

# New Mexico 2025 Tax Expenditure Report

Presented to the  
Revenue Stabilization and Tax Policy Committee

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# What is a Tax Expenditure Report?

- Tax expenditure reports (TER) describe areas where the tax code provides for preferential tax treatment of a certain activity
- The TER includes an estimate of revenue foregone because of the preferential tax treatment due to:
  - Credits
  - Deductions
  - Exemptions
  - Preferential tax rates
- Every dollar of revenue foregone is a dollar that cannot be appropriated or added to reserves
- State appropriations are rigorously evaluated and reprioritized annually; tax expenditures should be similarly revisited
- TERs are important transparency tools that allow State policymakers, advocacy groups, and the public an opportunity to regularly evaluate the State's tax code

# New Mexico's Tax Expenditure Report

- An annual TER has been produced by Tax & Rev since 2012
- 2023 legislation requires TER in statute (7-1-84 NMSA 1978)
- Format has evolved over time
  - Separately identifies each “deviation” from the tax base
  - Categorizes each deviation as a tax expenditure, non-tax expenditure, or “arguable”
  - Provides a description of each expenditure, the statutory reference, purpose, amendment history, estimated cost, evaluation, and recommendations
  - Tax & Rev constantly seeks to improve cost estimates
  - Categorizes each expenditure as existing for citizen benefit, economic development, environment, highly-specialized industries, or health care
- Reports can be found at [www.tax.newmexico.gov](http://www.tax.newmexico.gov), then under Forms & Publications, Publications, Tax Expenditure Reports

# What are the Differences? Exclusions

- Exclusions – amounts of gross receipts, gross income, or other amount that is removed to define the tax base
  - For gross receipts tax, taxpayers exclude certain amounts to derive their “gross receipts” on which tax is imposed
  - Taxpayers exclude certain amounts of their “base income” to derive “net income” on which tax is imposed. § 7-2-2(N)
  - The property tax excludes personal property and has a 3% limit on annual value growth on residential property

# What are the Differences? Exemptions

- Exemptions – usually eliminate a taxpayer’s obligation to register, report, and pay tax
- Tax & Rev does not have visibility into income or receipts that are exempt because they are not reported on a tax return
- Exemptions can hinge on the nature or character of the taxpayer. For example:
  - Insurance companies are exempt from CIT because they pay premium tax
  - Nonprofits and disabled street vendors are exempt from GRT
  - Active-duty armed forces salaries and persons over 100 years of age are exempt from PIT
  - Certain disabled military veterans are exempt from motor vehicle excise tax
- Exemptions can hinge on the nature of the transaction. For example:
  - Commercial vehicles operating within 10 miles of the Mexico border are exempt from weight distance tax and trip tax
  - Receipts from sale and use of vehicles on which motor vehicle excise tax is imposed are exempt from GRT and compensating tax
- Generally, if the exemption is full and applies to the nature of the taxpayer, or if a taxpayer solely engages in exempt transactions, there is no registration or filing obligation

# What are the Differences? Deductions

- Deductions - reduce tax liability by making certain transactions or income reported on returns deductible from taxable receipts/income
- Deductions and exemptions have the same effect on a taxpayer's tax liability, but differ in taxpayer reporting obligations
- Deductions lower the tax base before calculating tax due
  - For GRT, taxpayers report a gross amount of receipts, then subtract the amount of the receipts that are deductible to compute taxable gross receipts
  - Some deductions are combined on a return; others are separately reported
  - Many GRT deductions statutorily require the seller to be in possession of a Nontaxable Transaction Certificate (NTTC) or alternative evidence at the time the return is due for the receipts from the transactions or within sixty days of a Tax & Rev audit notice
- Examples
  - Back-to-School Tax-Free Weekend GRT receipts deduction
  - 40% capital gains deduction from PIT
  - Food for home consumption GRT deduction
  - Health care practitioner services GRT deduction
  - Sale of prosthetic devices GRT deduction

# What are the Differences? Credits

- Credits – reduce a taxpayer’s tax liability dollar for dollar
  - Many credits require an application and approval from either Tax & Rev or another certifying agency before the credit is allowed
  - Where deductions and exemptions apply to one tax program, credits can offset tax liabilities across several tax programs
  - Some credits can be transferrable
  - Some credits can be refundable or carried forward to future tax years if the amount of the credit exceeds the taxpayer’s tax liability
  - Examples:
    - Working families tax credit for PIT
    - Angel investment PIT credit
    - Child care to prevent indigency PIT credit
    - Film tax credit against CIT and PIT
    - High-wage jobs credit against modified combined tax
    - Investment credit against GRT, Comp Tax, Withholding
    - Rural health practitioner PIT credit

# Baseline System of Taxation

- Any tax program or baseline system of taxation is the application of a “tax rate” multiplied by a “tax base”
  - Common tax bases for New Mexico tax programs:
    - “Gross receipts” from sales of property or services or the “purchase value” of property (GRT/Comp)
    - “Net income” (CIT/PIT)
    - “Taxable value” (Severance-related taxes)
    - A percentage of “fair market value” for locally assessed property taxes
  - “Tax rate” is simply a percentage applied to the tax base



# Tax Expenditures Must be a Deviation from the Tax Base

- Exclusions to derive the tax base are not considered deviations and are not considered tax expenditures
- Deviations can occur for many reasons:
  - “In lieu of” taxation
  - US constitutional prohibition or federal pre-emption
  - Government-to-government comity
  - To “true” a tax base – anti-pyramiding, bad debts
  - To provide special or preferential treatment to achieve a policy objective

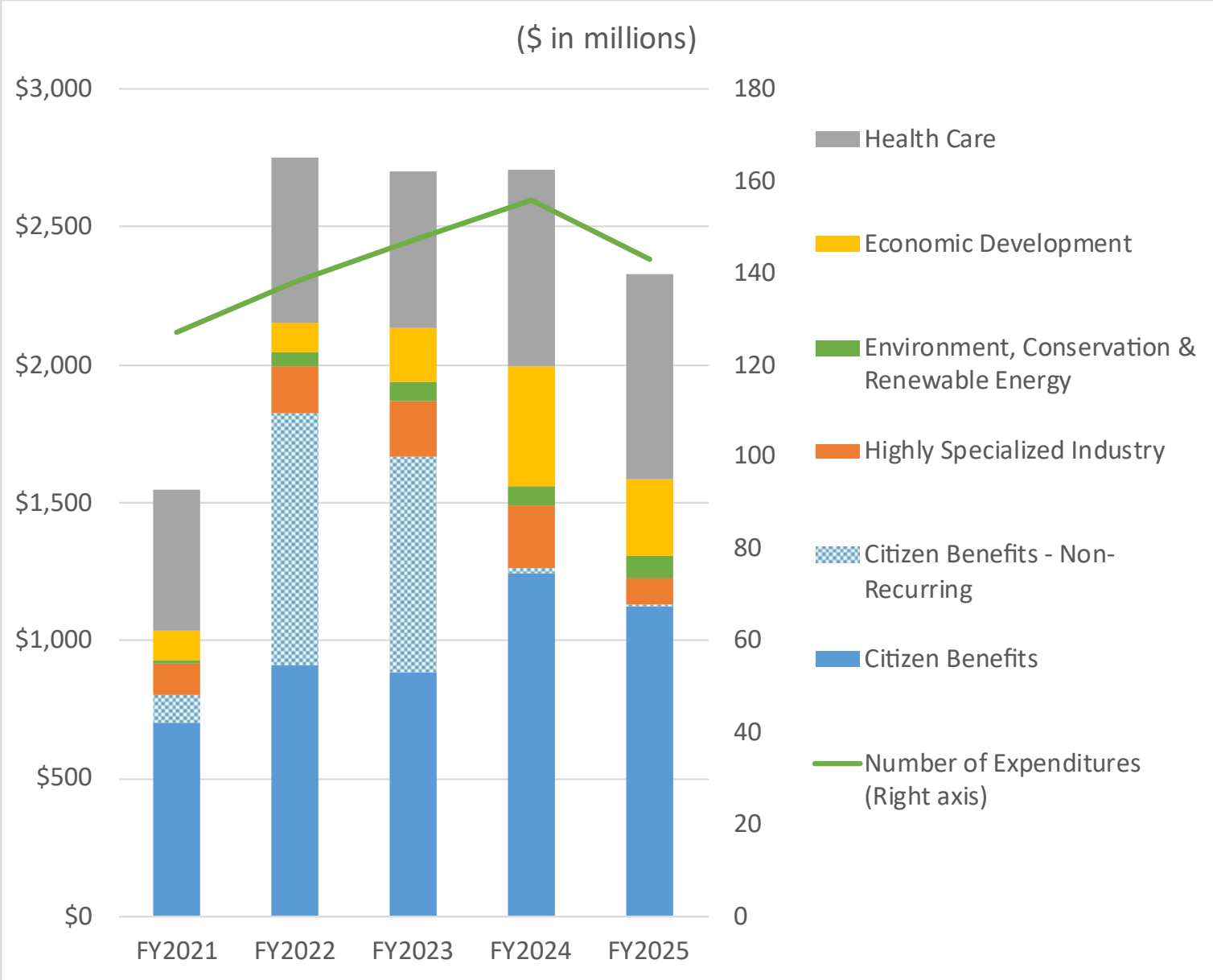
# Tax Expenditures Must Convey Special Treatment

- Special treatment is typically evidenced by a policy choice regarding:
  - Benefitting a subset of the tax base
  - Benefitting a subset of the population or
  - Both
- Policy choices:
  - To benefit all, or a specific subset, of citizens
  - To induce economic development
  - To induce conservation
  - To aid specific industries
  - To encourage or discourage certain behaviors or activities, particularly related to health

# Tax Expenditure Categories

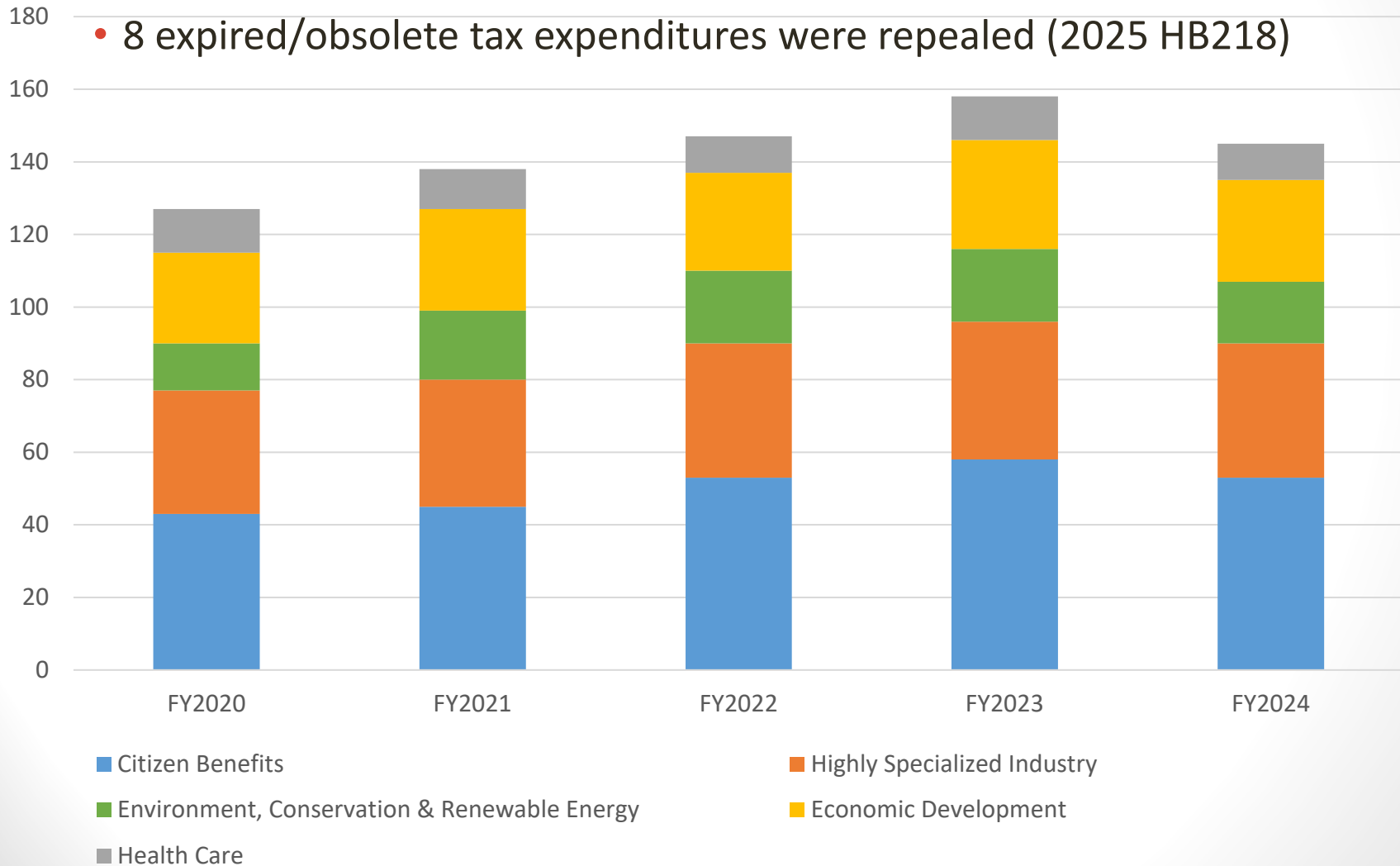
- Citizen Benefits: benefit all taxpayers or specific population (low-income, disabled, etc.), lessen the burden of taxation
- Economic Development: stimulate investment, job creation or job retention, attract industries
- Environment, Conservation, and Renewable Energy: support environmental health, promote conservation and renewable energy
- Health Care: increase access to or lower costs of health care
- Highly Specialized Industries: target specific or highly specialized industries

# Tax Expenditures by Category (\$ in thousands)







# Number of Tax Expenditures by Category

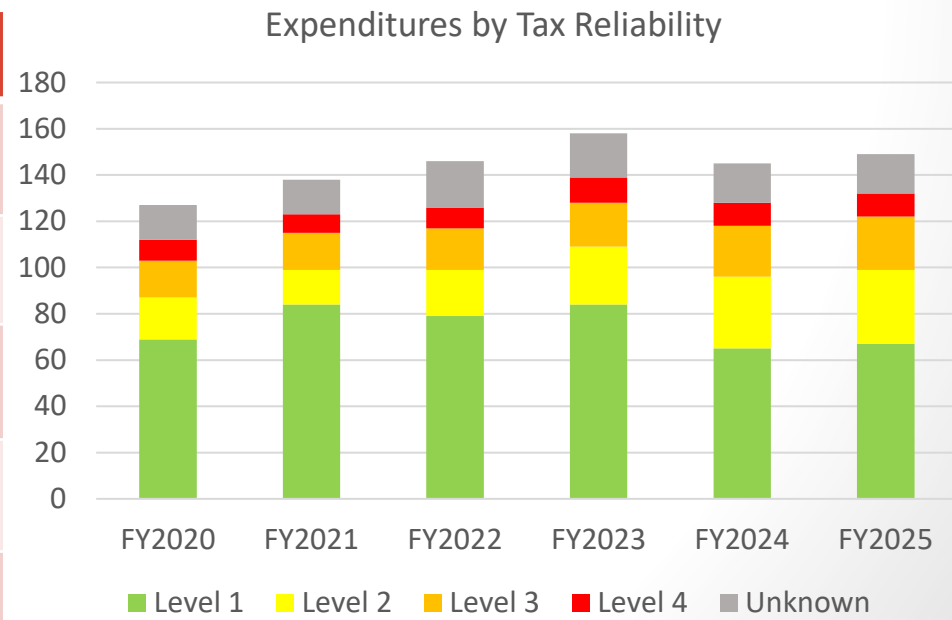
- 9 new tax expenditures
- 149 tax expenditures, 122 non-tax expenditures, 27 arguable
- 8 expired/obsolete tax expenditures were repealed (2025 HB218)



# Expenditure Estimates – Data Reliability

- The estimated revenue foregone should be evaluated in conjunction with reliability factor
- Reliability depends on data available to Tax & Rev
  - Exemptions that are not reported will have low reliability
  - Deductions that are separately reported (34) will have higher reliability than deductions that are reported together
  - Credits have high reliability

Reliability Factor	Description
1 	Most reliable. No estimation
2 	Estimated from GenTax data
3 	Estimated from national data
4 	Least reliable. Estimated from limited data
Unknown	No data available



# New Additions in 2025 Report

Expenditures	Legislative Session	Category	2025 Amount (\$000's) (Local and State)
Child Care Providers GRT Deduction	2024 Regular	Citizen Benefits	\$13,008
Clean Care Income Tax Credit against PIT and CIT	2024 Regular	Environmental	\$1,225
Clean Car Charging Unit Income Tax Credit against PIT and CIT	2024 Regular	Environmental	\$0
Environmental Modifications for Medicaid Recipients GRT Deduction	2024 Regular	Health Care	\$ 2,100
Geothermal Electricity Generation-Related Sales and Use GRT and Compensating Tax Deduction	2024 Regular	Environmental	\$164
Home Fire Recovery Income Tax Credit against PIT	2024 Regular	Citizen Benefits	\$0
Legal Services for Wildfire Compensation Recovery GRT Credit	2024 Regular	Citizen Benefits	Redacted
Sale of Dyed Special Fuel for Agricultural Purposes GRT Credit	2024 Regular	Highly Specialized Industry	Redacted
School Supplies Purchased by a Public School Teacher Deduction from PIT	2024 Regular	Citizen Benefits	\$232

# New Additions in 2025 Report

Arguable	Legislative Session	Category	2025 Amount (\$000's) (Local and State)
Metropolitan Redevelopment Projects GRT Distribution	2023 Regular	Economic Development	\$0

## Not Tax Expenditures

None
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# Recategorized Expenditures in 2025 Report

Expenditures	Previous Category	2025 Category	2025 Amount (\$000's) (Local and State)
Local Economic Development Act (LEDA) Special GRT Distributions	Tax Expenditure	Arguable	\$11,283
Tax Increment for Development District (TIDD) Dedicated GRT Increments	Tax Expenditure	Arguable	\$13,472



# Top Ten Expenditures by Cost: 2025 vs 2024

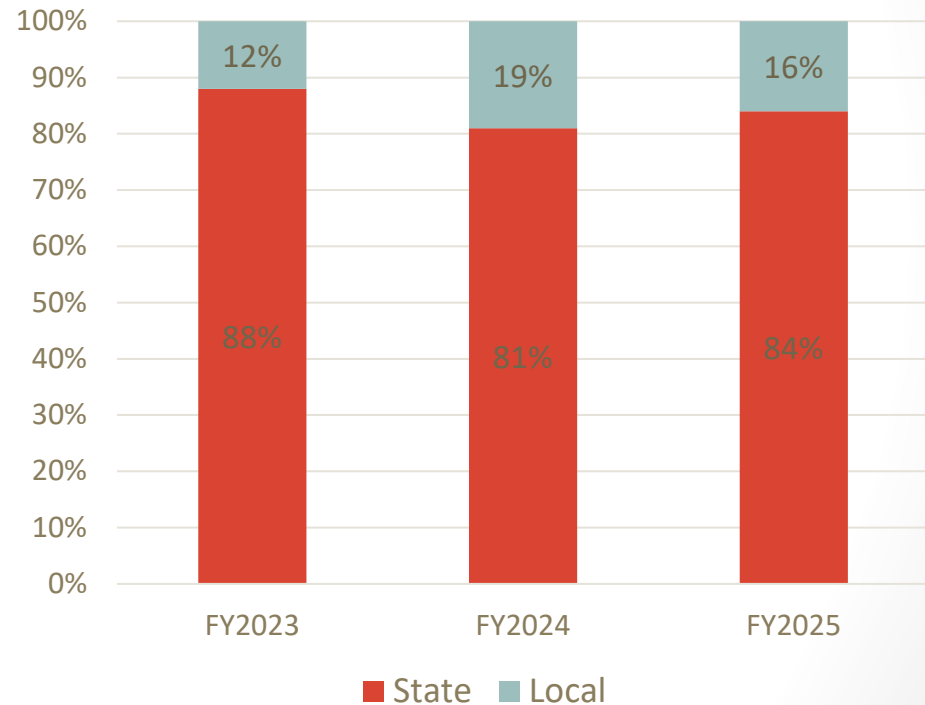
Name	2024 (\$000's State & Local)	2024 Rank	2025 (\$000s State & Local)	2025 Rank	
Sale of Food at Retail Food Stores GRT Deduction and Hold Harmless Distribution*	466,906	1	397,243	1	Green
Prescription Drugs, Oxygen and Medical Cannabis GRT and GGRT Deduction	257,300	3	274,700	2	Red
DOH-Licensed Hospitals 60 Percent GRT Deduction	259,287	2	244,759	3	Yellow
Child Income Tax Credit against PIT	131,233	5	139,165	4	Green
Working Families Tax Credit against PIT	126,732	6	135,911	5	Green
Medical and Health Care Services GRT Deduction	92,585	10	94,842	6	Yellow
Capital Gain Deduction From PIT	101,596	9	93,750	7	Yellow
Social Security Income Exemption from PIT	88,523	11	92,301	8	Yellow
Health Care Practitioner Services GRT Deduction and Hold Harmless Distribution*	73,232	12	90,900	9	Green
Apportionment Election of CIT for Manufacturers	104,401	7	81,229	10	Yellow

\* \$ figures do not include hold harmless distributions

# State and Local Tax Expenditure Incidence

- GRT incidence for deductions and exemptions is shared between the State General Fund and local governments in most cases
- Tax expenditures for CIT, PIT, etc., generally impact only State General Fund directly

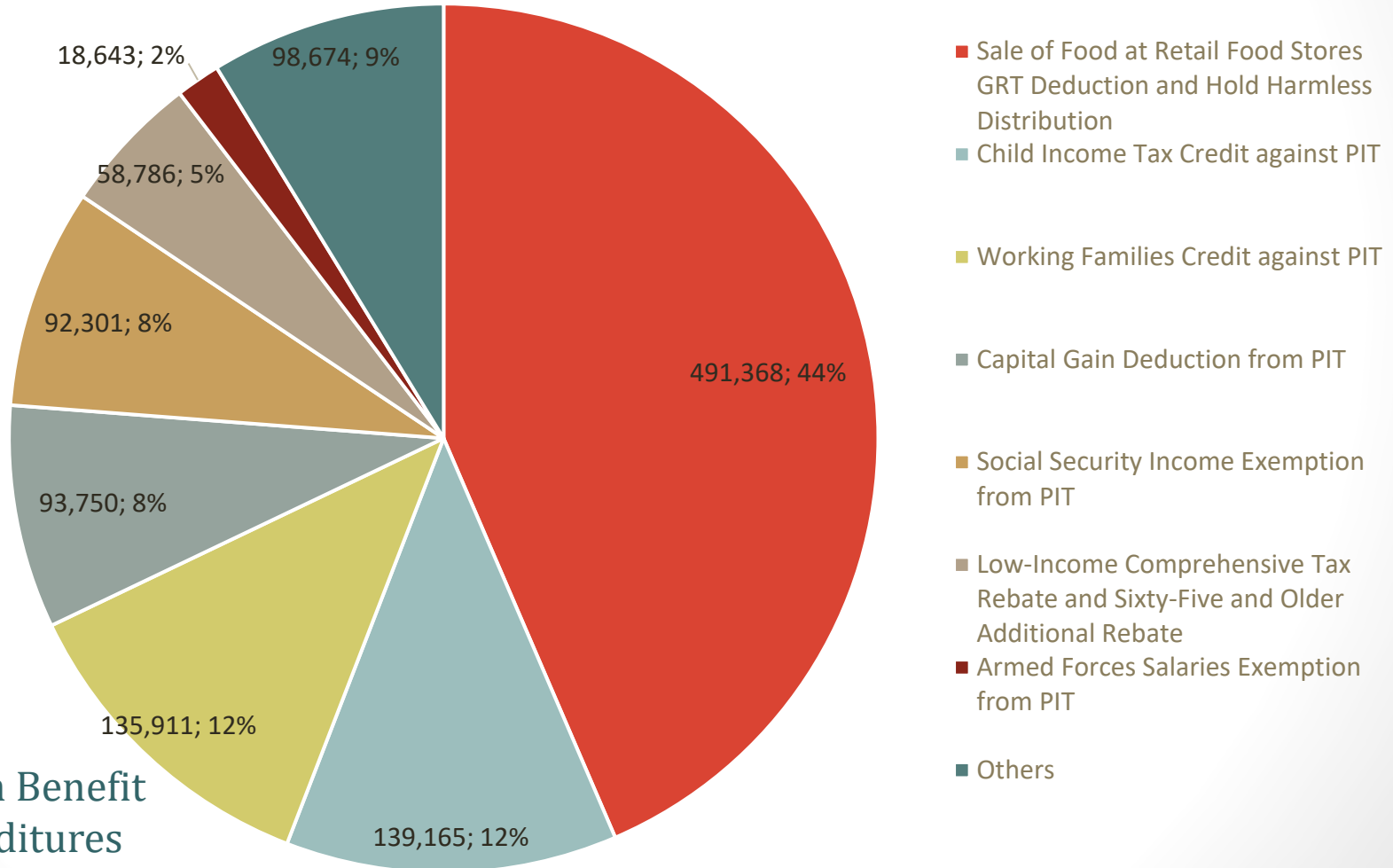
**FISCAL YEARS 2023-2025 EXPENDITURES BY STATE AND LOCAL TAX INCIDENCE**



**NOTE: DOES NOT INCLUDE PROPERTY TAX EXPENDITURES**

# Citizen Benefits

- Represent the largest share of tax expenditures in 2025 - \$1.1 billion or 49%
  - Down from \$1.3 billion or 42% in 2024
- 57 Expenditures in this category

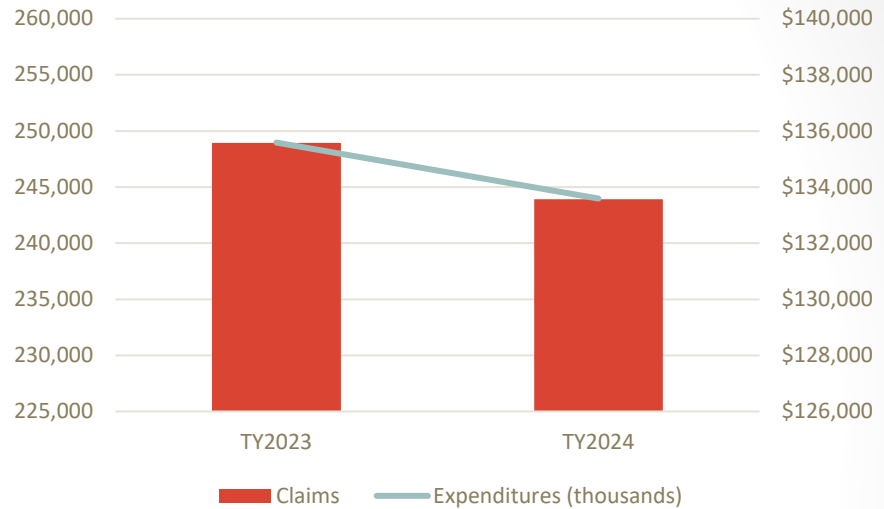


Citizen Benefit Expenditures (in \$thousands)

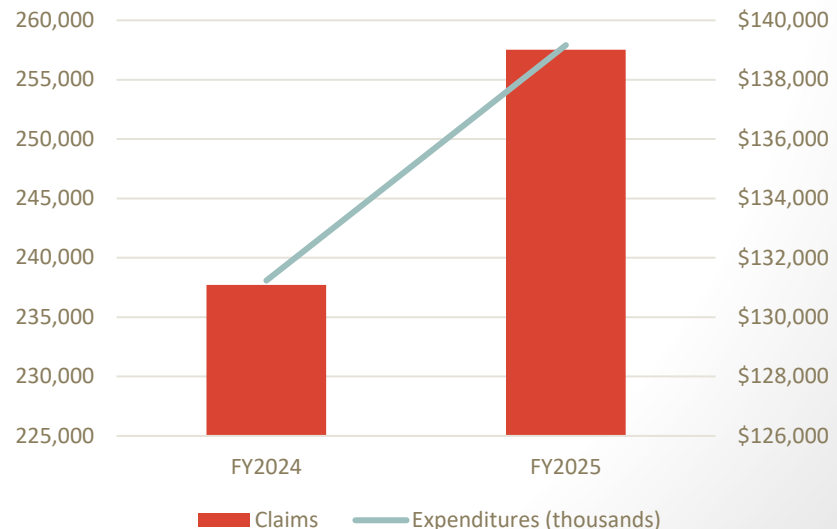
# New Mexico Child Income Tax Credit – Tax Year vs Fiscal Year Trends

- Taxpayers have taken time to become aware of the new credit, causing differences between tax year and fiscal year activity
- Tax Year 2023 credit was \$25 to \$600 per child
  - 248,927 returns, \$135.6 million
  - Average credit: \$545
- Tax Year 2024 credit was \$25 to \$622 per child
  - 243,909 returns, \$133.6 million
  - Average credit: \$548
- Tax & Rev outreach recently resulted in \$7 million claims for Tax Years 2023 and 2024 that were paid in FY2026

Child Income Tax Credit By Tax Year



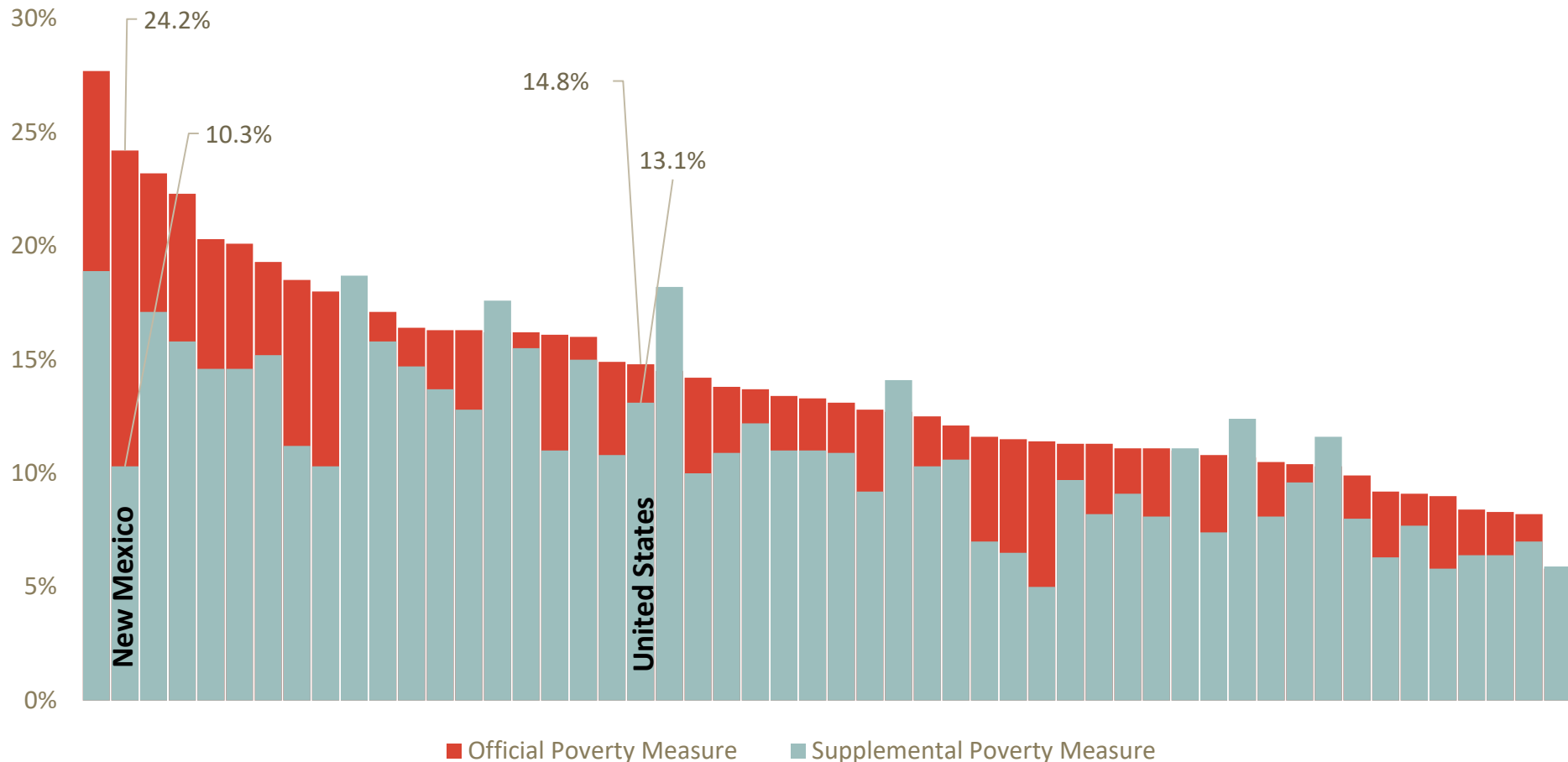
Child Income Tax Credit By Fiscal Year



# How Poverty Measures Compare

- The U.S. Census Bureau provides two measures of poverty:
  - the Official Poverty Measure (OPM) – estimated using pretax income
  - the Supplemental Poverty Measure (SPM) - includes government benefits, tax relief, geographic cost of living adjustments

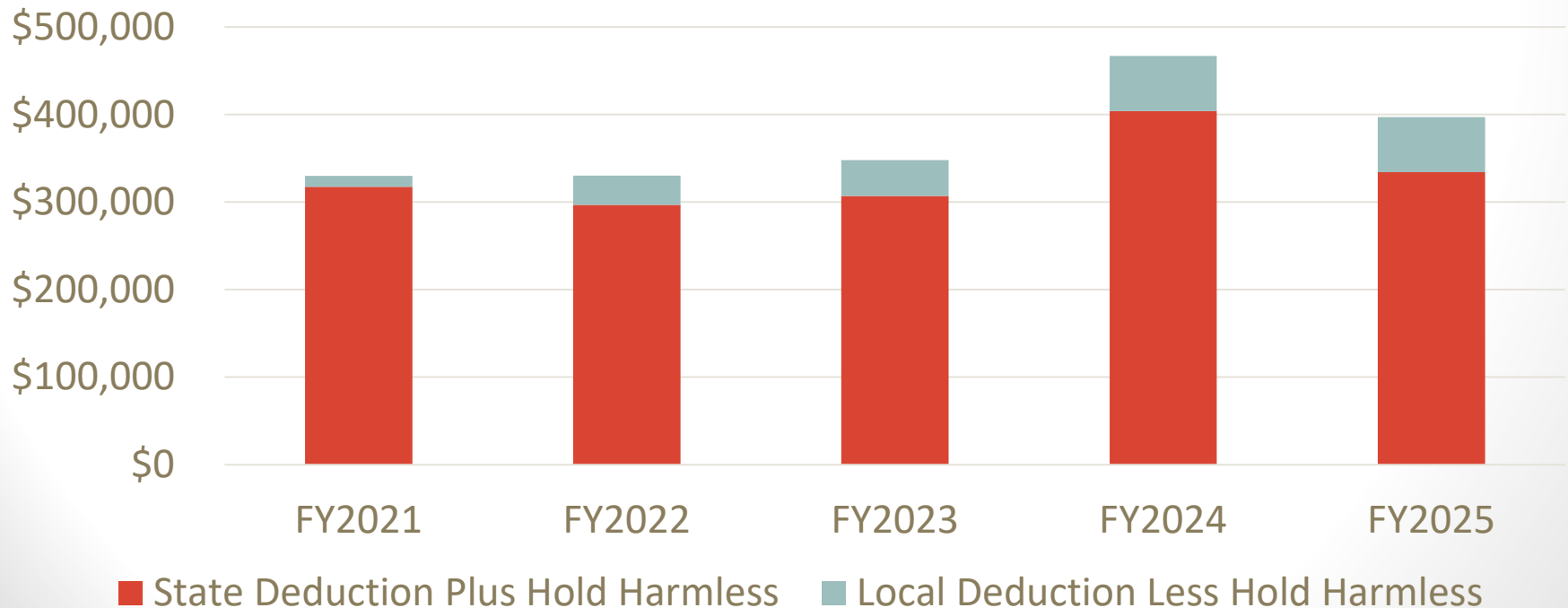
Percentage of People Under 18 in Poverty, Official Poverty Measure v. Supplemental Poverty Measure by US state; 3-Year Average, 2022-2024



# Citizen Benefits : Food GRT Deduction

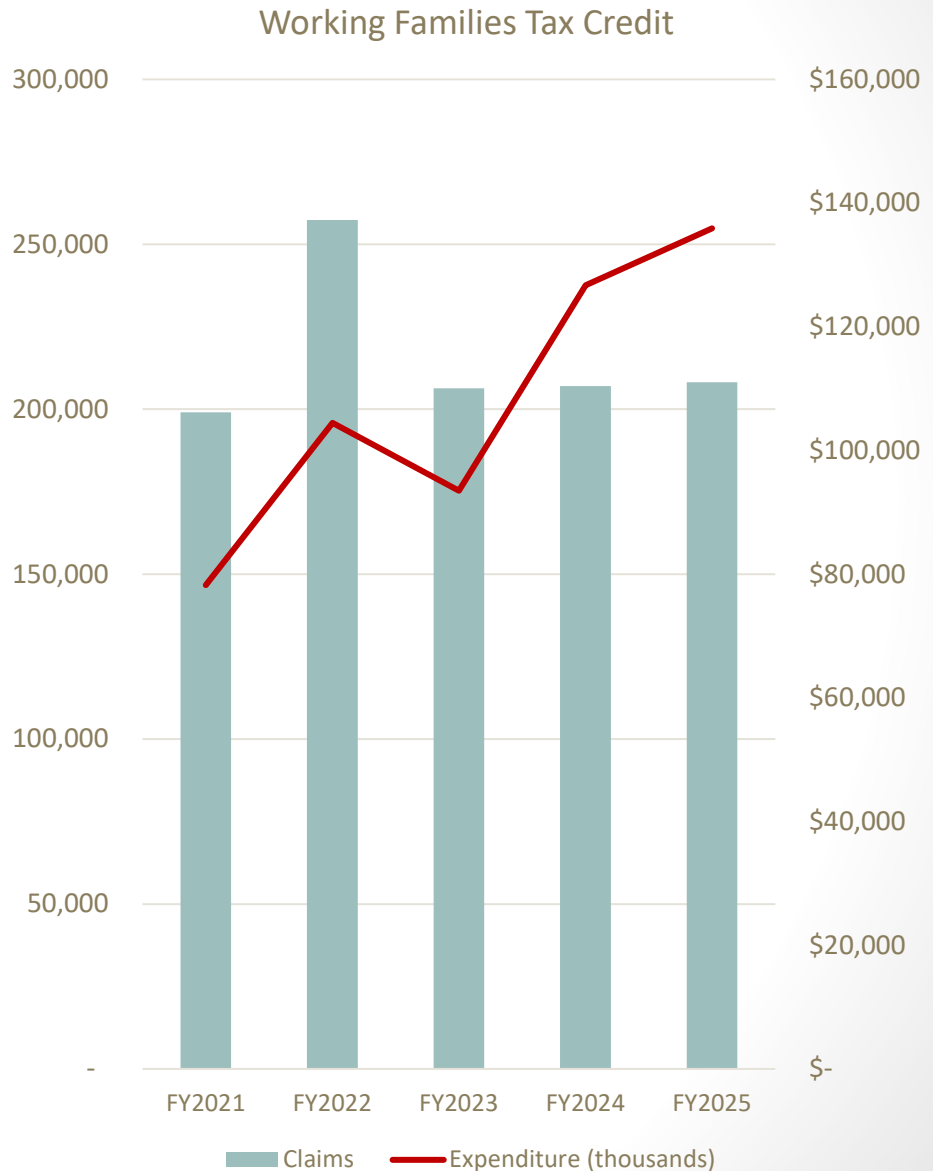
- Enacted in 2004 to reduce the cost of food
- Hold harmless payments partially offset foregone local revenue
- 2013: began phase-out of hold harmless payments to larger local governments scheduled to end in 2030
- 2022: froze hold harmless phaseout for certain municipalities
- FY2024: increase due to taxpayer amendments

Net State and Local Food Deduction Impacts (\$thousands)



# Citizen Benefits: Working Families Tax Credit

- Refundable PIT credit enacted in 2007
- Started at 8% of federal earned income tax credit (EITC), rose over time to 10% in 2008, 17% in 2019, 20% in 2021
- Increased to 25% EITC for 2023+
- Expanded eligibility beginning in 2021 to workers aged 18 to 25 and to ITIN filers
- FY2022 increase: more individuals filed in 2021 to receive PIT rebates
- FY2025 claims increased by 0.6% with 7.2% increase in expenditure



# Rural Health Care Practitioner PIT Credit

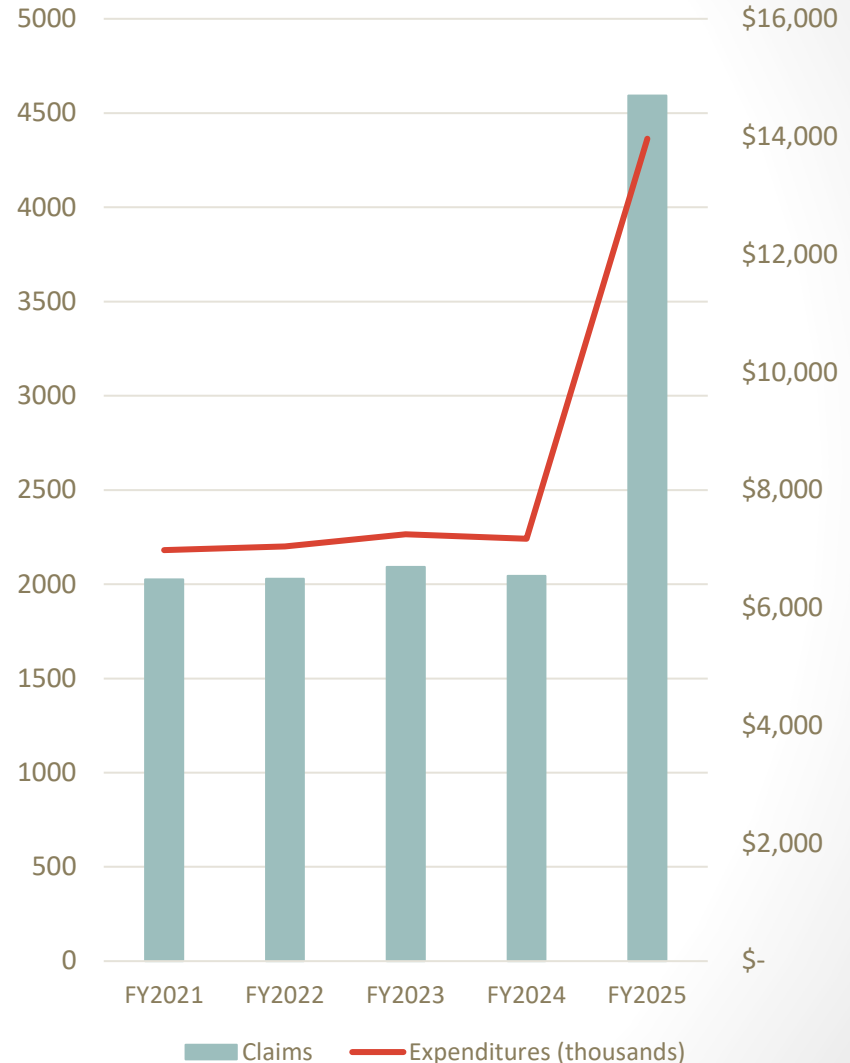
- Originally enacted in 2007

- Up to \$5,000 for certain medical professionals with the highest levels of education (doctors, dentists, etc.)
- Up to \$3,000 for certain medical professionals with the other levels of education (PAs, RNs, etc.)

- 2024 amendment

- Modified and added eligible occupations; reduced the number of hours worked for eligibility
  - 100% credit: >2,080 hours to >1,584 hours
  - 50% credit: 1,040-2,080 hours to 792-1,584 hours
- Claimants and expenditures rose by 125% and 95% respectively in FY2025
- Average amount per claim: \$3,041

Rural Health Care Practitioners Credit





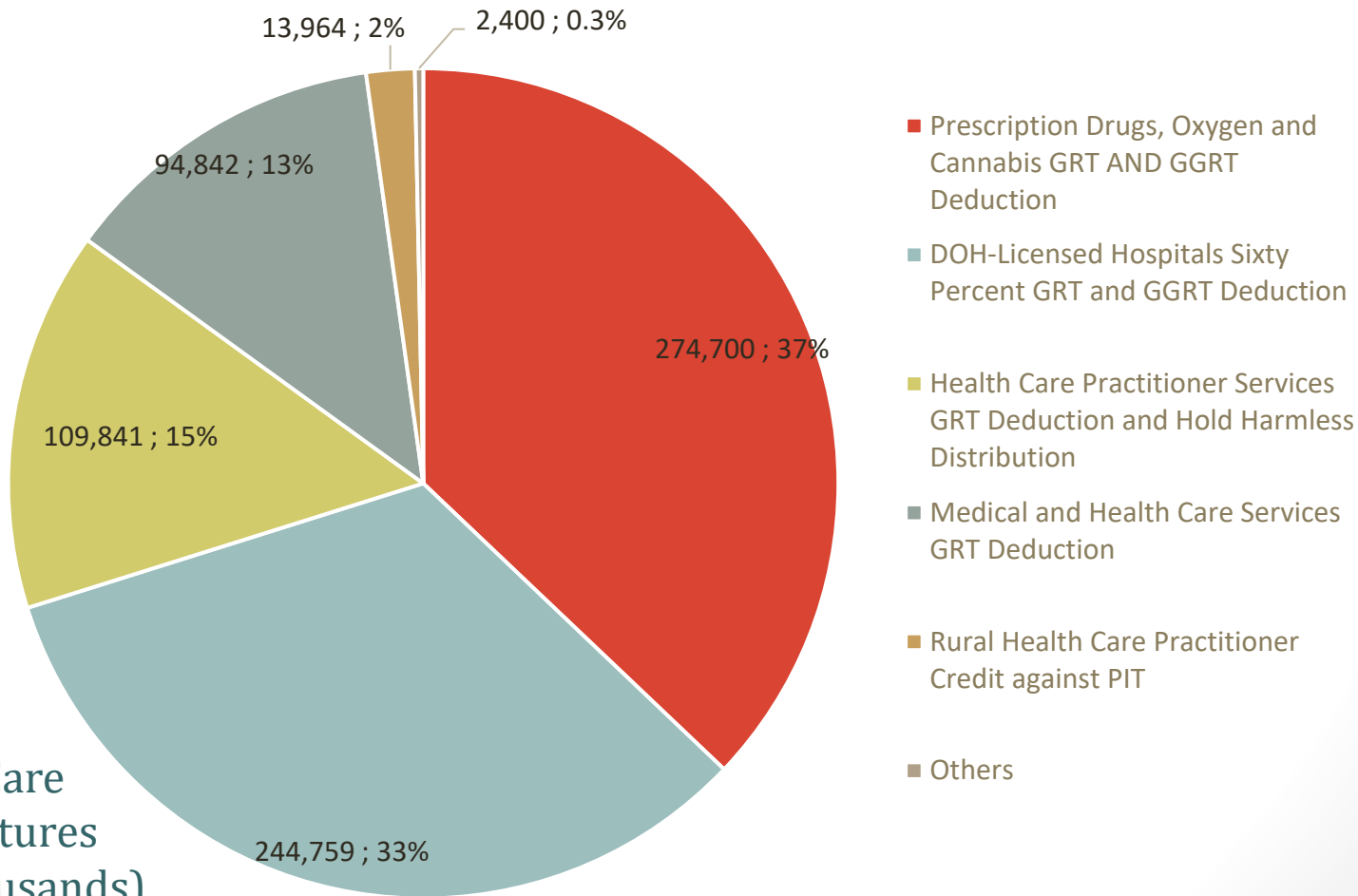
# Citizen Benefits: Child Care Providers GRT Deduction

- Enacted in 2024 to improve parity between for-profit and non-profit pre-kindergarten service providers and to make child care services more affordable, since the GRT is generally passed on to families
- For FY25, the deduction was \$2.5 million higher than projected in the FIR

	Fiscal Year (thousands)	2025
Child care assistance services providers GRT Deduction	Taxpayers	265
	State General Fund	\$5,809
	Local Governments	\$3,873
For-profit child care providers GRT Deduction	Taxpayers	88
	State General Fund	\$1,996
	Local Governments	\$1,331
<b>Total</b>		<b>\$13,009</b>

# Health Care

- Represents the second largest share of tax expenditures in FY25 - \$740 million or 32%
  - Down from \$968 million or 23% from 2024 due to revision to highest contributor
  - The largest reported contributor is the Prescription Drugs, Oxygen and Medical Cannabis GRT & GGRT Deduction at \$274.7 million
- 11 Expenditures in this category

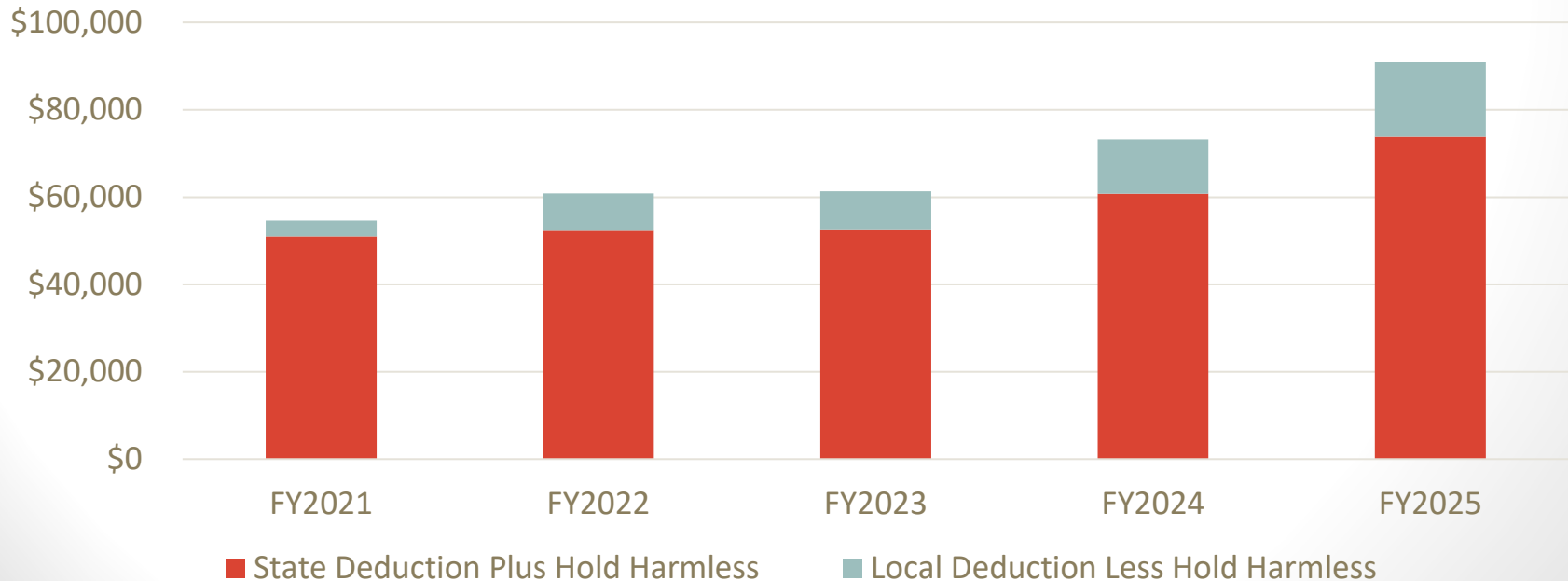


Health Care Expenditures (in \$thousands)

# Health Care: Medical GRT Deductions

- Enacted in 2004 to reduce the cost of medical services
- Hold harmless payments partially offset foregone local tax revenue
- 2013: began phase-out of the hold harmless payments to larger local governments scheduled to end in 2030
- 2022: froze hold harmless phaseout for certain municipalities
- 2023: expanded the deduction to include copays and deductibles

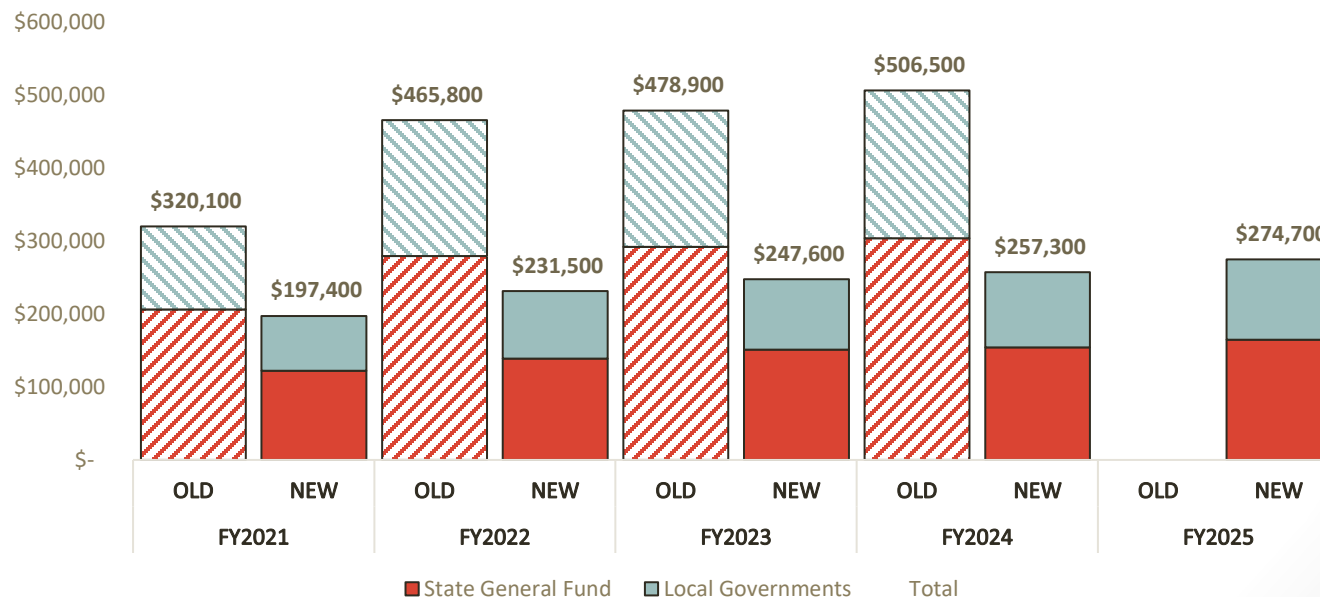
Medical GRT Deductions and Hold Harmless (\$thousands)



# Health Care: Prescription Drugs, Oxygen, and Cannabis GRT and GGRT Deduction

- The 2025 amendment expanded the deduction to include receipts from the sale of psilocybin products and medical care sold in accordance with the Medical Psilocybin Act.
- Methodological updates led to revision of the fiscal impact since FY2021.
- Starting in FY2026, this deduction will be separately reported, which might improve the reliability factor.

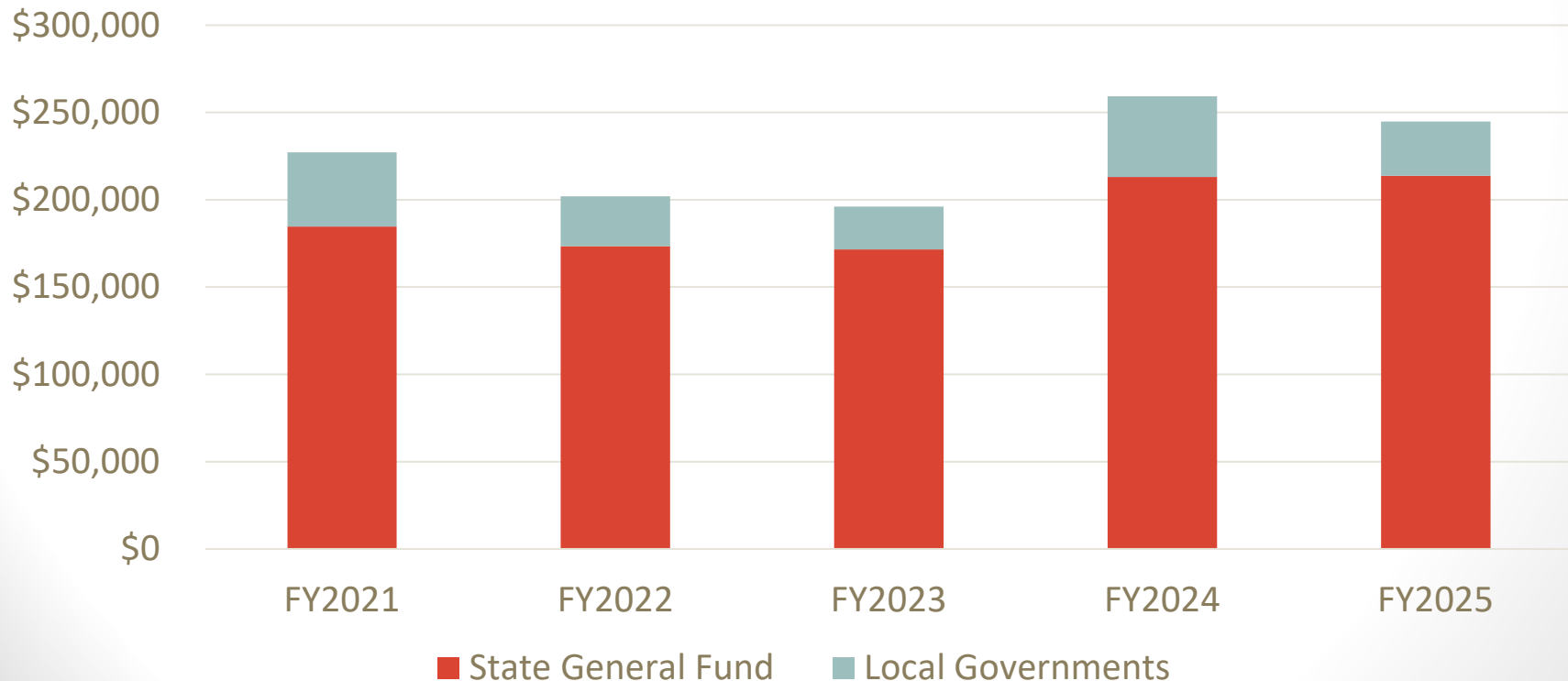
Prescription Drugs, Oxygen, and Cannabis



# Health Care: 60% Hospital GRT Deduction

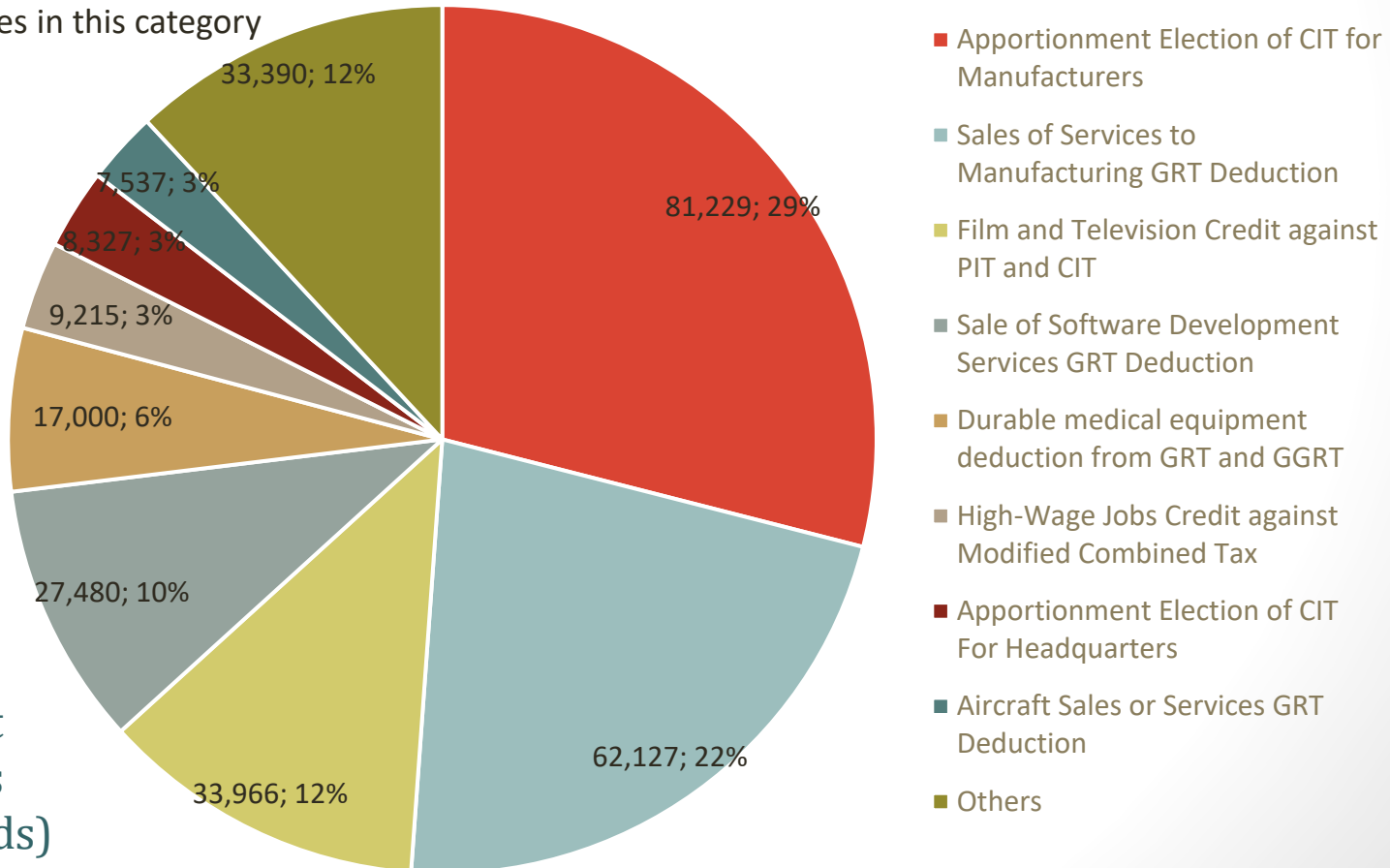
- All hospitals licensed by DOH receive a 60% GRT or GGRT deduction
  - Non-profit and governmental hospitals are not subject to local government gross receipts taxes, so only claim the deduction against State GRT
- Hospital receipts were higher in FY2021 due to COVID-19 hospitalizations

Hospital 60% GRT Deduction (\$ thousands)



# Economic Development

- 12% of tax expenditures in FY25 - \$280 million
  - Down from 16% of tax expenditures in FY24 - \$485 million
  - Sales of Services to Manufacturing GRT Deduction lower as taxpayers correct deduction reporting
- Provisions impacting only distributions, not taxpayer treatment, were reclassified from “Tax Expenditures” to “Arguable”
  - GRT distributions related to LEDA, TIDDs, and the new Metropolitan Redevelopment Act
- The largest reported contributor is now the Apportionment Election of CIT for Manufacturers at \$81 million
- 26 Expenditures in this category



Economic Development Expenditures (in \$thousands)

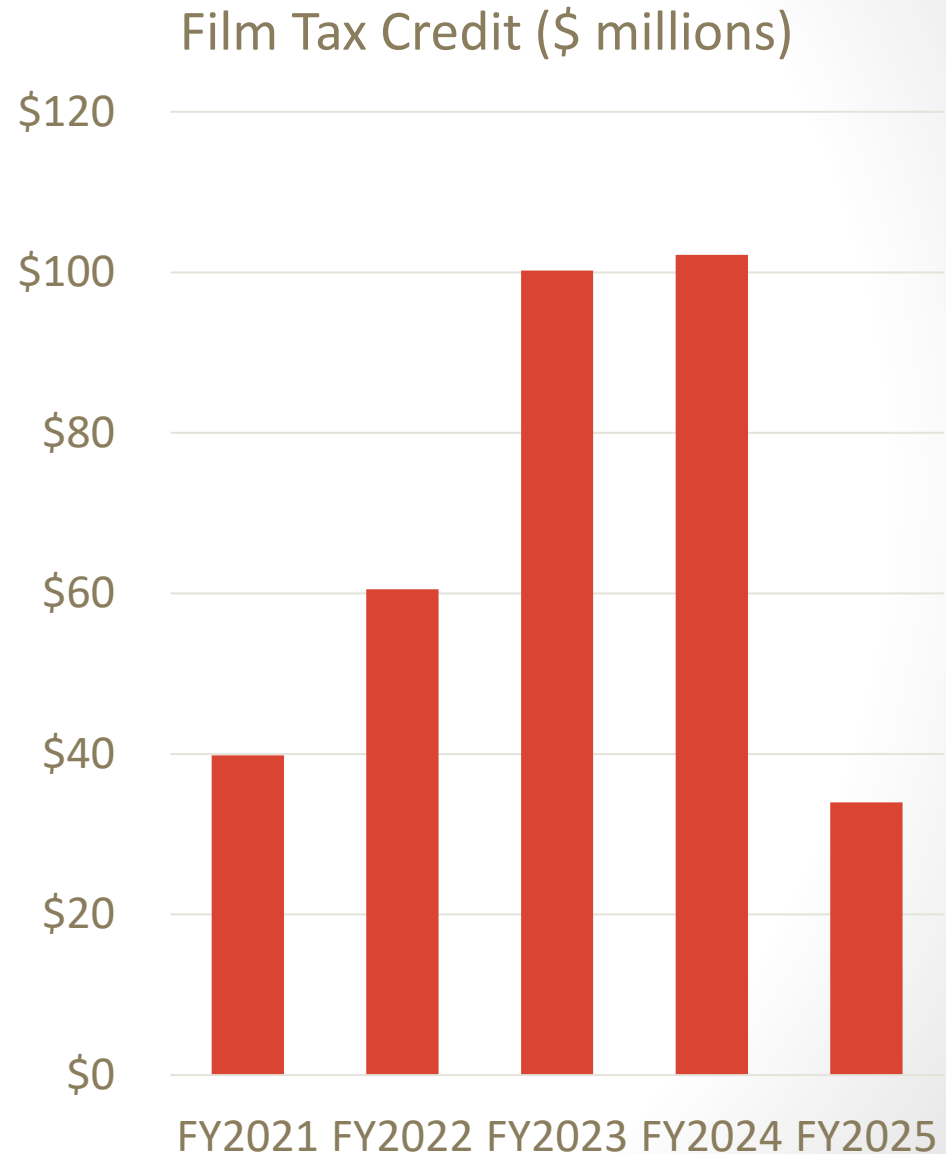
# GRT and GGRT Deduction for Selling Professional Services to Manufacturers

- Claims reduced considerably from FY24 to FY25
- Taxpayers may be more correctly choosing this deduction on returns
- Per CREG analysis, the deduction is expected to continue to grow but at a slower pace

	Fiscal Year	2023	2024	2025
<b>Sales of Services to Manufacturing GRT Deduction</b>	Taxpayers	133	2,986	2,049
	State General Fund Expenditure (thousands)	\$698	\$84,098	\$37,276
	Local Government Expenditure (thousands)	\$446	\$56,065	\$24,851

# Economic Development: Film Tax Credit

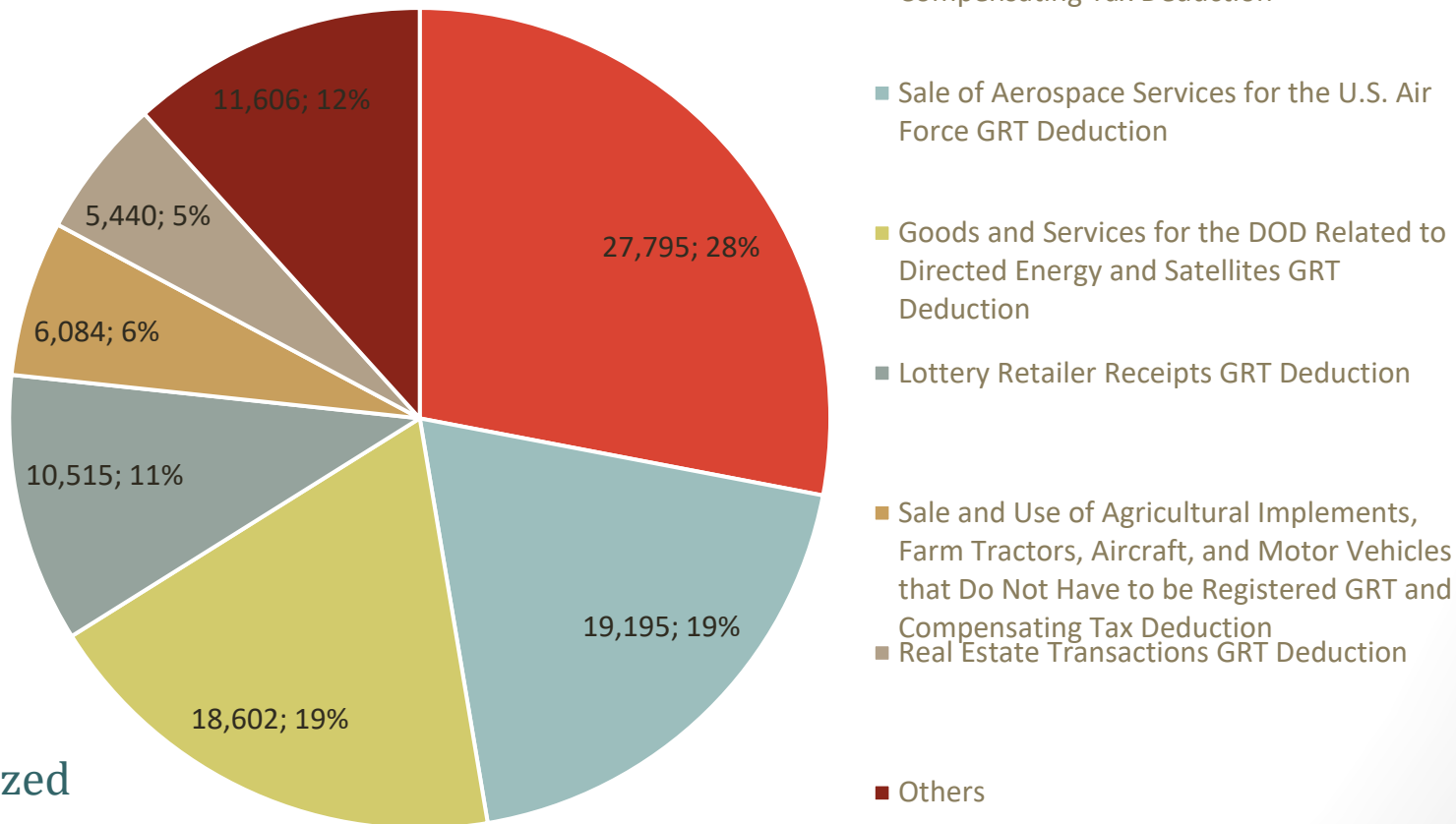
- 2019:
  - Increased cap from \$50 million to \$110 million
  - Created film partners not subject to the cap
- FY21: Film projects delayed during COVID-19
- 2023: Increased cap by \$10 million per year for FY24 - FY28, max of \$160 million
- FY25: delayed impacts of writers' strike, timing issues for credit claims





# Highly Specialized Industry

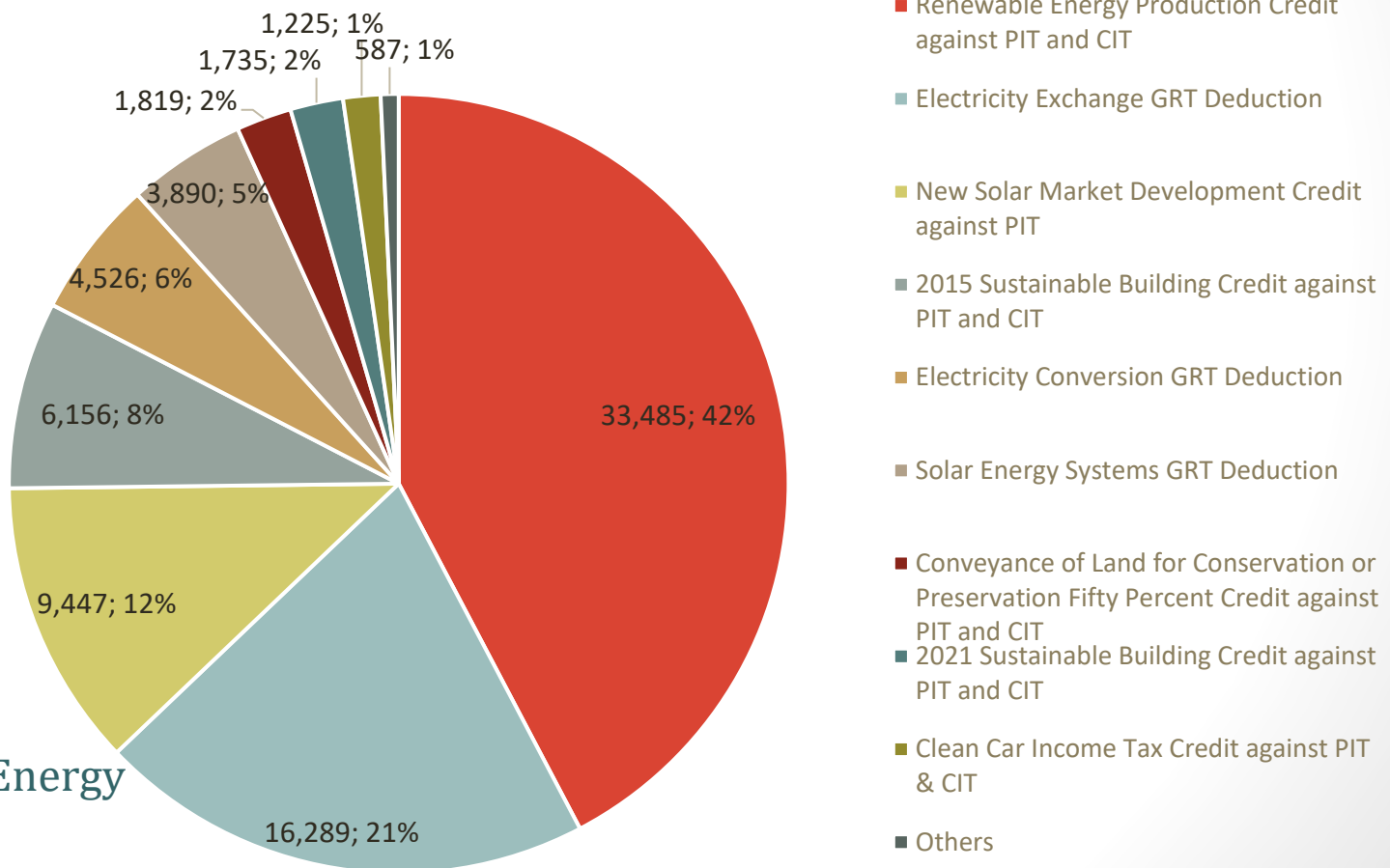
- Represents 4% of tax expenditures in FY25 or \$99 million
  - Down from FY24 at \$228 million and 8% due to reclassification to non-expenditures
    - Transportation of Natural Gas Deduction from Oil and Gas Emergency School Tax
    - Processing Natural Gas Deduction from Oil and Gas Emergency School Tax
- 35 Expenditures in this category



Highly  
Specialized  
Industry  
Expenditures  
(in \$thousands)

# Environment, Conservation & Renewable Energy

- Represent 3% of tax expenditures in FY25 or \$79 million
  - Up from \$69 million in FY24, 2% of tax expenditures in FY24
- The largest reported contributor is the Renewable Energy Production Tax Credit against PIT and CIT at \$33 million
- 20 Expenditures in this category



Environment,  
Conservation  
& Renewable Energy  
Expenditures  
(in \$thousands)

# Look Ahead – Expenditures with Sunsets next 5 years

Name	Note	Sunset Date	2025 (\$000's)
Liquor License Lessor Deduction from PIT and CIT (7-2-40 & 7-2A-31 NMSA 1978)	Enacted 2021. Provides temporary relief to taxpayers affected by liquor license reform	Jan. 1, 2026	Redacted
Liquor License Holders Deduction from GRT (7-9-119 NMSA 1978)	Enacted 2021. Provides temporary relief to taxpayers affected by liquor license reform	Jan 1, 2026	\$338
High-Wage Jobs Credit against Modified Combined Tax (7-9G-1 NMSA 1978)	Sunset is tied to definition of 'new high-wage' which must be created before July 1, 2026	July 1, 2026	\$9,215
Technology Readiness Credit against GRT (7-9-96.3 NMSA 1978)	Enacted 2020. Previously extended once.	July 1, 2027	\$1,955
Nonathletic Special Event at New Mexico State University GRT & GGRT Deduction (7-9-104 NMSA 1978)	Enacted 2007. Previously extended three times	July 1, 2027	\$133
2021 Sustainable Building Credit against PIT and CIT (7-2-18.32 & 7-2A-28.1 NMSA 1978)	Enacted 2021. Was amended in 2022 to establish the current sunset date.	Jan 1, 2028	\$1,735
Sale of Dyed Special Fuel for Agricultural Purposes GRT Credit (7-9-58.1 NMSA 1978)	Enacted 2024	July 1, 2029	Redacted

# Look Ahead – Expenditures with Sunsets next 5 years

Name	Note	Sunset Date	2025 (\$000's)
Agricultural Biomass Credit against PIT and CIT (7-2-18.26 & 7-2A-26 NMSA 1978)	Enacted 2010. Current sunset was set with 2020 amendment.	Jan 1, 2030	\$267
Durable Medical Equipment Deduction from GRT and GGRT (7-9-73.3 NMSA 1978)	Enacted 2015. Current sunset was set with 2020 amendment.	July 1, 2030	\$16,800
Investment Credit against GRT, Compensating Tax or Withholding Tax (7-9A-1 et seq NMSA 1978)	Enacted 1979. Current sunset was set with 2020 amendment.	July 1, 2030	\$2,959
Angel Investment Credit against PIT (7-2-18.17 NMSA 1978)	Enacted 2007 and has been extended three times.	Dec 31, 2030	\$1,052

# Concluding Thoughts

- Legislative Thoughts
  - Purpose not always defined – difficult to then evaluate performance
  - Sunset clause – forces evaluation of the expenditure where appropriate
  - Reporting requirements – electronic reporting of tax credit certifications: ease in working with other departments when cross-collaboration of expenditures; allows transparency; ability to evaluate expenditure cost
  - Individual statutes no longer need to state that Tax & Rev will report on the expenditure annually since Tax & Rev is now statutorily required to publish the Tax Expenditure Report
- Other Resources
  - National Conference of State Legislatures has a State Tax Incentive Evaluations Database (worked with Pew Charitable Trusts)
    - <http://www.ncsl.org/research/fiscal-policy/state-tax-incentive-evaluations-database.aspx>
  - Can compare different incentives across states, years, analysis, incentive type
  - U.S. Department of the Treasury, Federal Expenditure Reports
    - <https://home.treasury.gov/policy-issues/tax-policy/tax-expenditures>



# Thank you!

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