



# Tax Expenditure Assessment (Tax-E) Introduction and Status Update

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Presented to the Revenue Stabilization and Tax  
Policy Committee

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Motivation



Terms & Definitions

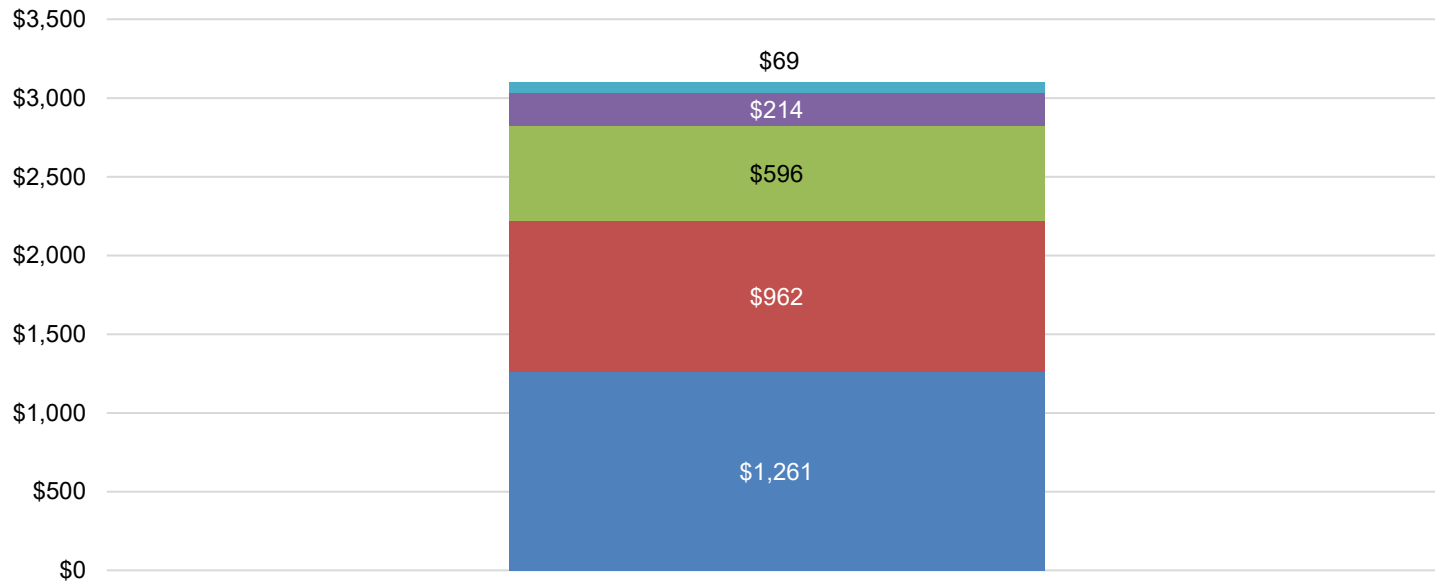


Status Update



# Tax expenditures make up a large share of the state budget

**FY24 Tax Expenditures**  
(millions)



Note: amounts do not match the TER because of differing classifications of a tax expenditure.

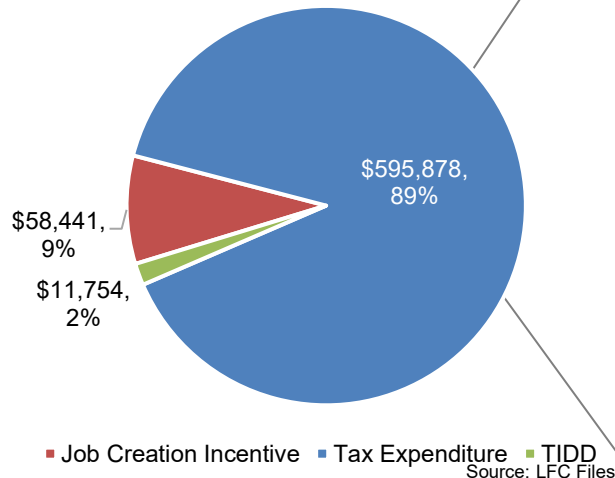
- Citizen Benefits
- Economic Development
- Environment, Conservation & Renewable Energy
- Healthcare
- Highly Specialized Industry

Source: LFC Analysis of TRD TER



# Tax expenditures comprise most of economic development investments

**Recurring Economic Development Investments by Type FY24**  
(thousands)



**FY24 State Economic Development Tax Expenditures**  
(in thousands)

Tax Expenditure	Expenditure	Share of Total
Sales to manufacturers GRT deduction	\$200,788	33.7%
Manufacturer's CIT apportionment	\$104,401	17.5%
Film tax credit	\$102,166	17.1%
Sales of services to manufacturing	\$84,098	14.1%
LEDA GRT distributions	\$23,084	3.9%
Medical supplies GRT deduction	\$19,600	3.3%
Directed energy and satellites GRT deduction	\$14,039	2.4%
● Technology jobs & R&D credit	\$11,191	1.9%
● High-wage jobs tax credit	\$11,185	1.9%
Aircraft sales GRT deduction	\$4,273	0.7%
Sale of software development services GRT deduction	\$3,673	0.6%
Investment credit	\$3,615	0.6%
● Lab partnership with small business tax credit	\$2,300	0.4%
Sales to state-chartered credit unions deduction	\$2,102	0.4%
Future distribution from an estate or trust to a nonresident beneficiary deduction	\$1,852	0.3%
Apportionment election of CIT for headquarters	\$1,657	0.3%
Hosting worldwide websites deduction	\$1,480	0.2%
Jet fuel GRT deduction	\$1,347	0.2%
Angel investment PIT credit	\$875	0.1%
Investment management and advisory services GRT deduction	\$700	0.1%
● Rural job tax credit	\$637	0.1%
Small business Saturday GRT deduction	\$542	0.1%
Border zone trade-support companies GRT deduction	\$180	<0.1%
● Technology readiness GRT credit	\$93	<0.1%
<b>Total</b>	<b>\$595,878</b>	

Source: LFC Files

● Denotes an assessment has been completed.



# Tax Expenditure Key terms

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**A tax expenditure** is preferential tax treatment that costs the state money.

Examples include:

- *Credits*: dollar-for-dollar amounts taxpayer's claim on their tax return to reduce the tax they owe.
  - Child tax credit: a refundable credit for taxpayers with children equal to between \$25 and \$600 depending on income.
- *Exemptions*: provisions that eliminate a taxpayer's obligation to register, report, and/or pay.
  - Low- and middle-income taxpayers' exemption from PIT: taxpayers with incomes under either \$36,667 (single) or \$55,000 (married) may exempt some income that they would pay tax on.
- *Deductions*: provisions that reduce liability by eliminating certain transactions or income from amounts taxpayers are required to report
  - Dependent deduction from PIT for certain dependents: taxpayers may claim an up to \$4,000 deduction if they meet dependent requirements.



# Tax expenditure assessments have a narrow scope, with opportunity for future work

## **Tax Expenditure Assessments contain:**

- Trends in expenditures and claims
- Analysis of fiscal and economic impact:
  - Economic return on investment (ROI)
  - Return in revenue
- Whether the credit meets tax policy best practices
  - Purpose statement
  - Design elements

Provides snapshot of what the state is getting for its investment

## **What Tax Expenditure Assessments do not contain:**

- Recommendations
- Cost-benefit analysis
- State comparisons
- Causal analysis

Potential opportunities for future study



# Economic and Fiscal Impact Terminology

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## **Return in revenue**

- Reflects how much state revenue increases over a 20-year period because of the state's investment in a tax expenditure after accounting for the costs of the expenditure
- A negative return in revenue means the increase in revenue is not greater than the cost of the expenditure.
- A -25% return in revenue means that for every \$1 spent, the state forgoes 25 cents and recovers 75 cents.

## **Economic Return on investment (ROI)**

- Reflects the increase in state GDP over a 20-year period because of the growth in the economy after accounting for the costs of the expenditure
- A 25% return on investment means that for every \$1 spent, the state economy grows by 25 cents.



# Economic and Fiscal Impact Terminology

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## **Cost-Benefit Analysis (CBA)**

- A policy assessment method that quantifies, in monetary terms, the value of all consequences of a policy to the public.
- Useful in comparing apples-to-apples across policy areas.
- Considers all lifetime benefits and costs, including opportunity costs, over a decades-long horizon.

## **Tax Expenditure Assessments do not contain a CBA**

- As a result, Tax Expenditure Assessments do not make statements on whether an expenditure is “worth” or “not worth it,” but provide a program inventory.
- CBA is the gold standard for answering these types of questions and staff can begin to develop them for future analysis.





# What do these reports specifically assess?

**Example Tax-E Summary Table**

<b>FY24 Tax Expenditure</b>	\$5M
<b>FY24 Number of Claims</b>	100
<b>Jobs Created</b>	200
<b>Economic ROI</b>	50%
<b>Return in Revenue</b>	-50%
<b>Usage Trends</b>	
1-Year Change	+10%
3-Year Average Change	-15%
<b>Meets Purpose</b>	●
<b>Design</b>	
Has expiration date	●
Has expenditure cap	○
Targets distressed areas	●
Targets export-based industry	●
<b>Data Availability</b> <i>Are requirements being met?</i>	○
<b>Data Reliability</b> <i>Is data reported separately?</i>	●

From TRD's Tax Expenditure Report

Calculated using REMI, an economic modeling software

Trend in claims over time

Is there a purpose statement? Is the purpose being met?  
Considers usage, jobs created, etc.

Based on LFC tax policy & tax expenditure policy principles and best practices criteria for assessing tax expenditures



# Status Update on Tax-E Reports Summary

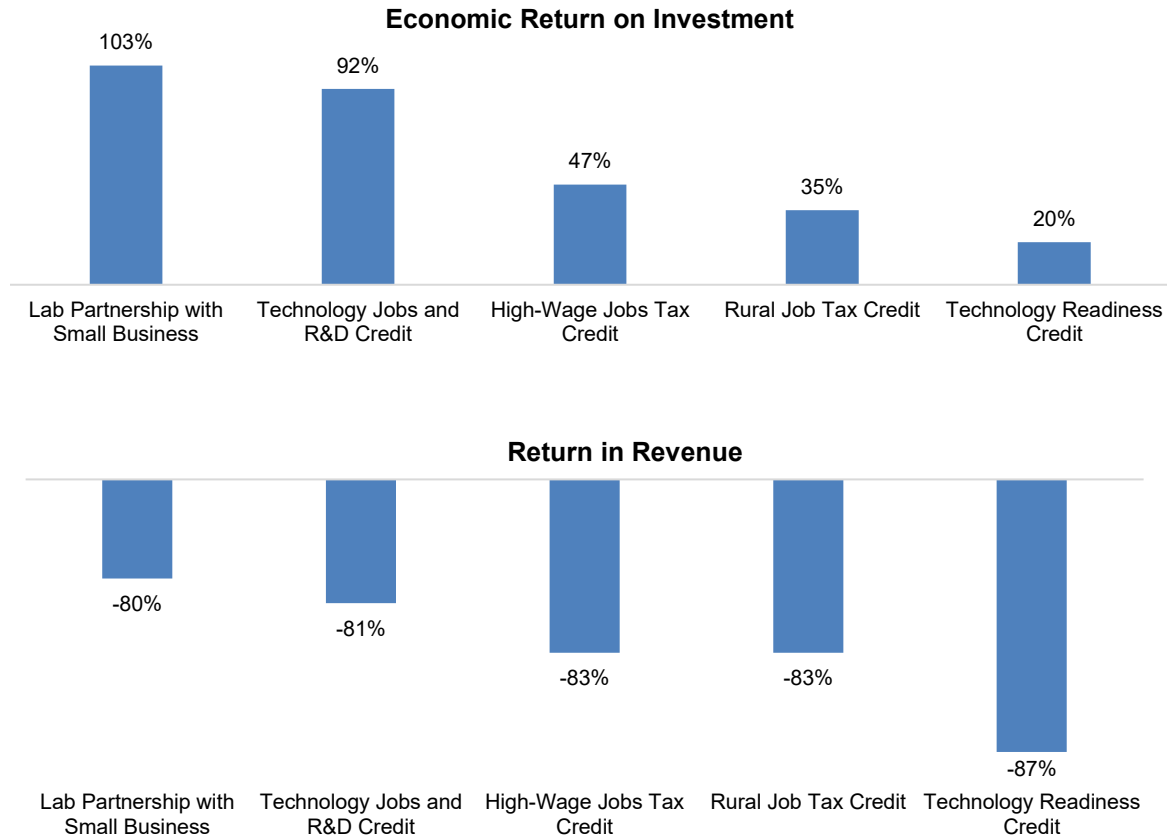
<b>Expenditure</b>	<b>Description</b>	<b>FY24 Expenditure (thousands)</b>
High-Wage Jobs Tax Credit	The high-wage jobs tax credit is an incentive for businesses to create and fill new high-wage jobs.	\$11,185
Rural Job Tax Credit	The rural job tax credit provides an incentive to businesses adding jobs in rural areas.	\$637
Technology Jobs and R&D Credit	The technology jobs and research and development tax credit is an incentive for technology-based businesses with research and development expenditures.	\$11,191
Laboratory Partnership with Small Business Credit	The laboratory partnership with small business tax credit is an incentive the state's national laboratories to provide free services to small businesses.	\$2,300
Technology Readiness Credit against GRT	The technology readiness credit against GRT encourages the state's national laboratories to assist businesses in achieving technology maturation.	\$93

Source: LFC Files



# Status Update on Tax-E Reports

## Economic Impact



Results presented for tax expenditure assessments completed through August 14.

Source: LFC Files



# Status Update on Tax-E Reports

## Design Elements

Expenditure	Has expiration date	Has expenditure cap	Targets distressed areas	Targets export-based industry	Meets Purpose
High-Wage Jobs Tax Credit	●	○	◐	●	●
Rural Job Tax Credit	○	○	◐	●	◐
Technology Jobs and R&D Credit	○	○	◐	●	●
Laboratory Partnership with Small Business Credit	○	●	◐	◐	●
Technology Readiness Credit against GRT	●	●	○	●	◐

Key

- Yes
- ◐ Partially
- No

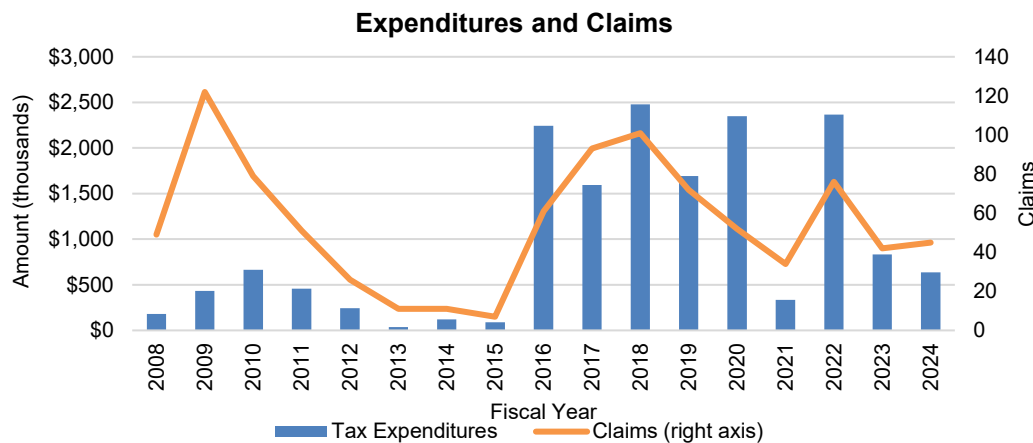
Source: LFC Files



# Status Update on Tax-E Reports

## Rural Job Tax Credit

**Description:** The rural job tax credit was first enacted in 2007 to encourage business expansion in rural areas of the state. It provides a tax credit to businesses eligible for the Job Training Incentive Program equal to either 12.5 percent or 25 percent of up to \$16,000 in wages per qualifying job, depending on the area’s population.



Source: TRD

Find the full assessment [online](#) on the LFC Revenue, Economic Reports & Tax Policy landing page.



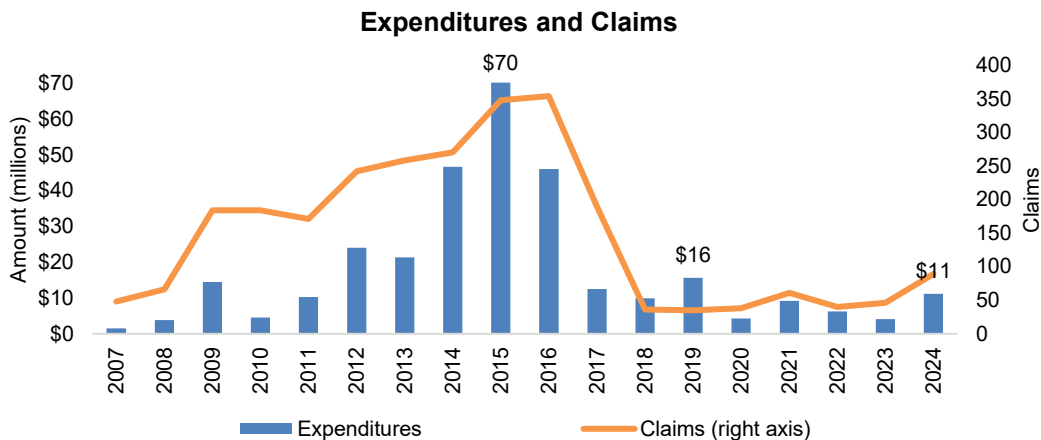
<b>FY24 Tax Expenditure</b>	\$0.6M
<b>FY24 Number of Claims</b>	45
<b>Jobs Created</b>	20
<b>Economic ROI</b>	35%
<b>Return in Revenue</b>	-83%
<b>Usage Trends</b>	
1-Year Change	-23%
3-Year Average Change	-41%
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<b>Design</b>	
Has expiration date	<input type="radio"/>
Has expenditure cap	<input type="radio"/>
Targets distressed areas	<input checked="" type="radio"/>
Targets export-based industry	<input checked="" type="radio"/>
<b>Data Availability</b> <i>Are requirements being met?</i>	<input checked="" type="radio"/>
<b>Data Reliability</b> <i>Is data reported separately?</i>	<input checked="" type="radio"/>

Source: LFC Files

# Status Update on Tax-E Reports

## High-Wage Job Tax Credit

**Description:** The high-wage jobs tax credit, provides a refundable tax credit to businesses eligible for the Job Training Incentive Program equal to 8.5 percent of wages up to \$12,750 for a newly enacted high-wage job, defined as a job with wages of over \$60 thousand in urban communities (population over 60 thousand people), and \$40 thousand in rural communities, that are filled for 44 consecutive weeks.



Source: TRD

Find the full assessment [online](#) on the LFC Revenue, Economic Reports & Tax Policy landing page.



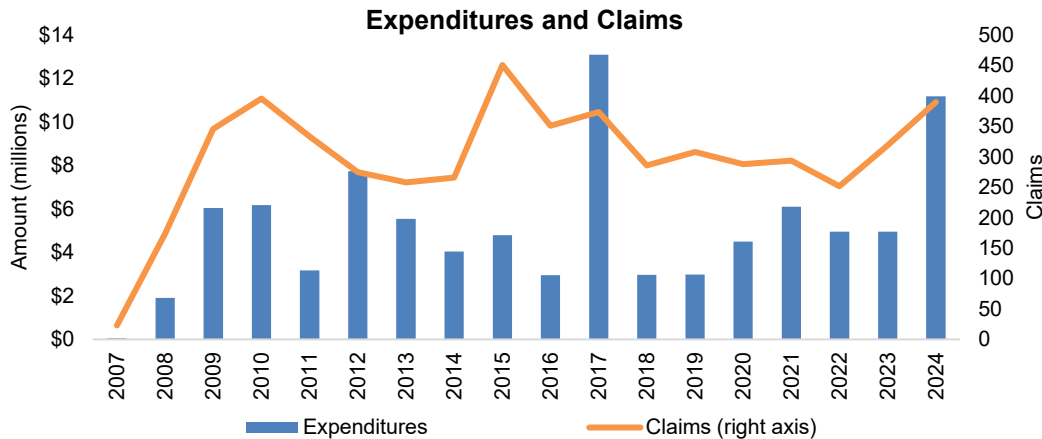
<b>FY24 Tax Expenditure</b>	\$11.2M
<b>FY24 Number of Claims</b>	89
<b>Jobs Created</b>	135
<b>Economic ROI</b>	47%
<b>Return in Revenue</b>	-83%
<b>Usage Trends</b>	
1-Year Change	+170%
3-Year Average Change	-26%
<b>Meets Purpose</b>	●
<b>Design</b>	
Has expiration date	●
Has expenditure cap	○
Targets distressed areas	◐
Targets export-based industry	●
<b>Data Availability</b> Are requirements being met?	●
<b>Data Reliability</b> Is data reported separately?	●

Source: LFC Files

# Status Update on Tax-E Reports

## Technology Jobs & Research Development Credit

**Description:** The technology jobs and research and development tax credit is an incentive for technology-based businesses engaged in research and development. The incentive offers a credit of up to 5 percent (10 percent in rural areas) and is partially refundable based on total expenditures.



Source: TRD

Find the full assessment [online](#) on the LFC Revenue, Economic Reports & Tax Policy landing page.



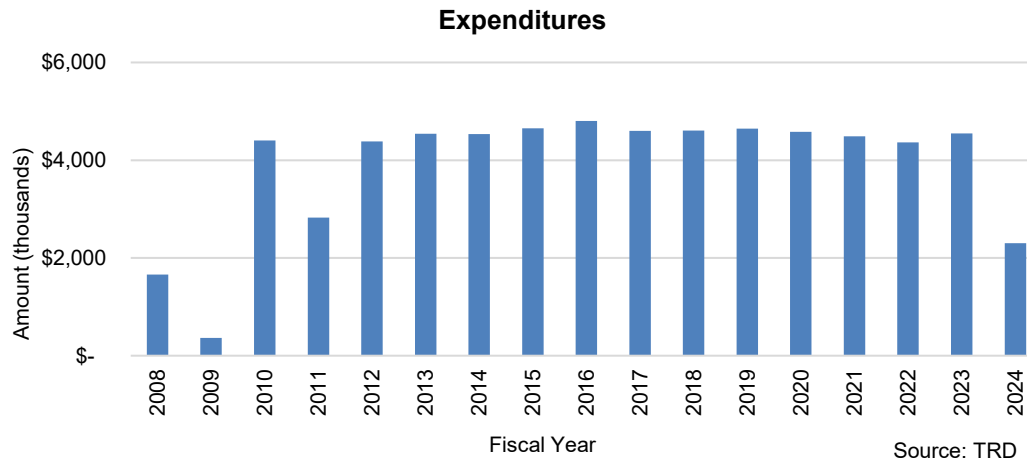
<b>FY24 Tax Expenditure</b>	\$11.2M
<b>FY24 Number of Claims</b>	390
<b>Jobs Created</b>	165
<b>Economic ROI</b>	92%
<b>Return in Revenue</b>	-81%
<b>Usage Trends</b>	
1-Year Change	125%
3-Year Average Change	55%
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<b>Design</b>	
Has expiration date	<input type="radio"/>
Has expenditure cap	<input type="radio"/>
Targets distressed areas	<input checked="" type="radio"/>
Targets export-based industry	<input checked="" type="radio"/>
<b>Data Availability</b>	<input checked="" type="radio"/>
Are requirements being met?	<input checked="" type="radio"/>
<b>Data Reliability</b>	<input checked="" type="radio"/>
Is data reported separately?	<input checked="" type="radio"/>

Source: LFC Files

# Status Update on Tax-E Reports

## Laboratory Partnership with Small Business Credit

**Description:** The laboratory partnership with small business tax credit was first enacted in 2000 to bring the technology and expertise of the national laboratories to small businesses; it provides a credit of between \$20 and \$40 thousand (for urban and rural) per business served for the value of its free technical services provided.



Find the full assessment [online](#) on the LFC Revenue, Economic Reports & Tax Policy landing page.



<b>FY24 Tax Expenditure</b>	\$2.3M
<b>FY24 Number of Claims</b>	2
<b>Jobs Created</b>	45
<b>Economic ROI</b>	103%
<b>Return in Revenue</b>	-80%
<b>Usage Trends</b>	
1-Year Change	-49%
3-Year Average Change	-18%
<b>Meets Purpose</b>	<input checked="" type="radio"/>
<b>Design</b>	
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Has expenditure cap	<input checked="" type="radio"/>
Targets distressed areas	<input type="radio"/>
Targets export-based industry	<input type="radio"/>
<b>Data Availability</b>	
Are requirements being met?	<input checked="" type="radio"/>
<b>Data Reliability</b>	
Is data reported separately?	<input checked="" type="radio"/>

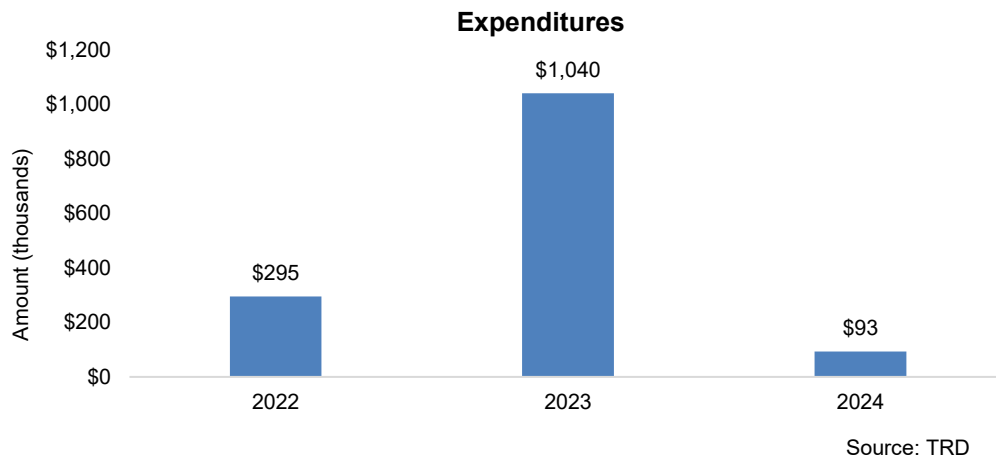
Source: LFC Files



# Status Update on Tax-E Reports

## Technology Readiness Credit

**Description:** The technology readiness credit against GRT, commonly known as TRGR, was created in July 2020 as a partnership between New Mexico and the Sandia and Los Alamos national laboratories to help companies leverage laboratory research capabilities. It provides a tax credit equal to the value of technical services offered to a small business, up to \$150 thousand per business.



Find the full assessment [online](#) on the LFC Revenue, Economic Reports & Tax Policy landing page.



<b>FY24 Tax Expenditure</b>	\$0.09M
<b>FY24 Number of Claims</b>	2
<b>Jobs Created</b>	<10
<b>Economic ROI</b>	20%
<b>Return in Revenue</b>	-87%
<b>Usage Trends</b>	
1-Year Change	-91%
3-Year Average Change	NA
<b>Meets Purpose</b>	<input checked="" type="radio"/>
<b>Design Elements</b>	
Has expiration date	<input checked="" type="radio"/>
Has expenditure cap	<input checked="" type="radio"/>
Targets distressed areas	<input type="radio"/>
Targets export-based industry	<input checked="" type="radio"/>
<b>Data Availability</b> Are requirements being met?	<input checked="" type="radio"/>
<b>Data Reliability</b> Is data reported separately?	<input checked="" type="radio"/>

Source: LFC Files

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# QUESTIONS?



# Appendix: LFC Tax Policy Principles

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- **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



# Appendix: LFC Tax Expenditure Policy Principles

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- **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.



# Appendix: REMI Model Overview

## REMI Model Linkages

