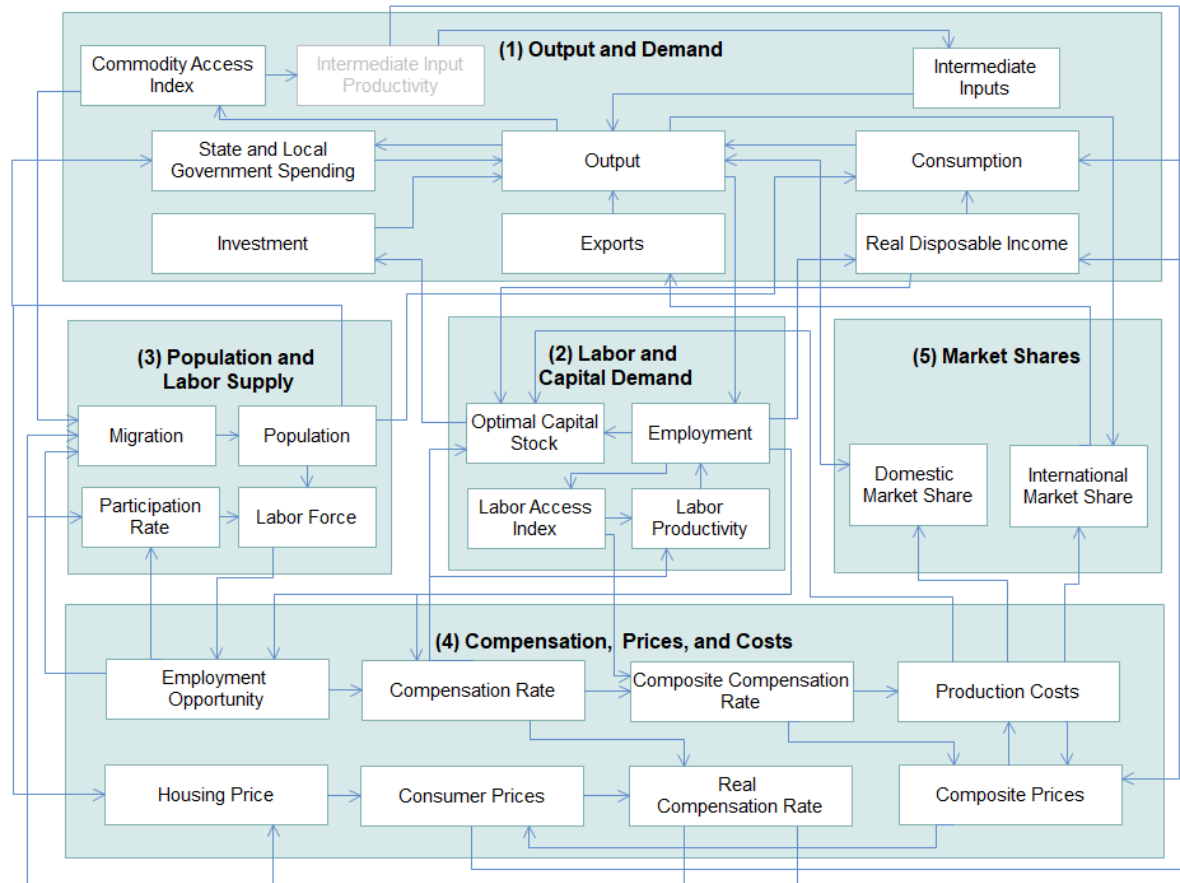
RSTP Tax Proposal Guidelines

- **Clearly stated purpose:** Clearly stated purpose. A proposal should identify the problem that it is intended to solve and explain why a tax policy change is the appropriate tool.
- **Theory of change or logic model:** A proposal should explain how the tax change is expected to produce the intended outcome, including the taxpayer behavior it is intended to affect.
- **Measurable goals and targets:** A proposal should identify expected outcomes, the population or activity affected and how success will be measured.
- **Fiscal impact:** A proposal should include estimated impacts to the General Fund, local government funds and other funds, including whether the impacts are recurring or nonrecurring.
- **Expiration date:** A tax preference should include a sunset date and a delayed repeal for regular evaluation of effectiveness.
- **Expenditure caps where possible:** A credit, rebate or other tax expenditure should include an annual or aggregate cap when administratively feasible to protect the state from open-ended and volatile liabilities.
- **Effective targeting:** A proposal should clearly identify eligible taxpayers or activities and avoid benefits that are broader than necessary to achieve the stated purpose.
- **Reporting requirements:** A proposal should require sufficient reporting to allow the legislature and the public to monitor utilization, fiscal cost and outcomes. A proposal should provide for data collection, sharing and analysis necessary to evaluate performance



REMI Model Overview

REMI Model Linkages



Methodology, variable selection, and detailed summaries available at full report.

Appendix B. Methodology

Each impact analysis employs a New Mexico-specific version of the Regional Economic Models, Inc. Tax-PI model (REMI Model). The REMI Model is calibrated with state revenue and expenditure data along with data on New Mexico industrial composition. The REMI Model is a macroeconomic forecasting model that represents the entire economy using relationships among major economic variables, such as consumption, investment, and trade. Unlike simpler input-output models, REMI combines these economy-wide relationships with detailed industry-level analysis. The model includes 70 economic sectors, allowing it to estimate how policy changes affect specific industries and how those effects ripple through the broader economy. The model combines different contemporary regional economic modeling methods such as input-output analysis and econometric modeling to characterize the mechanics and path of a regional economy. The model has been extensively peer-reviewed and is widely used elsewhere in the nation to model economic and tax revenue impacts of tax expenditures, including economic development tax expenditures.

The model captures traditional multiplier effects across industries while also accounting for changes in prices, wages, and competitiveness. It reflects how businesses and households respond to price signals and changing market conditions, including substitution between inputs and shifts in supply and demand. These features allow the model to estimate more realistic economic responses than models that assume fixed prices or production relationships.

The REMI Model also incorporates labor and capital markets, interstate and international trade, and population migration. The labor market component links employment and wages to demographic changes, including in- and out-migration. The model accounts for labor availability, wage determination, and differences in industry access to workers across regions.

The econometric foundation of the REMI model is based on statistical estimation using historical time-series and cross-regional data. This allows the model not only to estimate current economic impacts but also to project how the New Mexico economy may evolve over time in response to policy changes.

For this analysis, the REMI Model includes two geographic regions: New Mexico and the rest of the United States. The model is calibrated using historical data for both regions through 2023. Policy impacts are entered into the model by translating estimated direct effects into specific REMI inputs, referred to as model "levers." Appendix B summarizes how these direct effects are mapped to the relevant model components and indicates the expected direction of each impact.

The analysis reports two measures. First, for all expenditures, the analysis reports the ratio of gross domestic product (GDP) increases and the present value of direct costs to the state, referred to as economic return on investment (ROI). Economic ROI is calculated as the increase in state GDP because of the growth in consumption expenditures, private investment, government expenditures, and net exports after accounting for the costs of the expenditure. Both GDP impacts and costs are calculated on a net present value (NPV) basis over a 35-year period using a 5 percent discount rate.

$$\text{Economic ROI} = \frac{(\text{Increased GDP} - \text{Total Cost})}{\text{Total Cost}} \times 100\%$$

The economic ROI value can be interpreted as the growth in the New Mexico economy that results from the state's investment. For example, an economic ROI of 90% means that for every \$1 spent on a tax expenditure, the New Mexico economy increased by 90 cents.

Second, for all expenditures, the analysis reports the ratio of increased tax revenue and direct costs, referred to as the return in revenue (RIR). The RIR measures the increase in state tax revenue attributable to the economic activity generated by the expenditure after accounting for its cost. The value can be expressed as a percentage or a ratio that is calculated by subtracting the expenditure's total cost from the increase in state

Appendix C. REMI Model Policy Variables

Expenditure	REMI model policy variables	Modeling Description
Apportionment election of CIT for Headquarters		
DoD Directed Energy & Satellites Deduction		
Film Production Tax Credit		
High-Wage Jobs Tax Credit		Model economic impact based on reduced capital cost equal to the expenditure.
Hosting World Wide Web Sites Deduction	Compensation and Prices >	Assign REMI industry based on industry
Investment Mgmt. of Advisory Services Deduction	Production Costs > Capital	Costs
Rural Job Tax Credit		Impacted based on statutory provisions.
Sale of Software Development Services Deduction		
Sales of Services to Manufacturers Deduction		
Sales to Manufacturers Deduction		
Vehicle within 100 miles of Border exemption		
Apportionment Election for Manufacturers	(1) Compensation and Prices > Production Costs > Capital Costs (2) Compensation and Prices > Production Costs > Capital Costs > Corporate Profit Tax Rate	(1) Model economic impact based on reduced capital cost equal to the expenditure. Assign REMI industry based on industry impacted based on statutory provisions. (2) Model corporate profit tax rate reduction based on simulated election scenarios.
Investment Credit	(1) Compensation and Prices > Production Costs > Capital Costs (2) Output and Demand > Investment Spending (structures & 0000000000000000)	(1) Model economic impact based on reduced capital cost equal to the expenditure. Assign REMI industry based on industry impacted based on statutory provisions. (2) Model investment spending based on a 25% additional factor.
LEDA GRT Distributions		
Technology Jobs and R&D Credit		
Technology Readiness Credit		
Lab Partnership with Small Business		
Sales to Credit Unions	Output and Demand > Investment Spending (structures & 0000000000000000)	Model investment spending based on a 100% additional factor.
Angel Investment Credit	(1) Compensation and Prices > Disposable Personal Income > Personal Income > Personal Taxes (2) Output and Demand > Investment Spending	(1) Model economic impact based on reduced personal taxes equal to the expenditure. (2) Model investment spending based on a 100% additional factor.

High-Wage Jobs Tax Credit



High-Wage Jobs Tax Credit

Background

Brief Description. The high-wage jobs tax credit is an incentive for businesses to create and fill new high-wage jobs in New Mexico by providing a refundable tax credit equal to 8.5 percent of the wages of a new job up to \$12,750.

Created: 2004 and amended in 2007, 2008, 2013, 2016, 2019, 2021, 2025, and 2026.

Expires/ July 1, 2036

Statutory Basis: 7-9G-1 NMSA 1978

Impact Analysis Summary

In FY25, businesses received a total of \$9.2 million in state support through the credit. Over the last ten years, businesses received an average of \$12.8 million in state support through the credit each year. The credit is estimated to increase statewide employment by 135 jobs per year on average because of lower business costs that encourage job creation. The credit is estimated to increase state personal income by a present value of \$10.4 million, on average, because of higher wage earnings, increased business profits, and increased property income. The estimated present value of the annual state GDP impact attributable to the program is \$6.1 million, on average. The economic return on investment (ROI) is estimated to be 33 percent, meaning for every \$1 spent on the credit, the New Mexico economy grows by 33 cents. The estimated annual return in revenue is -92 percent, meaning that for every \$1 spent, the state forgoes 92 cents and recaptures 8 cents in state tax revenue.

Economic Impact Analysis Summary

FY25 Expenditure	FY25 Claims
\$9.2 M	86
Economic ROI	Return in Revenue
33%	-92%
For every \$1 spent, the state economy grows by 33 cents.	For every \$1 spent, the state forgives 92 cents and recaptures 8 cents in state tax revenue.

High-Wage Jobs Tax Credit Expenditures and Claims dollars in thousands



High-Wage Jobs Tax Credit

Full report available at www.nmlegis.gov/Entity/LFC/Revenue_Economic_Reports_And_Tax_Policy

