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## The Role of Taxes in Economic Development

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### Background on New Mexico's Business Taxes

- In 2022, according to the tax foundation, New Mexico has the 12<sup>th</sup> most competitive corporate taxes. Sales tax rankings are lower for New Mexico, ranking 35<sup>th</sup> nationally, though that ranking jumped 6 positions in 2022 from 2021 due to the GRT rate decrease.
- Personal income taxes ranked 36<sup>th</sup> in the country. New Mexico property taxes ranked 1<sup>st</sup> in the country.
- When determining a business location, research and local surveys indicate business taxes rank lower than other considerations like highway accessibility, availability of skilled labor, and quality of life.<sup>1</sup> Taxes, while important, are usually less critical than these factors in business location decisions.

### Taxes and Economic Development Incentives Impact on Businesses

- Research suggests a 10 percent reduction in state and local business taxes will increase the long-run business activity and employment in a state by about 5 percent. This is rarely sufficient to offset the loss of revenue from the business tax reduction.<sup>2</sup>
- Tax expenditures for economic development reduce the state's ability to pay for services, as the dollar is either spent through the tax code or through the budget process. Because of this opportunity cost, comparing tax incentives with other budget priorities is necessary to determine best use. For example, education and other human capital investments are also likely to have a positive long-term return on investment, assuming effective implementation, and should be considered when contemplating tax policy for economic gain.
- Though business incentives are likely less effective than investments in other government services, spending faces capacity constraints and diminishing returns. Some research suggests large, up-front business incentives are the most effective at attracting businesses. This one-time spending might be an appropriate use of windfall revenues associated with oil and gas activity. In contrast, human capital investments require a recurring commitment to be effective and equitable.

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<sup>1</sup> Driving New Mexico's Future; Empowering a Competitive Economy in a Post-Pandemic World, 2020, NM Chamber of Commerce

<sup>2</sup> Suárez Serrato and Zidar, 2016, "Who Benefits from State Corporate Tax Cuts? A Local Labor Market Approach with Heterogenous Firms." American Economic Review 2016, 106(9): 2582–2624. <http://dx.doi.org/10.1257/aer.20141702>