

# State Tax Impacts of H.R.1 — The Federal One Big Beautiful Bill Act (OBBA)

Before the New Mexico Legislature  
Federal Funding Stabilization Subcommittee  
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Richard Anklam, President and Executive Director, New Mexico Tax Research Institute

# Our Organizations & Backgrounds

- Multistate Tax Commission – The MTC is an intergovernmental state tax agency whose mission is to promote uniform and consistent tax policy and administration among the states, assist taxpayers in achieving compliance with existing tax laws, and advocate for state and local sovereignty in the development of tax policy. New Mexico has been an MTC member since 1967,
- New Mexico Tax Research Institute – The NMTRI is a nonprofit, nonpartisan, member-supported organization dedicated to providing fact based principled research and analysis to the tax policy debate in New Mexico.

# Our Organizations & Backgrounds

- Helen Hecht, Esq., MTC Uniformity Counsel, previously MTC General Counsel, Federation of Tax Administrators Tax Counsel, and also worked for Sutin, Thayer & Browne, KPMG, and the New Mexico Taxation and Revenue Department.
- Richard Anklam, President and Executive Director, New Mexico Tax Research Institute, previously Director with Grant Thornton and Asst. Sec. and Tax Policy Director for the New Mexico Taxation and Revenue Department, and also worked for KPMG, and as an auditor for the NMTRD.

# Any opinions expressed are our own.

Unless we say otherwise, any views or opinions expressed as part of this presentation are our own and not the official position of our organizations or our members.

# Some History

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- Over time, states have conformed their income taxes to the federal income tax.
- This simplifies reporting by taxpayers.
- States also rely on enforcement and administrative efforts of the IRS including:
  - Issuing regulations and other guidance,
  - Information reporting and sharing,
  - Refund offsets between the tax programs, and
  - Audit adjustments that may affect state taxes.
- But most states also make modifications or adjustments to the federal base.

Income taxes  
are generally  
calculated as  
follows:

Total revenue or receipts of the taxpayer  
– **Tax exempt or excluded** revenue or receipts  
= Gross income (or revenue)

Gross taxable revenue or receipts  
– **Certain (“above the line”) deductions**  
= Adjusted gross income – See IRC §62

Adjusted gross income  
– **Other deductions from AGI**  
= Net taxable income - See IRC §63

Net taxable income X **Tax rate** = Net tax (before  
credits) – **Credits** = Tax liability

# Federal Tax Increases or Decreases May Be:

**Gross revenue inclusions or exemptions**

**Increases or decreases in deductions  
from taxable gross revenue to get to AGI**

**Increases or decreases in deductions  
from AGI to get to net taxable income**

**Changes in tax rates**

**New or repealed tax credits**

*Our focus.*

Income taxes  
are generally  
calculated as  
follows:

Total revenue or receipts of the taxpayer  
– **Tax exempt or excluded** revenue or receipts  
= Gross income (or revenue)

Gross taxable revenue or receipts  
– **Certain (“above the line”) deductions**  
= Adjusted gross income – See IRC §62

Adjusted gross income  
– **Other deductions from AGI**  
= Net taxable income - See IRC §63

Net taxable income X **Tax rate** = Net tax (before  
credits) – **Credits** = Tax liability



**TABLE 1**

# State Individual Income Tax Starting Points

How states link to the federal tax code with definitions of income



Federal taxable income				
Colorado	Idaho	North Dakota	Oregon	South Carolina
Federal adjusted gross income				
Arizona	California	Connecticut	Delaware	District of Columbia
Georgia	Hawaii	Illinois	Indiana	Iowa
Kansas	Kentucky	Louisiana	Maine	Maryland
Massachusetts	Michigan	Minnesota	Missouri	Montana
Nebraska	New Mexico	New York	North Carolina	Ohio
Oklahoma	Rhode Island	Utah	Vermont	Virginia
West Virginia	Wisconsin			
State definition of income				
Alabama	Arkansas	Mississippi	New Jersey	Pennsylvania

**Source:** Federation of Tax Administrators. State Individual Income Tax Federal Starting Points. January 2023.

**Notes:** Oregon uses federal taxable income but sets its own standard deduction amounts. Some states (e.g., New Mexico) use federal adjusted gross income but conform with the federal standard deduction amounts. Alaska, Florida, Nevada, South Dakota, Tennessee, Texas, Washington, and Wyoming do not tax individual income. New Hampshire only taxes interest and dividends.



TABLE 2

# How States Link to the Federal Tax Code

Does a state need legislation (static) or update automatically (rolling)

Static				
Arizona	California	Georgia	Hawaii	Idaho
Indiana	Iowa	Kentucky	Maine	Minnesota
North Carolina	Ohio	Oregon	South Carolina	Vermont
Virginia	West Virginia	Wisconsin		
Rolling				
Colorado	Connecticut	Delaware	District of Columbia	Illinois
Kansas	Louisiana	Maryland	Michigan	Missouri
Montana	Nebraska	New Mexico	New York	North Dakota
Oklahoma	Rhode Island	Utah		

**Source:** Federation of Tax Administrators. State Individual Income Tax Federal Starting Points. January 2023.

**Notes:** States that use their own definition of income and states that do not tax individual income are not included.

# Federal Conformity Mechanics

# Personal Income Tax

## Key terms are defined:

- **“Base income” = federal “adjusted gross income” (but not for estates and trusts) with adjustments**
- **“Net income” = “base income” with adjustments**
- **“Taxable income” = “net income” with adjustments**

**Other terms may also use federal definitions.**

**Form 1040** Department of the Treasury—Internal Revenue Service  
**U.S. Individual Income Tax Return** **2024** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.  
 For the year Jan. 1–Dec. 31, 2024, or other tax year beginning \_\_\_\_\_, 2024, ending \_\_\_\_\_, 20. See separate instructions.

Your first name and middle initial \_\_\_\_\_ Last name \_\_\_\_\_ Your social security number \_\_\_\_\_  
 If joint return, spouse's first name and middle initial \_\_\_\_\_ Last name \_\_\_\_\_ Spouse's social security number \_\_\_\_\_

Home address (number and street). If you have a P.O. box, see instructions. \_\_\_\_\_ Apt. no. \_\_\_\_\_ Presidential Election Campaign  
 City, town, or post office. If you have a foreign address, also complete spaces below. \_\_\_\_\_ State \_\_\_\_\_ ZIP code \_\_\_\_\_ Check here if you, or your  
 Foreign country name \_\_\_\_\_ Foreign province/state/county \_\_\_\_\_ Foreign postal code \_\_\_\_\_ spouse if filing jointly, want \$3  
 to go to this fund. Checking a  
 box below will not change  
 your tax or refund.  You  Spouse

**Filing Status**  
 Single  Head of household (HOH)  
 Married filing jointly (even if only one had income)  
 Married filing separately (MFS)  Qualifying surviving spouse (QSS)  
 Check only one box.  
 If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QSS box, enter the child's name if the  
 qualifying person is a child but not your dependent:  
 If treating a nonresident alien or dual-status alien spouse as a U.S. resident for  
 their name (see instructions and attach statement if required): \_\_\_\_\_

**Digital Assets** At any time during 2024, did you: (a) receive (as a reward, award, or payment for prog  
 exchange, or otherwise dispose of a digital asset for a financial interest in a digital as  
 Someone can claim:  You as a dependent  Your spouse as a dependent  
**Standard Deduction**  Spouse itemizes on a separate return or you were a dual-status alien

**Age/Blindness** You:  Were born before January 2, 1960  Are blind **Spouse:**  Was b  
 Was b

**Dependents** (see instructions):  
 If more than four dependents, see instructions and check here

(1) First name	Last name	(2) Social security number	(3) Relation to you

**Income**  
 Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.  
 If you did not get a Form W-2, see instructions.

1a	Total amount from Form(s) W-2, box 1 (see instructions)	
b	Household employee wages not reported on Form(s) W-2	
c	Tip income not reported on line 1a (see instructions)	
d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)	
e	Taxable dependent care benefits from Form 2441, line 26	
f	Employer-provided adoption benefits from Form 8839, line 29	
g	Wages from Form 8919, line 6	
h	Other earned income (see instructions)	
i	Nontaxable combat pay election (see instructions)	
z	Add lines 1a through 1h	

Attach Sch. B if required.

2a	Tax-exempt interest	2a		b	Taxable interest	
3a	Qualified dividends	3a		b	Ordinary dividends	
4a	IRA distributions	4a		b	Taxable amount	
5a	Pensions and annuities	5a		b	Taxable amount	
6a	Social security benefits	6a		b	Taxable amount	

**Standard Deduction for—**  
 Single or Married filing separately, \$14,800  
 Married filing jointly or Qualifying surviving spouse, \$29,200  
 Head of household, \$21,900  
 If you checked any box under Standard Deduction, see instructions.

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.

# Federal Return

## Income

**Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.**

**If you did not get a Form W-2, see instructions.**

**Attach Sch. B if required.**

**Standard Deduction for—**  
 Single or Married filing separately, \$14,800  
 Married filing jointly or Qualifying surviving spouse, \$29,200  
 Head of household, \$21,900  
 If you checked any box under Standard Deduction, see instructions.

1a	Total amount from Form(s) W-2, box 1 (see instructions)		1a		
b	Household employee wages not reported on Form(s) W-2		1b		
c	Tip income not reported on line 1a (see instructions)		1c		
d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)		1d		
e	Taxable dependent care benefits from Form 2441, line 26		1e		
f	Employer-provided adoption benefits from Form 8839, line 29		1f		
g	Wages from Form 8919, line 6		1g		
h	Other earned income (see instructions)		1h		
i	Nontaxable combat pay election (see instructions)		1i		
z	Add lines 1a through 1h		1z		
2a	Tax-exempt interest	2a	b	Taxable interest	2b
3a	Qualified dividends	3a	b	Ordinary dividends	3b
4a	IRA distributions	4a	b	Taxable amount	4b
5a	Pensions and annuities	5a	b	Taxable amount	5b
6a	Social security benefits	6a	b	Taxable amount	6b
c	If you elect to use the lump-sum election method, check here (see instructions)				
7	Capital gain or (loss). Attach Schedule D if required. If not required, check here		7		
8	Additional income from Schedule 1, line 10		8		
9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income		9		
10	Adjustments to income from Schedule 1, line 28		10		
11	Subtract line 10 from line 9. This is your adjusted gross income		11		
12	Standard deduction or itemized deductions (from Schedule A)		12		
13	Qualified business income deduction from Form 8995 or Form 8995-A		13		
14	Add lines 12 and 13		14		
15	Subtract line 14 from line 11. If zero or less, enter -0-. This is your taxable income		15		

**2024 PIT-1**

**NEW MEXICO PERSONAL INCOME TAX RETURN**

For the year January 1 - December 31, 2024

or fiscal year beginning  $F_1$  ending  $F_2$

If amending use Form 2024 PIT-X.



FOR DEPARTMENT USE ONLY

1a Print your name (first, middle, last) \_\_\_\_\_

1b SOCIAL SECURITY NUMBER \_\_\_\_\_

1c Print your spouse's name (first, middle, last). If married (filing separately, include spouse) \_\_\_\_\_

1d Age 85 or over  1e Residency status \_\_\_\_\_

1f Taxpayer's date of birth \_\_\_\_\_

1g Spouse's date of birth \_\_\_\_\_

1h If address is new or changed, mark this box  \_\_\_\_\_

1i Mailing Address (Number and street) \_\_\_\_\_

1j City \_\_\_\_\_ State \_\_\_\_\_ Postal ZIP Code \_\_\_\_\_

1k If foreign address, enter country \_\_\_\_\_ Foreign province or state \_\_\_\_\_

1l If deceased (taxpayer's refund must be made payable to a person other than the taxpayer or spouse named on this return, enter below the name and social security number of that person. You must also attach RPO-41083) \_\_\_\_\_

1m Taxpayer's date of death \_\_\_\_\_

1n Spouse's date of death \_\_\_\_\_

1o Client's Name \_\_\_\_\_

1p Client's SSN \_\_\_\_\_

1q EXEMPTIONS: taxpayer, spouse, dependents, and other dependents reported on federal Form 1040. If you are a dependent or other dependent of another taxpayer, enter ID. (See instructions) \_\_\_\_\_

1r EXTENSION OF TIME TO FILE: If you have a federal or state extension, mark box for and enter the extension date in box 1b. \_\_\_\_\_

2 8. DEPENDENTS AND OTHER DEPENDENTS. As listed on your federal return. (You must report the first 3 dependents and other dependents in this table. Use Schedule PIT-S for additional entries.)

Column 1	Column 2	Column 3
First name	Last name	Dependent's SSN

3 Date of birth (MM/DD/YYYY) \_\_\_\_\_

9. FEDERAL ADJUSTED GROSS INCOME. (from federal Form 1040 or 1040SR, line 11) \_\_\_\_\_

10. If you itemized your federal deduction amount, enter the amount of state and local tax deduction claimed on federal Form 1040, Schedule A, line 5a. See the worksheet in the instructions \_\_\_\_\_

11. Total Additions to federal adjusted gross income (PIT-ADJ, line 6). Attach PIT-ADJ \_\_\_\_\_

12. Federal standard or itemized deduction amount (from federal Form 1040, line 12) \_\_\_\_\_

12a. If you itemized, mark the box  \_\_\_\_\_

13. Deduction for certain dependents. See the worksheet in the instructions \_\_\_\_\_

14. New Mexico low- and middle-income tax exemption. See PIT-1 Instructions \_\_\_\_\_

15. Total Deductions and Exemptions from federal income (PIT-ADJ, line 28). Attach PIT-ADJ \_\_\_\_\_

16. Medical care expense deduction. See PIT-1 Instructions \_\_\_\_\_

16a. Unreimbursed and uncompensated medical care expenses \_\_\_\_\_

17. NEW MEXICO TAXABLE INCOME. Add lines 9, 10 and 11, then subtract lines 12, 13, 14, 15 and 16 \_\_\_\_\_

17a. From Tax Rate Table = R. From PIT-B, line 14 = B \_\_\_\_\_

18. New Mexico tax on amount on line 17 or from PIT-B, line 14 \_\_\_\_\_

18a. From Tax Rate Table = R. From PIT-B, line 14 = B \_\_\_\_\_

19. Additional amount for tax on lump-sum distributions. See PIT-1 Instructions \_\_\_\_\_

20. Credit for taxes paid to another state. You must have been a New Mexico resident during all or part of the year. Include a copy of other state's return. See PIT-1 Instructions \_\_\_\_\_

21. Business-related income tax credits applied, from Schedule PIT-CR, line A. Attach PIT-CR \_\_\_\_\_

22. NET NEW MEXICO INCOME TAX. Add lines 18 and 19, then subtract lines 20 and 21. Cannot be less than zero \_\_\_\_\_

Electronic filers: If you file your New Mexico Personal Income Tax return online and also pay tax due online, your due date is April 30, 2025. All others must file by April 15, 2025. See PIT-1 Instructions for details.

# New Mexico Return

9.	FEDERAL ADJUSTED GROSS INCOME. (from federal Form 1040 or 1040SR, line 11) .....	9	
10.	If you itemized your federal deduction amount, enter the amount of state and local tax deduction claimed on federal Form 1040, Schedule A, line 5a. See the worksheet in the instructions .....	+	10
11.	Total Additions to federal adjusted gross income (PIT-ADJ, line 6). Attach PIT-ADJ .....	+	11
12.	Federal standard or itemized deduction amount (from federal Form 1040, line 12) .....	-	12
	12a. If you itemized, mark the box .....		12a <input type="checkbox"/>
13.	Deduction for certain dependents. See the worksheet in the instructions .....	-	13
14.	New Mexico low- and middle-income tax exemption. See PIT-1 Instructions .....	-	14
15.	Total Deductions and Exemptions from federal income (PIT-ADJ, line 28). Attach PIT-ADJ .....	-	15
16.	Medical care expense deduction. See PIT-1 Instructions .....	-	16
	You must complete both lines 16 and 16a or the deduction will be denied.		
	16a. Unreimbursed and uncompensated medical care expenses .....		16a <input type="text" value="16a"/>
17.	NEW MEXICO TAXABLE INCOME. Add lines 9, 10 and 11, then subtract lines 12, 13, 14, 15 and 16 .....	=	17
	Cannot be less than zero		
18.	New Mexico tax on amount on line 17 or from PIT-B, line 14 .....		18
	18a. From Tax Rate Table = R. From PIT-B, line 14 = B .....		18a <input type="text" value="18a"/>
19.	Additional amount for tax on lump-sum distributions. See PIT-1 Instructions .....	+	19
20.	Credit for taxes paid to another state. You must have been a New Mexico resident during all or part of the year. Include a copy of other state's return. See PIT-1 Instructions .....	-	20
21.	Business-related income tax credits applied, from Schedule PIT-CR, line A. Attach PIT-CR .....	-	21
22.	NET NEW MEXICO INCOME TAX. Add lines 18 and 19, then subtract lines 20 and 21. Cannot be less than zero .....	=	22

Electronic filers: If you file your New Mexico Personal Income Tax return online and also pay tax due online, your due date is April 30, 2025. All others must file by April 15, 2025. See PIT-1 Instructions for details.

Continue on the next page.

## Section 7-2-2. Definitions

For the purpose of the Income Tax Act and unless the context requires otherwise:

A. “adjusted gross income” means adjusted gross income as defined in Section 62 of the Internal Revenue Code [*which lists deductions taken from gross income to get to AGI*], as that section may be amended or renumbered;

## Section 7-2-2. Definitions

### B. “base income”:

(1) means, for estates and trusts, that part of the estate's or trust's income defined as taxable income and upon which the federal income tax is calculated in the Internal Revenue Code for income tax purposes plus:

...

## Section 7-2-2. Definitions

### B. “base income” (cont’d):

(2) means, for taxpayers other than estates or trusts, that part of the taxpayer's income defined as **adjusted gross income plus:**

(a) for taxable years beginning on or after January 1, 1991, **the amount of the net operating loss deduction allowed by Section 172(a)** of the Internal Revenue Code, as that section may be amended or renumbered, and taken by the taxpayer for that year; and

(b) for taxable years beginning on or after January 1, 2023, an amount equal to the amount of credit claimed and allowed for that year pursuant to Section 7-3A-10 NMSA 1978 with respect to the distributed net income of a **pass-through entity;**



## Section 7-2-2. Definitions

### B. “base income” (cont’d):

(3) includes, for all taxpayers, any other income of the taxpayer not included in adjusted gross income but upon which a federal tax is calculated pursuant to the Internal Revenue Code for income tax purposes, except amounts for which a calculation of tax is made pursuant to Section 55 of the Internal Revenue Code [federal alternative minimum tax], as that section may be amended or renumbered; "base income" also includes interest received on a state or local bond;

## Section 7-2-2. Definitions

### B. “base income” (cont’d):

(4) includes, for all taxpayers, an amount deducted pursuant to Section 7-2-32 NMSA 1978 in a prior taxable year if:

(a) such amount is transferred to another qualified tuition program, as defined in Section 529 of the Internal Revenue Code, not authorized in the Education Trust Act; or

(b) a distribution or refund is made for any reason other than:

1) to pay for federally allowable qualified higher education expenses, set out in Section 529 of the Internal Revenue Code, including other expenses allowed pursuant to that section as qualified expenses; or

2) upon the beneficiary's death, disability or receipt of a scholarship; and

# 2024 PIT-ADJ

## NEW MEXICO SCHEDULE OF ADDITIONS, DEDUCTIONS, AND EXEMPTIONS



We cannot accept statements instead of this schedule.

Print your name (first, middle, last)

YOUR SOCIAL SECURITY NUMBER

Taxpayers who are required to make certain additions or who are eligible to take certain deductions or exemptions from federal adjusted gross income to compute New Mexico taxable income must complete this schedule. Please refer to the instructions when completing this schedule.

### **NEW MEXICO ADDITIONS TO FEDERAL ADJUSTED GROSS INCOME**

1. Interest and dividends from federal tax-exempt bonds. ....
2. Federal net operating loss carryover. See PIT-ADJ instructions. ....
3. Contributions refunded when closing a New Mexico-approved Section 529 education savings plan account and certain contributions rolled out of a New Mexico-approved Section 529 education savings plan account. ....
4. Charitable deduction amount claimed on federal Schedule A, Line 12, for a donation of land to private non-profit or public conservation agencies, for conservation purposes, from which you were allowed the New Mexico Land Conservation Tax Credit. ....
5. Amount of withholding tax paid by a Pass-Through-Entity on distributed net income. ....
6. **TOTAL ADDITIONS.** Add lines 1 through 5. **Also enter on Form PIT-1, line 11** .....

1.	
2.	
3.	
4.	
5.	
6.	

### **NEW MEXICO DEDUCTIONS AND EXEMPTIONS FROM FEDERAL ADJUSTED GROSS INCOME**

## Section 7-2-2. Definitions

### B. “base income” (cont’d):

(5) excludes, for a taxpayer who conducts a lawful business pursuant to the laws of the state, an amount equal to any expenditure that is eligible to be claimed as a federal income tax deduction but is disallowed by Section 280E of the Internal Revenue Code [*expenditures in connection with the illegal sale of drugs*], as that section may be amended or renumbered;

## Section 7-2-2. Definitions

N. “net income” means, . . . for taxpayers other than estates or trusts, base income adjusted to exclude:

(1) an amount equal to the standard deduction allowed the taxpayer for the taxpayer's taxable year by Section 63 of the Internal Revenue Code, as that section may be amended or renumbered;

(2) an amount equal to the itemized deductions defined in Section 63 of the Internal Revenue Code, as that section may be amended or renumbered, allowed the taxpayer for the taxpayer's taxable year less the amount excluded pursuant to Paragraph (1) of this subsection and less the amount of state and local income and sales taxes included in the taxpayer's itemized deductions;

## Section 7-2-2. Definitions

N. “net income” means, . . . for taxpayers other than estates or trusts, base income adjusted to exclude:

(1) an amount equal to the standard deduction allowed the taxpayer for the taxpayer's taxable year by Section 63 of the Internal Revenue Code, as that section may be amended or renumbered;

(2) an amount equal to the itemized deductions defined in Section 63 of the Internal Revenue Code, as that section may be amended or renumbered, allowed the taxpayer for the taxpayer's taxable year less the amount excluded pursuant to Paragraph (1) of this subsection and less the amount of state and local income and sales taxes included in the taxpayer's itemized deductions;

*Ref. to IRC 63(b)*

## IRC §63 -

### (d) Itemized deductions

For purposes of this subtitle, the term “itemized deductions” means the deductions allowable under this chapter **other than**—

- (1) the deductions allowable in arriving at adjusted gross income, and
- (2) **any deduction referred to in any paragraph of subsection (b).**

### (b) Individuals who do not itemize their deductions

In the case of an individual who does not elect to itemize his deductions for the taxable year, for purposes of this subtitle, the term “taxable income” means adjusted gross income, minus—

- (1) the standard deduction,
- (2) the deduction for personal exemptions provided in section 151,
- (3) **any deduction provided in section 199A** [*the so-called qualified business income deduction for pass-throughs*], and
- (4) the deduction provided in **section 170(p)** [*affecting separate deductibility of charitable contributions*].

## Section 7-2-2. Definitions

N. “net income” (cont’d). . . base income adjusted to exclude:

(3) an amount equal to the product of the exemption amount allowed for the taxpayer's taxable year by Section 151 of the Internal Revenue Code [*the personal exemption*], as that section may be amended or renumbered, multiplied by the number of personal exemptions allowed for federal income tax purposes;

(4) income from obligations of the United States of America less expenses incurred to earn that income;

(5) other amounts that the state is prohibited from taxing because of the laws or constitution of this state or the United States;

(6) for taxable years beginning on or after January 1, 2013, an amount equal to the sum of any net operating loss carryover deductions to that year claimed and allowed; provided that the amount of any net operating loss carryover may be excluded only as follows: . . .



## Section 7-2-2. Definitions

X. "taxable income" means net income less any lump-sum amount;

K. "lump-sum amount" means, for the purpose of determining liability for federal income tax, an amount that was not included in adjusted gross income but upon which the five-year-averaging or the ten-year-averaging method of tax computation provided in Section 402 of the Internal Revenue Code, as that section may be amended or renumbered, was applied;

**Federal  
Conformity  
Mechanics**

**Corporate  
Income Tax**

**Key terms are defined:**

- **Define “base income” = “federal taxable income” with adjustments**
- **“Base income” = “net income”**
- **“Apportioned net income (loss)” = “net income” (allocated and apportioned)**
- **“Taxable income (loss)” = “apportioned net income (loss)”**

**Other terms may also use federal definitions.**

**2024 CIT-1  
NEW MEXICO CORPORATE INCOME AND  
FRANCHISE TAX RETURN**



1. Corporation name \_\_\_\_\_  
 2. Mailing address (number and street name) \_\_\_\_\_  
 3. City \_\_\_\_\_ State \_\_\_\_\_ Postal ZIP code \_\_\_\_\_  
 4. Foreign address, when (country) \_\_\_\_\_ Foreign province/territory/state \_\_\_\_\_  
**CHECK ONE (Required):**  
 Original Return  
 Amended Return  
 4b (i) Type \_\_\_\_\_  
 4b (ii) Date \_\_\_\_\_  
**FOR DEPARTMENT USE ONLY**  
 5. FEIN (Required) \_\_\_\_\_ New Mexico Business ID # \_\_\_\_\_  
 6. Fiscal (or Short-Year) Tax Year Starts \_\_\_\_\_ Fiscal (or Short-Year) Tax Year Ends \_\_\_\_\_  
 6a \_\_\_\_\_ 6b \_\_\_\_\_ 6c \_\_\_\_\_ 6d \_\_\_\_\_  
 7. Extended Due Date \_\_\_\_\_  
 8. Contact phone number \_\_\_\_\_

**COMPLETE THE FOLLOWING:**  
 A. State of incorporation \_\_\_\_\_ A1. Date of incorporation \_\_\_\_\_  
 B. Date business began in New Mexico \_\_\_\_\_ B1. State of commercial domicile \_\_\_\_\_  
 C. Name and address of registered agent in New Mexico \_\_\_\_\_  
 D. NAICS Code (Required) \_\_\_\_\_  
 E. Is this a return for a unitary group? Yes   
 Water's-edge group. Year of election \_\_\_\_  
 Member of a unitary group. Filing separ  
**NOTE:** A unitary group has certain filing req  
 F. Indicate method of accounting  Cash  
 G. If this is the corporation's final return, was it  
 Dissolved  Merged or  
 H. Has this corporation's federal income tax fil  
 been reported to New Mexico? Yes  No   
 and a copy of the amended federal return or  
 I. If this a return for a filing group, complete th  
 The total of column 3 must equal CIT-1, pag  
 members of the filing group, complete CIT-1  
 Column 1  
 Corporation name \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 J. If other than a corporation, enter your legal  
**Refund Express!** Have your refund dir  
 181 1. Routing number: \_\_\_\_\_  
 182 2. Account number: \_\_\_\_\_

**2024 CIT-1 (page 2)  
NEW MEXICO CORPORATE INCOME AND FRANCHISE TAX RETURN**

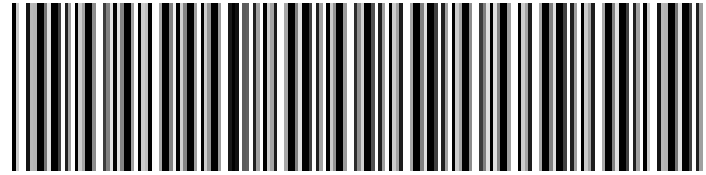


1. Taxable income before NOL and special deductions (see CIT-1 instructions).  
 1a. Captive REIT deductions.  
 1b. Exempt entity deductions.  
 2. Interest income from municipal bonds, excluding New Mexico bonds.  
 3. Other additions to the base income of a unitary group (see CIT-1 instructions).  
 4. Subtotal of base income after additions. Add lines 1, 1a, 1b, 2 a  
 5. Federal special deductions (from federal Form 1120, line 29b). Enter only a positive number.  
 6. Interest from U.S. government obligations or federally-taxed New Mexico bond.  
 7. Deduction for certain expenses related to a New Mexico licensed cannabis business.  
 8. Deductions for certain foreign dividends, Subpart F income, and GILTI (from CIT-C line 6).  
 9. Other subtractions to the base income of a unitary group (see CIT-1 instructions).  
 10. New Mexico net income or loss. Subtract lines 5, 6, 7, 8, and 9 from line 4.  
 11. Net allocated income or loss (from CIT-B, line 8).  
 12. Total apportionable income or loss. Subtract line 11 from line 10.  
 13. New Mexico apportionment percentage (from CIT-A, line 5, or 1  
 14. Income or loss apportioned to New Mexico. Line 12 multiplied b  
 15. Net New Mexico allocated income or loss (from CIT-B, line 9).  
 16. New Mexico apportioned net income or loss. Add lines 14 and 1  
 17. Net operating loss deduction, not in excess of 80% of line 16. A  
 18. Liquor license lessor deduction (see CIT-1 instructions).  
 19. New Mexico taxable income. Subtract lines 17 and 18 from line  
 20. New Mexico income tax. Tax on amount on line 19 (see tax tabl  
 21. Total tax credits applied against the income tax liability on line 2  
 22. Net income tax. Subtract line 21 from line 20. Amount cannot be  
 23. Franchise tax (\$50 per corporation).  
 24. Total income and franchise tax. Add lines 22 and 23.  
 25. Amended Returns Only. Enter amount of all 2024 refunds recd  
 instructions for line 27).  
 26. Subtotal. Add lines 24 and 25.  
 27. Total Payments:  Quarterly  Extension  Applied fr  
 27a.  Mark this box if you want to use method 4 to calculat  
 estimated tax. See Instructions, attach RPD-41287  
 28. New Mexico income tax withheld from oil and gas proceeds. Att  
 29. New Mexico income tax withheld from a pass-through entity. Att  
 30. Total payments and tax withheld. Add lines 27 through 29.  
 31. Tax due. If line 28 is greater than line 30, subtract line 30 from li  
 32. Penalty (see CIT-1 instructions).  
 33. Interest (see CIT-1 instructions).  
 34. Total amount due. Mail your check or pay online using TAP. Add  
 35. Overpayment. If line 30 is greater than line 26, enter the differer  
 36. Amount of overpayment to apply to 2025 liability (not more than  
 37. Amount of overpayment to refund. Subtract line 36 from line 35.  
 38. Total portion of tax credits to refund (from CIT-CR, line B). Attac  
 39. Total refund of overpaid tax and refundable credit due to you. Att

**2024 CIT-1 (page 2)  
NEW MEXICO CORPORATE INCOME AND FRANCHISE TAX RETURN**

**FEIN**  
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1. Taxable income before NOL and special deductions (see CIT-1 instructions).  
 1a. Captive REIT deductions.  
 1b. Exempt entity deductions.
2. Interest income from municipal bonds, excluding New Mexico bonds.
3. Other additions to the base income of a unitary group (see CIT-1 instructions).
4. Subtotal of base income after additions. Add lines 1, 1a, 1b, 2 and 3.
5. Federal special deductions (from federal Form 1120, line 29b). Enter only a positive number.
6. Interest from U.S. government obligations or federally-taxed New Mexico bond.
7. Deduction for certain expenses related to a New Mexico licensed cannabis business.
8. Deductions for certain foreign dividends, Subpart F income, and GILTI (from CIT-C line 6).
9. Other subtractions to the base income of a unitary group (see CIT-1 instructions).
10. New Mexico net income or loss. Subtract lines 5, 6, 7, 8, and 9 from line 4.



	1.	
1a.		
1b.		
	2.	
	3.	
	4.	
	5.	
	6.	
	7.	
	8.	
	9.	
	10.	

**Taxpayer's Signature**  
 I declare that I have prepared this return, including accompanying schedules and statements  
 and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of  
 preparer other than taxpayer or an employee of the taxpayer is based on all information of  
 which preparer has any knowledge.  
 Signature of officer \_\_\_\_\_ Date \_\_\_\_\_  
 Title \_\_\_\_\_ Contact phone number \_\_\_\_\_  
 Taxpayer's email address \_\_\_\_\_

## Section 7-2A-2. Definitions

C. “base income” means the federal taxable income or the federal net operating loss of a corporation for the taxable year calculated pursuant to the Internal Revenue Code, after special deductions provided in Sections 241 through 249 of the Internal Revenue Code [*so-called special deductions including dividends received*] but without any deduction for net operating losses, as if the corporation filed a federal tax return as a separate domestic entity, modified as follows:

## Section 7-2A-2. Definitions

### C. “base income” (cont’d)

(1) adding to that income:

(a) interest received on a state or local bond exempt under the Internal Revenue Code;

(b) the amount of any deduction claimed in calculating taxable income for all expenses and costs directly or indirectly paid, accrued or incurred to a captive real estate investment trust;

(c) the amount of any deduction, other than for premiums, for amounts paid directly or indirectly to a commonly controlled entity that is exempt from corporate income tax pursuant to Section 7-2A-4 NMSA 1978; and

(d) for taxable years beginning on or after January 1, 2023, an amount equal to the amount of credit claimed and allowed for that year pursuant to Section 7-3A-10 NMSA 1978 with respect to the distributed net income of a pass-through entity;

## Section 7-2A-2. Definitions

### C. “base income” (cont’d)

(2) subtracting from that income:

(a) income from obligations of the United States net of expenses incurred to earn that income;

(b) other amounts that the state is prohibited from taxing because of the laws or constitution of this state or the United States net of any related expenses; and

(c) an amount equal to one hundred percent of the income of the corporation under Section 951A of the Internal Revenue Code, less the amount deducted pursuant to Section 250 of the Internal Revenue Code [*see discussion of international provisions below*];

## Section 7-2A-2. Definitions

### C. “base income” (cont’d)

(3) making other adjustments deemed necessary to properly reflect income of the unitary group, including attribution of income or expense related to unitary assets held by related corporations that are not part of the filing group; and

(4) for a taxpayer that conducts a lawful business pursuant to the laws of this state, excludes an amount equal to any expenditure that is eligible to be claimed as a federal income tax deduction but is disallowed pursuant to Section 280E of the Internal Revenue Code, as that section may be amended or renumbered;

## Section 7-2A-2. Definitions

M. “net income” means:

(1) the base income of a corporation properly filing a tax return as a separate entity; or

(2) the combined base income and losses of corporations that are part of a filing group that is computed after eliminating intercompany income and expense in a manner consistent with the consolidated filing requirements of the Internal Revenue Code and the Corporate Income and Franchise Tax Act;



## Section 7-2A-2. Definitions

B. "appportioned net income" or "appportioned net loss" means net income allocated and appportioned to New Mexico pursuant to the provisions of the Corporate Income and Franchise Tax Act or the Uniform Division of Income for Tax Purposes Act, but excluding from the sales factor any sales that represent intercompany transactions between members of the filing group;

## Section 7-2A-2. Definitions

X. "taxable income" means a taxpayer's apportioned net income minus the net operating loss deduction for the taxable year;

# What Does Conformity Mean?



**When the Internal Revenue Code changes, the changes will affect state taxes. And some changes may take effect immediately (see below).**



**Interpretation of IRC provisions by the IRS or courts will also affect state taxes.**



**The IRC contains around 3 million words and the regulations contain about 3 times more than that.**



**And it's all connected – so that provisions within the IRC reference other provisions.**

## **What tax provisions are in the OBBBA? (P.L. 119-21)**

**Bloomberg lists the changes by category – approx. 120 separate items—repealed, extended, added.**

**Credit provisions – 31 (which do not affect the NM tax system)**

**A number of provisions apply to compensation & benefits, estate & trust, or exempt organizations.**

# Important Individual Provisions

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## **Changes to IRC §63(c)(7)**

The standard deduction increase is made permanent — \$15,750 for individuals, \$23,625 for head of household, and \$31,500 for married filing jointly.

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## **New IRC §63(f)**

Creates a deduction for seniors (age 65 before the end of the taxable year) equal to \$6,000 reduced (not below zero) by 6% of AGI exceeding \$75,000 (\$150,000 joint).

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# Important Individual Provisions

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## Changes to IRC §68

Replaces the “Pease” limitation with a new restriction on itemized deductions for taxpayers in the highest (37%) tax bracket starting in 2026.

This change limits the tax reduction benefit of most itemized deductions to 35% (rather than 37%) for individuals in the top bracket.

The limitation explicitly excludes the Qualified Business Income (QBI) deduction under IRC 199A.

Also the state and local tax (SALT) deduction is subject to a separate limit.

So this change will primarily affect high-income taxpayers with significant charitable contribution deductions.

# Important Individual Provisions

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## **Extends and Amends IRC §170(p)**

Makes permanent the non-itemizer partial charitable contribution deduction and increases it to a maximum of \$1,000 (\$2,000 for joint returns). This deduction begins in 2026.

# Important Individual Provisions

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## Change to IRC §164(b)

This is the cap on the deduction for state and local taxes (SALT cap).

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It increases the cap to \$40,000 for 2025, adjusted upward for inflation, and then reverting to \$10,000 for 2030 and beyond.

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This higher limit is phased out at modified AGI amounts over \$500,000 for 2025 and adjusted upward for inflation—back down to the \$10,000 limit.

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## Note on the SALT Cap:

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When the federal government adopted an income tax, it provided a deduction for state and local taxes (including income and property tax) which it continued until 2017.

The SALT cap proponents in Congress said they did not like the fact that the federal government was effectively “subsidizing” state taxes.

But the SALT cap does not apply to pass-through businesses or corporations.

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## Note on the SALT Cap:

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After Congress passed the SALT Cap, most states adopted an elective entity-level tax on pass-through entities (PTEs).

Since the deduction for state tax is not capped for those entities, the partners/shareholders can effectively get the benefit of the deduction.

States then allow a partners/shareholders a credit for their share of entity tax to be taken against their own tax.

# Important Individual Provisions

## **Makes Permanent and Increases IRC §127(c)(1)(B)**

Employer Payments of Student Loans – Creates permanent \$5,250 exclusion for employer-provided student loan payments, indexed annually for inflation for taxable years beginning after 2026.

## **Makes Permanent and Amends IRC §163(h)(3)(F)**

- Mortgage Interest Deduction - Permanently restores the Home Mortgage Interest Deduction (HMID), which was scheduled to expire at the end of 2025. Retained the \$750,000 principal limitation.
- Allows the deduction of mortgage insurance premiums and acquisition indebtedness.
- Maintains the non-deductibility of interest on home equity loans. Interest on home equity loans on a primary residence continues to be nondeductible under the OBBBA.

## Important Individual Provisions

### New §163(h)(4) and §62(a)(22)

- Allows deduction of interest on loans to purchase an applicable passenger vehicle (excludes campers and RVs), with final assembly in the U.S.
- Limits the amount of interest taken into account to \$10,000, phased out by \$200 for every \$1,000 of the taxpayer's modified AGI in excess of \$100,000 for single filers or \$200,000 for joint filers.
- This provision applies to loans taken beginning in 2025.

# Important Individual Provisions

## **IRC §224 and §63(b)(5)**

Creates deduction of up to \$25,000 for qualified tips for individuals in traditionally and customarily tipped industries. Excludes highly compensated employees by phasing out deduction for joint filers with AGI over \$300,000 (\$150,000 for others). The deduction is available to both itemizers and non-itemizers. This deduction takes effect for 2025.

## **New IRC §225 and §63(b)(6)**

Creates a deduction for qualified overtime compensation (not including qualified tips) beginning in 2025 through 2028. Limits the deduction to \$12,500 of qualified overtime income (\$25,000 for joint returns). The deduction available to itemizers and non-itemizers.

## Note on deduction for tips and overtime:

Because these deductions are listed in IRC §63(b), they will presumably not meet the definition of itemized deductions and will therefore not be taken into account in computing “net income” for New Mexico under NMSA 7-2-2(N).

# Some Other Individual Tax Provisions

## Repealed or Phased Out:

Residential Clean Energy Credit

Previously-Owned Clean Vehicle Credit

Clean Vehicle Credit

New Energy Efficient Home Credit

Bicycle Commuting Reimbursement

# Important Business Provisions

## **Extends and Amends IRC §179(b)**

Taxpayers can expense up to \$2.5 million in amounts paid for qualifying assets beginning in 2025. This expensing will be phased out for expenditures above \$4 million.

## **Addition to IRC §142**

Spaceports are now included under the rules for exempt facility bonds. The provisions define a spaceport and add rules for the treatment of ground leases for spaceport property on land leased by a governmental unit and creates an exception from the limitation for federally guaranteed bonds. This applies effective July 4, 2025.



# Important Business Provisions

## Changes to IRC §163(j)

A number of changes may affect the calculation of the limit on business interest deductions—some taking effect in 2025 which will raise the base, and the limit, and others taking effect in the following years which may have the effect of lowering the limit. The changes also affect capitalized interest.

## Adding IRC §168(n) and §1245(a)(3)(G)

This provision allows 100% bonus depreciation for qualified production property which includes nonresidential real property used in manufacturing, agricultural or chemical production, or refining of a “qualified product.” This deduction can be claimed for property purchased on or after July 4, 2025.

# Important Business Provisions

## **Extension of IRC §168(k) and §460(c)(6)(B)**

This creates a permanent 100% depreciation (immediate expensing) deduction for certain property and allows taxpayers to elect 40% or 60% bonus depreciation for qualified property placed into service starting in 2025. Qualified property includes most new and used tangible personal property with a recovery period of 20 years or less, such as vehicles, furniture, machinery, computers, and equipment, and also includes certain real property, computer software, and film and television productions.

# Important Business Provisions

## Adding IRC §168(n) and §1245(a)(3)(G)

This provision allows 100% bonus depreciation for qualified production property which includes nonresidential real property used in manufacturing, agricultural or chemical production, or refining of a “qualified product.” This deduction can be claimed for property purchased on or after July 4, 2025.

# Important Business Provisions

## **Extends and Amends IRC §174(e) and §174A**

Makes permanent the immediate expensing of domestic research and experimental expenditures, with an election to amortize certain expenditures. Any amount paid or incurred in connection with the development of any software is treated as an R&D expenditure. Does not apply to certain expenditures for the acquisition or improvement of land or property, or exploration expenditures. This takes effect in 2025.

# Changes Affecting Multi-National Entities (MNEs)



## Background:

- The federal tax system has long been based on international tax rules embodied in tax treaties (which the states are not bound by).
- These international rules, developed long before the economy was global, are based on two traditional assumptions:
  - The country where an entity is formed has the primary right to tax its income.
  - Other countries may tax the entity's income only to the extent it is connected with its place of business in that country.

# Changes Affecting Multi-National Entities (MNEs)



## Background (cont'd):

- Even if the entity is a member of a group conducting a single business, the entity's income may not be taxed if it has no presence of its own.
- And because members of a group may engage in transactions with each other, this creates the possibility of artificial “income shifting” to more avoid tax and has led to the adoption of extremely complex transfer-pricing rules.
- The rise in value of intangible assets which are easily moved off-shore has made this problem much worse.

# Changes Affecting Multi-National Entities (MNEs)



## Background (cont'd):

- In addition to transfer-pricing rules, the international income sourcing rules are complex and look to the nature of each transaction to source items of income to the country where they are deemed to be primarily connected.
- Some general income and expense may then be sourced based on the items of income that are sourced directly to a country—using allocation rules.

# Changes Affecting Multi-National Entities (MNEs)



## Background (cont'd):

- Congress has long had special sourcing rules for certain investment income which is easy to shift overseas and which may generate certain excess profits.
- This income is generally referred to as “Subpart F” income (referencing the IRC), and is included in domestic income.
- In 2024, NM enacted a provision to include this income in its base, as well.



# Changes Affecting Multi-National Entities (MNEs)



## Background (cont'd):

- States have long viewed the international system as unworkable (and so use formulary apportionment), but have agreed to follow the federal determination of domestic income subject to tax.
- In the last decade, the OECD and other international groups have tried to solve the problem of income-shifting.
- One element of that solution is the so-called required “minimum tax.”

# Changes Affecting Multi-National Entities (MNEs)



## Background (cont'd):

- In 2017, under the TCJA, Congress adopted provisions to over-ride the traditional sourcing rules and to make certain excess un-taxed profits domestic income.
- The system was called Global Intangible Low-Taxed Income, or GILTI.
- Those provisions have been amended by the OBBBA—retaining and tweaking the approach—which the administration asserts meets the minimum tax requirement.

# Changes in GILTI

## **New NCTI and FDDEI under IRC §§ 951A and 250**

- Foreign entities that are part of the calculation of the base have been modified to address ownership structures that might otherwise avoid the tax.
- Calculation of the base is not limited to excess over certain foreign plant and equipment.
- Deduction provided to reduce the base amount was reduced from 50% to 40%.
- The credit for foreign taxes paid, associated with this income, was raised from 80% to 90%.

# Other International Provisions

## **Base Erosion & Anti-Abuse Tax (BEAT) §59A(b) §59A(e)(1)(C)**

- This tax also addresses international income shifting.
- It targets domestic MNEs and groups making excessive deductible payments to foreign affiliates.
- These payments can include interest, royalties, and certain service payments. BEAT imposes a minimum tax on a modified taxable income that includes these "base erosion payments" back into the tax base.
- The OBBBA retains the tax on Makes 10.5% the new permanent BEAT core rate beginning in 2026 (and retains the current 1% increase for banks and certain financial entities).

# What was **NOT** in the bill.

- Provisions restricting the use of pass-through entity taxes as a workaround to the SALT cap were introduced in the House but removed in the Senate.
- The House bill would have expanded the existing federal preemption of state income taxes on out-of-state businesses that sell tangible personal property into the state. (So-called P.L. 86-272 limitations passed in 1959.)

# What was **NOT** in the bill.

- Changes that have been proposed to fix some of the problems with taxation of partnership income which has been the focus of some in Congress and academia.

# Other Issues to Watch

- Private partnerships and their complexity and income continue to grow.
- Digital assets including crypto-currency are having effects on the economy and international regulation.
- The ability of the IRS to deal with all this is affected by:
  - Increased litigation challenging tax regulations.
  - Backlogs in federal courts.
  - Significant shrinking in IRS workforce (25%).

# Other Issues to Watch

- From the Budget Lab at Yale - a non-partisan policy research center dedicated to providing in-depth analysis of federal policy proposals:
  - Additional revenue for the IRS generally generates more revenue than it costs through improved enforcement, particularly focusing on high-income individuals and corporations. The additional funding increases revenue by increasing the efficiency of the service and helping to close the "tax gap" - the difference between taxes legally owed and taxes collected, which currently totals around \$700 billion per year.



# Other Issues to Watch

- More from the Budget Lab at Yale:
  - The Budget Lab estimates that the expansion of funding (\$80 billion) for the IRS in the Inflation Reduction Act (IRA) would have led to a net revenue increase of \$637 billion over the full 10-year budget window.
  - If the IRS shrinks by 50% (a workforce decrease of about 50,000 people), we estimate that this significant reduction in IRS staffing and resulting IRS capacity to collect revenues would result in \$395 billion (\$350 billion net) forgone revenue over the 10-year budget window.
  - If the lack of IRS resources leads to a substantial increase in noncompliance, net forgone revenue could rise by \$2.4 trillion over 10-years.

# Thank you.

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Any questions are welcomed.