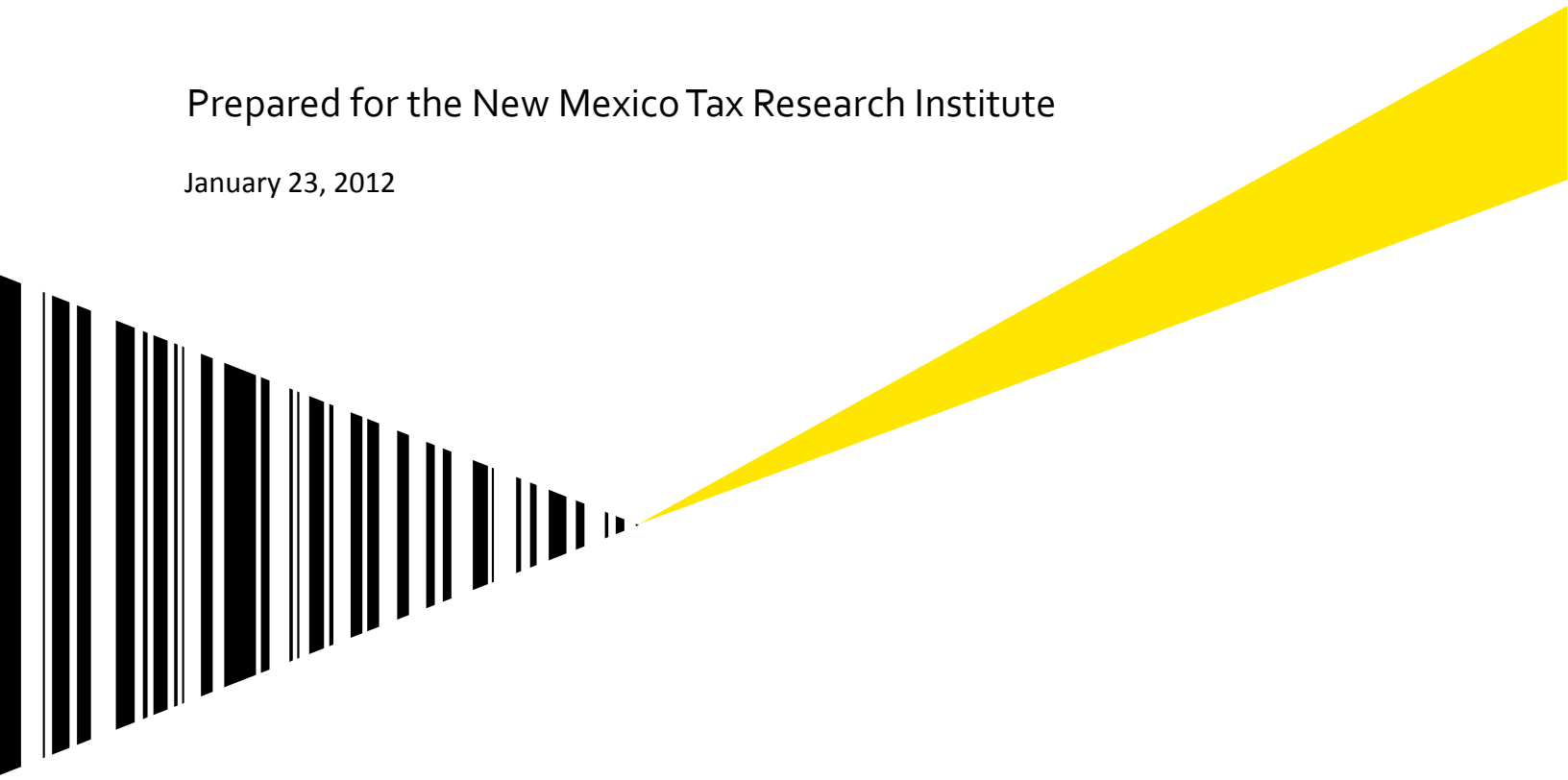
New Mexico Business Tax Competitiveness and Simulations of Selected Tax Policy Changes

Prepared for the New Mexico Tax Research Institute

January 23, 2012



Ernst & Young

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EXECUTIVE SUMMARY FROM NEW MEXICO TAX RESEARCH INSTITUTE

2012 NEW MEXICO BUSINESS TAX COMPETITIVENESS STUDY

INTRODUCTION

The Business Tax Competitiveness Study is a collaborative effort whereby the State of New Mexico, the City of Albuquerque, Bernalillo County, the New Mexico Municipal League and seven private sponsors funded the New Mexico Tax Research Institute ("NMTRI") to engage Ernst & Young, LLP to expand upon a recently completed 50 state study on effective state tax rates for business. That study centered on a hypothetical $100 million dollar investment by corporations in nine different industries. The corporations in the study were assumed to export 95% of their respective goods and services, and were assumed to be subject to corporate income tax.

This New Mexico Business Tax Competitiveness Study compares eight other states with New Mexico -- Arizona, California, Colorado, Nevada, Oklahoma, Oregon, Texas, and Utah. The states' tax rates were compared before and after the inclusion of existing tax credits and incentives offered by each state. For purposes of determining local property tax rates, the study assumed the business location would be in Albuquerque. Another set of results was calculated using Deming, New Mexico to reflect the differing tax and incentive structures presented by rural communities. Industries studied include -- headquarters; research and development; office and call center; durable manufacturing; non-durable manufacturing; computer and electronic manufacturing; electrical equipment, aerospace products and parts; management scientific, and technical consulting; and food processing.

Commonly discussed policy options were also modeled in order to get an idea of how they would impact effective tax rates of the hypothetical corporate investments. These scenarios included:

(1) reducing the New Mexico corporate tax rate to 4.9%;
(2) allowing single or double weighted sales factor corporate income tax apportionment;
(3) eliminating the gross receipts tax on manufacturing "consumables;" and
(4) allowing a tax increment incentive similar to one recently adopted in Utah.

The results of the study show that while New Mexico has the highest effective tax rate for all industry categories before existing incentives are taken into account; after incentives were accounted for, New Mexico's ranking improved significantly in several categories, in some cases to the most competitive of all states modeled. Detailed charts and analysis showing the results of the study are shown on the following pages.

Effective Tax Rate Rankings

Analysis Before Existing Incentives Are Taken into Account

Table 1 - Effective Tax Rate Ranking Before Incentives

Industry	NM's Effective Tax Rate Ranking	NM Effective Tax Rate (%)	Effective Tax Rate Range Among All States (%)	Effective Tax Rate (%) – Other States' Average
Headquarters	1st Highest	4.9	.04 - 4.9	1.0
Research and Development	1st Highest	12.1	3.7 - 12.1	8.0
Renewable Energy Equipment Manufacturing	1st Highest	17.5	2.4 - 17.5	5.7
Business Support Services	1st Highest	20.1	3.0 - 20.1	13.7
Food Products Manufacturing	1st Highest	15.4	2.4 - 15.4	5.4
Computer & Electronics Manufacturing	1st Highest	15.0	1.9 - 15.0	6.7
Electrical Equipment Manufacturing	1st Highest	20.2	20.2 - 3.6	7.4
Aerospace Products and Parts Manufacturing	1st Highest	21.1	3.1 - 21.1	8.2
Management, Scientific and Tech. Consulting Services	1st Highest	16.5	9.0 - 16.5	9.2

Note: The table above shows New Mexico with a ranking of 1st in all industry categories; meaning that New Mexico has the highest effective tax rate compared with other states in the study. In addition, New Mexico's tax rate is often much higher than the average of all states.

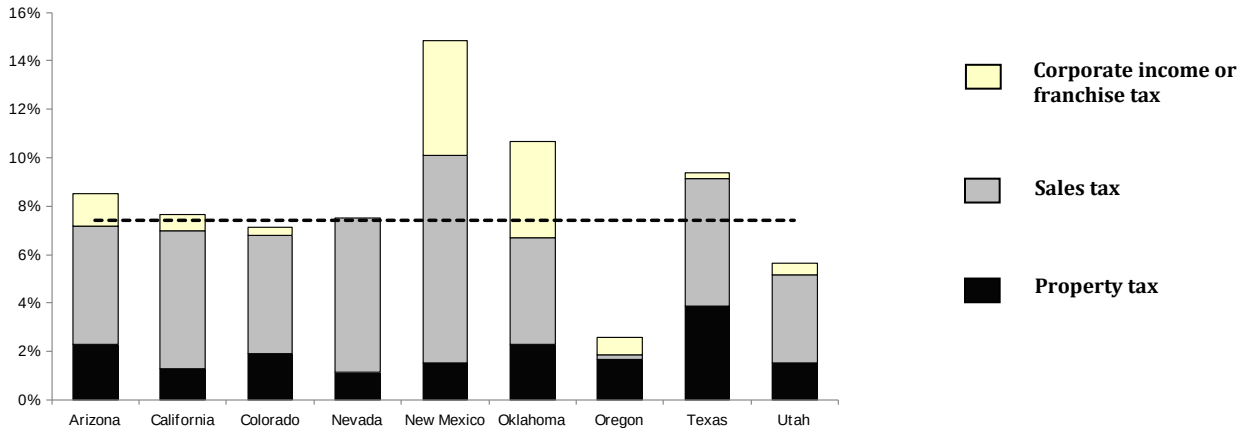
Table 2 - Average Effective State and Local Business Tax Rates by Investment Type

Before Incentives

State	Services		Manufacturing		All Industries	
	ETR	Rank	ETR	Rank	ETR	Rank
Arizona	10.3%	3	6.9%	5	8.4%	4
California	10.2%	4	6.0%	6	7.9%	5
Colorado	7.7%	6	5.8%	7	6.6%	7
Nevada	6.9%	7	6.9%	4	6.9%	6
New Mexico	13.4%	1	17.9%	1	15.9%	1
Oklahoma	12.0%	2	9.9%	3	10.8%	2
Oregon	2.0%	9	2.7%	9	2.4%	9
Texas	7.9%	5	10.8%	2	9.5%	3
Utah	6.9%	8	4.5%	8	5.6%	8
Other States' Average ETR	*8.0%*		*6.7%*		*7.3%*	

Note: In the table above a ranking of 1 indicates the highest (least competitive) tax rate. A ranking of 9 indicates the lowest tax rate (most competitive). New Mexico ranks as the highest effective tax rate among all the states studied.

Figure 1 - Overall Average Effective Tax Rates for All Included Industries
Before Incentives



As shown in the figure above, New Mexico's higher overall tax rate is attributable primarily to higher corporate income tax and gross receipts tax imposition compared to other states studied. New Mexico's property tax burden is lower than most other states', which is particularly true outside the Albuquerque area.

Analysis After Existing Incentives Are Taken Into Account

After existing incentives were taken into account, relative rankings for New Mexico by broad and narrow sectors were as follows:

Table 3 - Effective Tax Rate Ranking <u>After Incentives</u>

Industry	NM's Effective Tax Rate (ETR)	NM Effective Tax Rate (%)	Effective Tax Rate Range Among All States (%)	ETR (%) – Other States' Average
Headquarters	1st Highest	4.7	0.2 - 4.7	1.0
Research and Development	9th Highest (Lowest)	-0.7	-0.7 – 11.4	7.4
Renewable Energy Equipment Manufacturing	1st Highest	8.3	2.3 – 8.3	5.1
Business Support Services	8th Highest	11.5	2.8 – 18	13.1
Food Products Manufacturing	1st Highest	11.2	2.4 – 11.2	4.9
Computer & Electronics Manufacturing	3rd Highest	7.1	1.7 – 10.1	6.2
Electrical Equipment Manufacturing	1st Highest	13.5	3.5 – 13.5	6.8
Aerospace Products and Parts Manufacturing	9th Highest (Lowest)	.6	.6 – 16.1	7.3
Management, Scientific and Tech. Consulting Services	9th Highest (Lowest)	-1.9	-1.9 – 14.2	8.9

Note: In the table shown above, a ranking of 1st reflects the highest effective tax rate for the industry category, while a ranking of 9th reflects the lowest effective tax rate for the industry category.

As shown in the table above, after incentives are incorporated into the analysis, New Mexico has a substantially more competitive tax ranking in the following industries:

- Research and Development (ranked best out of 9 states)
- Business Support Services (ranked 2nd best out of 9 states)
- Aerospace Products and Parts Manufacturing (ranked best out of 9 states)
- Management, Scientific and Tech. Consulting Services (ranked best out of 9 states)

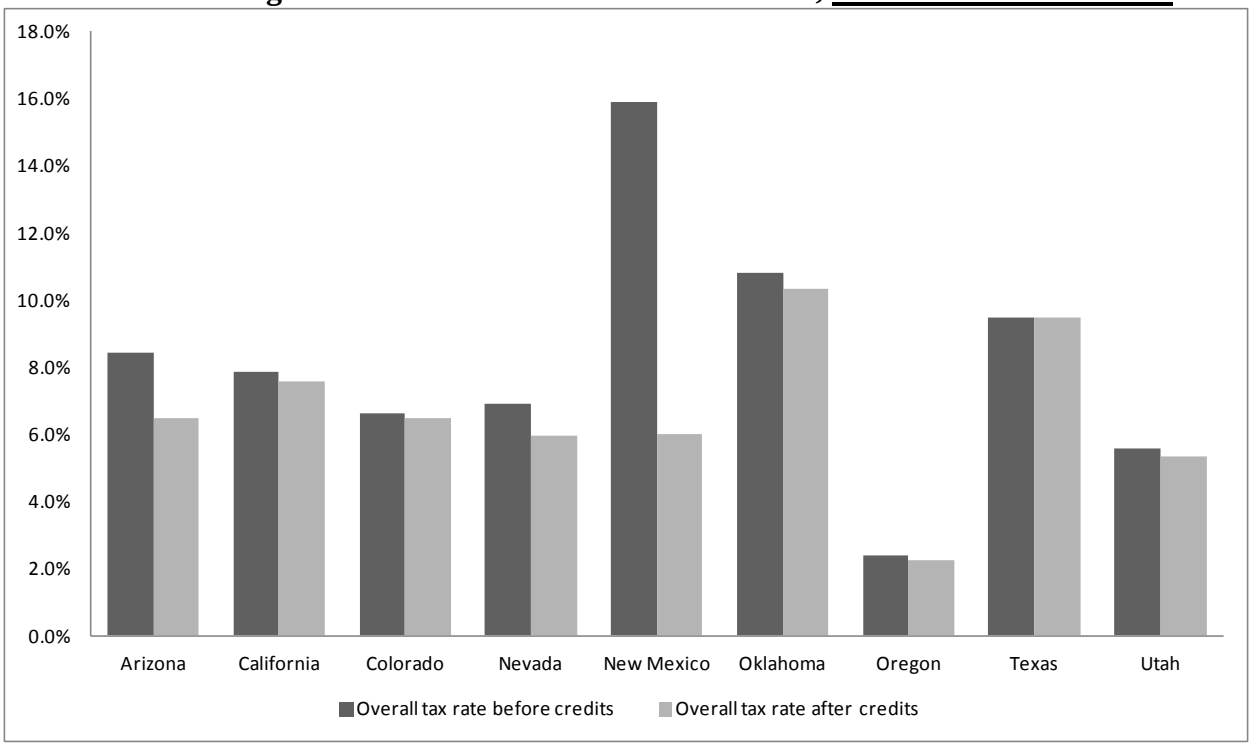
As shown in the table above, after incentives are incorporated into the analysis, New Mexico has a less competitive tax ranking in the following industries:

- Headquarters (ranked worst out of 9 states)
- Renewable Energy Equipment Manufacturing (ranked worst out of 9 states)
- Food Products Manufacturing (ranked worst out of 9 states)
- Computer & Electronics Manufacturing (ranked 3rd worst out of 9 states)
- Electrical Equipment Manufacturing (ranked worst out of 9 states)

Table 4 - Average Effective State and Local Business Tax Rates, After Existing Incentives/Credits-by Investment Type

State	Services		Manufacturing		All Industries	
	ETR	Rank	ETR	Rank	ETR	Rank
Arizona	9.0%	3	4.4%	8	6.5%	5
California	9.8%	2	5.8%	4	7.6%	3
Colorado	7.5%	5	5.7%	6	6.5%	4
Nevada	6.3%	7	5.7%	5	6.0%	7
New Mexico	3.4%	8	8.1%	3	6.0%	6
Oklahoma	12.0%	1	9.0%	2	10.3%	1
Oregon	1.9%	9	2.6%	9	2.2%	9
Texas	7.9%	4	10.8%	1	9.5%	2
Utah	6.5%	6	4.4%	7	5.3%	8
Other States' Average ETR	*7.6%*		*6.1%*		*6.7%*	

Figure 2
Overall Average Effective Tax Rates for All Industries, Before and After Credits



The table and figure above points out several key factors including:

1. After existing credits are accounted for, New Mexico moves from the least competitive in all industry categories to a ranking 2nd best for Services and 6th best for Manufacturing.

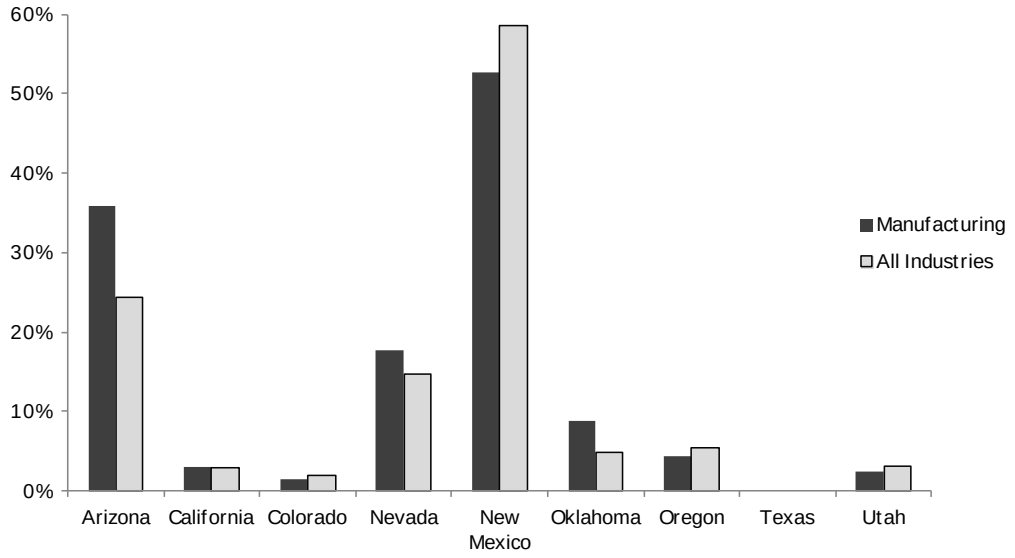
2. Overall, for all industries, existing incentives move New Mexico from the least competitive tax structure to a position where we are more competitive than 3 states and less competitive than 5 of the 9 states studied.

3. New Mexico is more reliant on tax credits and incentives to manage the effective tax rates on investments than other states studied.

One inference from these results is that – for some industries -- tax incentives offered by New Mexico can reduce what is otherwise a very high effective tax rate compared to our neighboring states. However, this avenue is not available for all industries. . Of the existing incentives modeled, the Ernst & Young results suggest that the High Wage Jobs Tax Credit has the most significant impact on reduction of the effective tax rate. Other incentives modeled in New Mexico include the Investment Tax Credit, the Technology Jobs Tax Credit, and Industrial Revenue Bonds. More discretionary, subjective, and uncertain forms of incentives found in New Mexico and other states, such as the Job Training Incentive Program or the Texas Enterprise Fund, were not modeled in this study.

The following figure illustrates the potential reduction in effective tax rate after the inclusion of statutory credits and incentives on a state by state basis:

Figure 3 - Potential Reduction in Total State and Local Effective Tax Rate From Existing Statutory Credits and Incentives (Percentage Reduction in Pre-Credit Overall Effective Tax Rate)



The figure above demonstrates that New Mexico is much more reliant on existing incentives to lower the overall tax burden on the targeted industries than the other states studied.

Rural Versus Urban Tax and Incentive Structures in New Mexico

This study included an analysis of the tax and incentive structures for Deming, New Mexico as a representative sample of rural communities in New Mexico in comparison to urban areas, including Albuquerque.

The study estimates that before incentives are factored in, a new investment in Deming usually, but not always, results in a lower effective tax rate than in Albuquerque. This is primarily due to substantially lower property taxes that more than offset Deming's slightly higher gross receipts tax rates. Corporate income tax and compensating tax rates are the same for all jurisdictions.

In a pre-incentive comparison however, Deming still possesses the second highest effective tax rate on the new corporate investment, second only to Albuquerque, in most industry sectors.

Based on the Ernst & Young estimates in the study, both urban and rural areas of New Mexico see reductions in effective tax rates as a result of existing incentives, with rural areas benefiting to a greater extent based on current incentive structures at the state level.

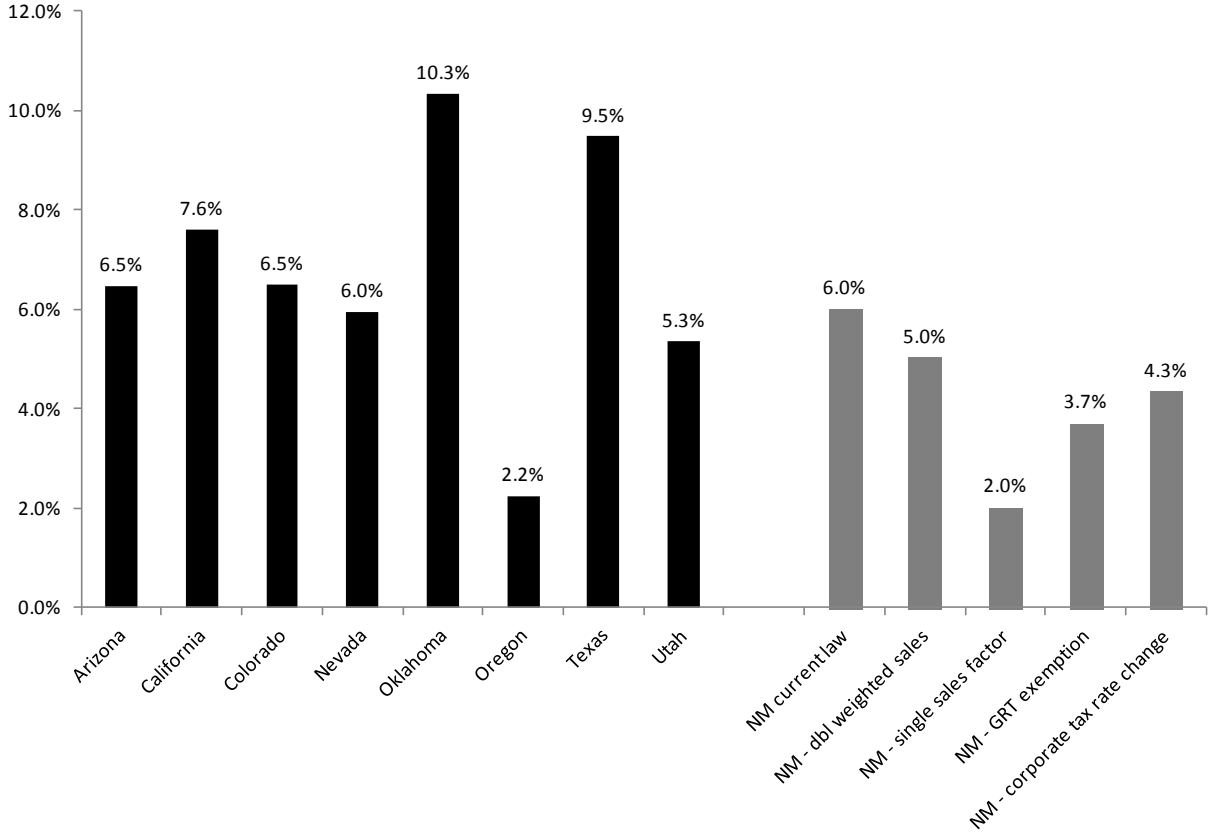
Modeling of Policy Options

At the request of NMTRI, Ernst & Young modeled:

(1) reducing the rate of corporate income tax to 4.9% from the existing rate of 7.6% (including existing incentives),
(2) allowing single or double-weighted sales factor election for corporate income tax apportionment,
(3) eliminating gross receipts tax on manufacturing inputs, and
(4) a tax increment incentive package like one recently adopted by Utah.

These were not the only options available, but reflect some commonly discussed alternatives to reduce the effective tax rate on large capital investments.

Figure 3 - Comparison and Effects of Policy Options on After-Tax Effective Tax Rate for Comparison States and New Mexico – For All Industries



The figure above shows that the single sales factor had the greatest overall impact on the average effective tax rate, reducing New Mexico's effective tax rate from 6% to 2%, which if available, would result in New Mexico having the lowest average effective tax rate among the states and industries studied.

The impact of the policy options on specific industry sectors modeled are depicted in the following tables.

Table 5 - SINGLE SALES FACTOR		
INDUSTRY	RANKING UNDER CURRENT LAW (incl incentives)	REVISED RANKING WITH POLICY CHANGE (incl incentives)
Headquarters	1	5
Renewable Energy Equipment Manufacturing	1	6
Food Products Manufacturing	1	2
Computer & Electronics Manufacturing	3	8
Electrical Equipment Manufacturing	1	3
* rank of 1 is the worst out of 9 states, rank of 9 is best out of 9 states		

Table 6 - DOUBLE SALES FACTOR		
INDUSTRY	RANKING UNDER CURRENT LAW (incl incentives)	REVISED RANKING WITH POLICY CHANGE (incl incentives)
Headquarters	1	2
Renewable Energy Equipment Manufacturing	1	3
Food Products Manufacturing	1	1
Computer & Electronics Manufacturing	3	4
Electrical Equipment Manufacturing	1	2
* rank of 1 is the worst out of 9 states, rank of 9 is best out of 9 states		

Table 7 - LOWERING CORPORATE RATE TO 4.9%		
INDUSTRY	RANKING UNDER CURRENT LAW (incl incentives)	REVISED RANKING WITH POLICY CHANGE (incl incentives)
Headquarters	1	2
Renewable Energy Equipment Manufacturing	1	3
Food Products Manufacturing	1	1
Computer & Electronics Manufacturing	3	6
Electrical Equipment Manufacturing	1	2
* rank of 1 is the worst out of 9 states, rank of 9 is best out of 9 states		

Table 8 - GRT EXEMPTION ON CONSUMABLES		
INDUSTRY	RANKING UNDER CURRENT LAW (incl incentives)	REVISED RANKING WITH POLICY CHANGE (incl incentives)
Headquarters	1	1
Renewable Energy Equipment Manufacturing	1	8
Food Products Manufacturing	1	1
Computer & Electronics Manufacturing	3	8
Electrical Equipment Manufacturing	1	3
* rank of 1 is the worst out of 9 states, rank of 9 is best out of 9 states		

Results in Tables 5 through 8 indicate that the policy initiatives generally have the effect of improving New Mexico's competitiveness, although the effect varies widely by initiative and by industry. Some of the specific results of interest include:

- Allowing single-weighted sales significantly improves competitiveness for manufacturers and headquarters.
- Both double-weighted sales and lowering corporate tax rates improve competitiveness, though as expected the effects are not as dramatic as for single-weighted sales.
- The GRT exemption for consumables has a significant impact on some industries but no effect on others. This likely reflects the differing cost structure of the different industries.

Ernst & Young Conclusions

According to E&Y:

The analysis of the combined burden of state and local business taxes on new investments in selected industries in New Mexico, compared to locations in eight comparison states, provides important information needed to evaluate New Mexico's business tax competitiveness. Key results find that:

1. *New Mexico business taxes, before credits and incentives, rank highest for all nine industries included in the analysis. Compared to the all-industry average effective tax rate for the other eight states included in the analysis, New Mexico's average ETR is more than twice as high.*

2. *The burden of the New Mexico corporate income tax, before credits and incentives, is significantly higher than the burden of the corporate income taxes imposed in the comparison states. New Mexico has the highest corporate income tax ETRs for each industry. Corporate income tax burdens for all the included industries account for 36% of the total state and local tax burdens in New Mexico compared to 16% for the average in the other eight states.*

This is due to both New Mexico's corporate income apportionment formula weights, which equally weight property, payroll and sales, and the 7.6% top statutory corporate income tax rate, the highest rate among the included states.

Five of the states use only the sales factor to apportion nationwide income to the state. This formula lowers the effective tax rates on new investments in the state for industries that sell into national markets. New Mexico and Oklahoma use an equally-weighted formula, while Arizona allows industries to weight sales at 80% and payroll and property at 10%. Nevada has no corporate income tax.

3. *New Mexico imposes a significant sales tax burden on manufacturers. It has the highest before-credit ETR among comparison states for all of the study industries.*

4. *Business tax credits in New Mexico increase the competitiveness of the tax system by reducing the overall state and local tax burden by an average of more than 62%. Including the effects of statutory credits, New Mexico's business tax ranking varies from worst for headquarters, renewable energy equipment, food product and electrical equipment manufacturing to best for research and development, aerospace products and parts manufacturing and management, scientific, and technical consulting services. However, the current tax credits vary significantly in their impact by industry and financial characteristics of a taxpayer's operations in New Mexico.*

New Mexico's state and local business tax system is almost certainly impeding economic growth. Because new capital investment is the channel through which innovative, competitive technology is added to the state's economic base, it is ultimately the source of growth in New Mexico's economy. Importantly, the expanded capital base is also a key driver of the labor productivity that generates a higher standard of living for New Mexico's citizens. With corporate income and sales taxes that are out-of- line with comparison states, New Mexico risks deterring new investment and added jobs.

Background on the Study

Long-standing concerns about the potentially uncompetitive nature of New Mexico's tax system were brought to a head in 2011 when a large manufacturing operation targeted by local economic development recruitment efforts decided to locate elsewhere, citing tax issues as a major part of the basis for their decision. Specific tax issues identified by the company included the gross receipts tax on manufacturing inputs (electricity in this case) and the absence of a single sales factor option which allows exporters to substantially reduce corporate tax liability. In response, Mayor Richard J. Berry of Albuquerque convened an informal group of advisors to discuss New Mexico's ability to compete for new capital investment by manufacturers and other mobile capital. Recalling the KPMG Berents Group study from 1997, performed for the state Economic Development Department and the Town of Silver City, it was suggested that rather than simply reacting to the concerns of one company, the issues should be studied in a comprehensive fashion that took into account all taxes and different industries. The fifteen-year-old KPMG Berents Group study used a "representative firm (or business)" model in which

a hypothetical set of financial statements are calculated for each industry reflecting all of their expenses associated with making a large new investment. The tax system of each jurisdiction included in the study is then applied to these hypothetical financial statements to determine each state's effective tax rate on the new investment inclusive of all applicable taxes. The comparison of locations was made before and after tax incentives and credits. The KPMG Berents Group study ranked New Mexico as having the 3rd highest average overall effective tax rate in seven industry sectors modeled in nine geographic locations before incentives. After including incentives, New Mexico was more competitive with the 5th highest average effective tax rate, demonstrating that New Mexico relied more heavily on credits and incentives to achieve its tax policy objectives than did other compared states.

At the same time Mayor Berry's advisory group was considering commissioning a study, the Council on State Taxation ("COST"), a Fortune 1000 trade association focused on state and local taxes, released a study they had commissioned Ernst &Young LLP's Quantitative Economics and Statistics Practice ("E&Y") to perform. That study, titled *Competitiveness of State and Local Taxes on New Business Investment* modeled the effective tax rate on a hypothetical C-corporation making a hundred million dollar investment in each state and the District of Columbia. Their model assumed investment was made in the largest city of each state for purposes of property tax rates, and used the statewide average sales tax rate (which coincidentally was almost exactly Albuquerque's tax gross receipts tax rate). That study looked at five sectors: headquarters facilities, research and development facilities, office and call center facilities, durable manufacturing facilities, and non-durable manufacturing facilities, but did not include the impact of economic development incentives. The study showed New Mexico ranked 51st in terms of how it taxed new corporate investments--that is, it had the highest effective tax rate on the investments modeled. The study made the following explicit reference and commentary regarding New Mexico:

For the selected facility types, New Mexico's state and local business tax system imposes the greatest tax burden of any state, reducing the rate of return by an average 16.9%. This relatively high tax burden results from several factors:

- *New Mexico uses an equally weighted corporate income apportionment formula. New Mexico's formula apportions to the state a share of national income equal to the average of the percentage of the taxpayer's nation-wide sales, payroll and property in the state. For the hypothetical facilities, this means that roughly two thirds of the additional income attributable to the new investment will be subject to tax in New Mexico. In addition, New Mexico's corporate tax rate is slightly above average (7.6% in New Mexico compared to a nation-wide average of 6.7%).*

- *New Mexico imposes a gross receipts tax on virtually all business activity. The tax is levied at a relatively high tax rate for a gross receipts tax (5.125% at the state level) plus a local tax comparable to retail sales taxes. However, unlike a retail sales tax, it applies to most services. While this tax is technically a liability of the seller, in practice it is passed forward to purchasers and is typically stated separately on invoices. Therefore, this analysis treats the tax as a sales tax with few exemptions, resulting in a significant tax burden for facilities that purchase a large amount of services and other inputs*

typically exempt from state and local sales taxes. In sharp contrast to New Mexico, Ohio, ranked the 4th most competitive state, imposes a gross receipts tax at a rate of 0.26%.

- *New Mexico taxes both real and tangible personal property, although the property tax rate in Albuquerque is slightly below average. The business tax competitiveness index shows the large difference in business tax burdens among the states. Based on the ETRs presented in Table 2, the average state and local business tax burden in the 10 most competitive states (5.0%) is only 42% as large as the average tax burdens for the 10 least competitive states (11.8%). The results also show that more than 20 states have business tax burdens that vary in the narrow range of 6% to 8%.*

A clear limitation of the E&Y/COST study was its failure to include incentives. For instance, Texas would have been given credit in the study for their sales tax exemption for manufacturing equipment, but New Mexico was not given credit for its investment tax credit, which essentially does the same thing. New Mexico is also a difficult state to model in this type of study, given its unique tax structure. While it can be argued that the results are more accurate for businesses not eligible for incentives, most new investments of the magnitude and in the industry sectors modeled are typically eligible for tax incentives and credits.

The Mayor's group decided that for reasons of expediency and cost, it made sense to leverage the fresh work of Ernst & Young while attempting to address the shortcomings of its initial study. The New Mexico Tax Research Institute was commissioned by the City of Albuquerque and Bernalillo County, as well as the New Mexico Taxation and Revenue Department, Economic Development Department, Department of Finance and Administration, and Legislative Finance Committee to engage Ernst & Young and direct and coordinate an enhancement of the initial study. Mayor Berry solicited and received significant private sector financial support from National Association of Industrial and Office Properties, Public Service Company of New Mexico, New Mexico Municipal League, Greater Albuquerque Chamber of Commerce, Southwest Multiple Listing Service, Inc., Greater Albuquerque Association of Realtors, Sheet Metal and Air Conditioning Contractors Association, and the Mechanical Contractors Association of New Mexico. The enhanced study added industry sectors, a more rural location (Deming, NM), and modeled frequently discussed policy options.

Strengths, Limitations and Other Caveats

Representative business comparisons such as this one have the benefit of holding all variables constant so that a direct comparison of relative tax burden among differing tax jurisdictions can be made. While the approach provides an "apples to apples" comparison of tax burden on given investments and operations, the reality is all other variables are not constant. New Mexico might compare favorably or unfavorably relative to cost of labor, real estate, utilities or other non-tax business costs that could outweigh the tax expense associated with a given investment. Accordingly, tax burdens are not the only considerations in business expansion, location, and relocation decisions. However, when all other things are equal, tax burdens can be very significant and certainly factor into investment decisions.

Since this study is an enhancement of the broader Ernst & Young study, it is limited to the assumptions made in that original study. For a more detailed description of the underlying model and assumptions, that study can be found at: http://cst.informz.net/z/cjUucD9taT0xNDQ4NTYxJnA9MSZ1PTEwMDIzNjc2NzEmbGk9NjI5NTAyMw/index.html.
For more background, the 1997 KPMG Barents Group Study can be found on the NMTRI website at:
http://www.nmtri.org/associations/3740/files/KPMG Berents Group NM Tax Study.pdf.

The study necessarily makes relatively simple corporate income tax assumptions and does not model the effects of combined reporting mandated by other states versus New Mexico's separate filing option. Also, while the study accounts for the tax burden on business inputs, it does not attempt to model the effects of pyramiding in the supply chain inside or outside of New Mexico. New Mexico's broad gross receipts tax base when combined with relatively high rates results in more pyramiding of tax than other states' sales tax structures, increasing the cost of purchasing goods and services in New Mexico relative to others states. As previously mentioned, other offsetting costs such as potentially lower costs of labor or real estate are also not modeled in this study.

Changes in assumptions can yield dramatic changes in results as well. For instance, corporate income tax is a significant driver of New Mexico's effective tax rate on the modeled industry sectors. If a similar investment were made by a company not taxed as a corporation (general partnerships, S-Corporations, LLPs, LLCs, etc.) the results would change meaningfully for both New Mexico and comparison states.

The study is not an all encompassing view of tax burden on static large businesses, small businesses, households or the like – all of which would be worth studying. This study is merely a piece of a larger puzzle focusing on the tax impacts on large corporate capital investment.

Policy Options, Tradeoffs, and Recommendations

Policy makers who want to reduce New Mexico's tax burden on new corporate investment in sectors where New Mexico still ranks highest can see from the results of this study how the policy options modeled would reduce that burden. In fact, any tax reduction or incentive that offsets taxes due will reduce effective tax rates. Any decision on whether to implement these or other similar options, however, will require consideration of general tax policy objectives, as well. For instance, reducing the effective tax rate imposed on a manufacturer of goods for export could be accomplished in one of several ways--using targeted tax credits, eliminating any tax on inputs, reducing corporate or gross receipts tax rates, or changing corporate income apportionment factors (like the single-weighted sales factor), etc. Each of those options presents different broader tax policy implications to the state's overall tax structure, not to mention differing fiscal impacts to state and possibly local government revenue. If the primary concern is the exporter's effective tax rate, a narrowly crafted solution that minimizes the fiscal impact might suffice. Alternatively, broader reform can be accomplished with tax rate reduction or broader revisions to the tax code, but this is a more costly way to lower the effective tax rate for a given sector. While narrower options may be less costly, they may also be seen as less certain and less equitable. Most tax policy issues and options present tradeoffs and conflicts between

good tax policy principles. Still, the New Mexico Tax Research Institute attempts to view and evaluate tax policy within the context of such principles. Those principles endorsed by our organization are reprinted after the acknowledgments, and we hope you take the time to read them.

Acknowledgments

The New Mexico Tax Research Institute wishes to thanks those that contributed in large and small ways to the study and without who's financial and other support, this effort would not have been possible. The effort was exemplary of good government and non-partisan public/private sector collaboration-- something New Mexico should continue to pursue. (If we left anyone out, we apologize.)

From New Mexico State Government
The Hon. Susana Martinez, Governor, State of New Mexico
Thomas E. Clifford, PhD, Secretary Designate, Department of Finance and Administration
John Barela, Secretary Designate, Economic Development Department
Demesia Padilla, Secretary, Taxation and Revenue Department
Barbara Brazil, Deputy Secretary, Economic Development Department
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From Mayor Berry's initial advisory group:
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From the New Mexico Legislature
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From Bernalillo County
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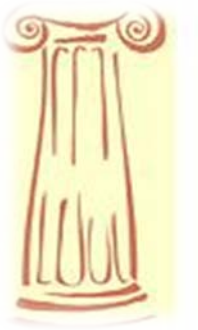
Commissioner Art De La Cruz
Commissioner Michelle Lujan Grisham
Commissioner Michael C. Wiener
Mayling Armijo, Economic Development Director

Generous Community Support
New Mexico Municipal League
National Association of Industrial and Office Properties
PNM
Southwest Multiple Listing Service, Inc.
Greater Albuquerque Association of Realtors
Sheet Metal and Air Conditioning Contractors Association
Mechanical Contractors Association of New Mexico
Greater Albuquerque Chamber of Commerce



Principles of the New Mexico Tax Research Institute

It's important, particularly when dealing with tough economies, tough decisions, and the emotionally charged subject of taxes, to view the world in the context of principles. Taxes are good in that they raise the money we need to pay for the services we want. They're bad in that they often create inefficiencies, distortions, and sometimes inequities. A more rational approach is to look at our entire tax system rather than getting "lost in the weeds" focusing only on a particular rate or some item we choose to tax or not tax. Taxes should raise the amount of money needed (and there's obviously plenty of debate to be had on that subject) while doing the least harm to the economy, allowing for job creation, promoting fair treatment of taxpayers and protecting the most vulnerable. Accordingly, we've taken the opportunity to reprint our principles of good tax policy here:

State and local taxes should be adequate to provide an appropriate level of those goods and services best provided by the public sector, such as education, public safety, law enforcement, streets and highways, and the courts.

- State and local tax policy should do the least harm to the private economy. Therefore, tax bases should be as broad as possible so that tax rates can be as low as possible in order to raise the necessary revenues.

- State and local tax policy should be fair and equitable towards individuals and businesses similarly situated. Individuals with the same income level should be taxed the same. Businesses engaged in similar commercial activities should be subject to the same level of taxation.

- State and local tax policy should not be costly to administer and should be easily understood by taxpayers so as to minimize taxpayer compliance costs.

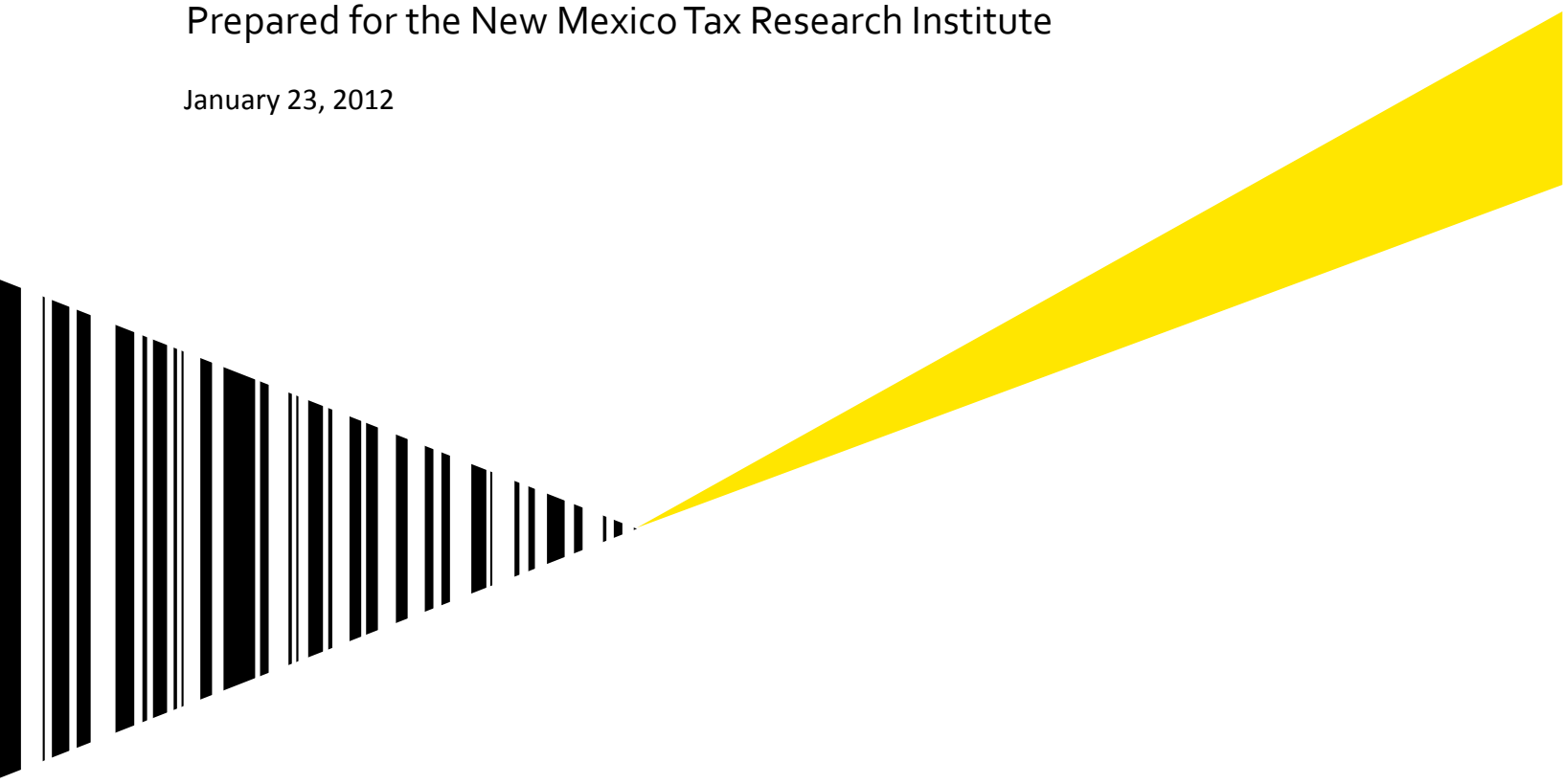
- The state and local tax burden should be evaluated on the basis of the impact of all taxes levied on a given taxpayer, not just a single tax or tax rate.

- Deviations from established tax policy in pursuit of economic development, social or other goals should be well-reasoned and pursued only when established tax policies are not significantly undermined and the results of such deviations can subsequently be measured and evaluated.

New Mexico Business Tax Competitiveness and Simulations of Selected Tax Policy Changes

Prepared for the New Mexico Tax Research Institute

January 23, 2012



Ernst & Young

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New Mexico Business Tax Competitiveness

EXECUTIVE SUMMARY

Summary of Study Results

This analysis, prepared by Ernst & Young LLP for the New Mexico Tax Research Institute, compares the state and local tax burdens imposed on selected new business investments in New Mexico and eight competitive states. The competitive states, selected by the Research Institute include: Arizona, California, Colorado, Nevada, Oklahoma, Oregon, Texas, and Utah. The nine types of investments include: renewable energy equipment manufacturing, food product manufacturing, computer manufacturing, electrical equipment manufacturing, aerospace products and parts manufacturing, corporate headquarters activities, research and development facilities, business support services, and management, scientific and technical consulting services.

Estimates of state and local business tax burdens by type of investment are derived from E&Y's New Mexico business tax competitiveness model (BTCM). The BTCM calculates current state and local business tax burdens imposed on new capital spending and on-going operations of selective business investments over a 30-year life span. To isolate the impact of differences in the state and local tax systems in each state, the financial profiles of the representative investments are held constant across the states.

The methodology used in this analysis follows that used in EY's recent 50-state business tax competitiveness study.[1] The BTCM uses income statement and balance sheet financial information to estimate the major state and local tax bases for each investment and calculates tax liabilities on the new investments based on current-law state and local tax system parameters. The state and local taxes included in the study are: corporate income taxes, franchise taxes, sales and use taxes on business purchases, and local property taxes.

The state and local tax burdens are summarized as effective tax rates (ETRs). The ETR on a new investment measures the percentage reduction in the before-tax rate of return due to the state and local business taxes imposed on the investment. For example, if the before-tax rate of return on an investment is 10% and the after-tax rate of return is 9%, the ETR is 10%. The study presents two sets of ETRs: 1) ETRs before the consideration of tax credits, and 2) ETRs including statutory tax credits that are generally available to corporate taxpayers. The comparison of before- and after-credit ETRs illustrates how statutory tax credits affect a state's business tax competitiveness.

The tax burden estimates presented in this study can be used to evaluate the competitiveness of New Mexico's current state and local business tax system for new investment and jobs. In addition, the BRCM can be used to evaluate the impact of proposed tax policy changes designed to improve New Mexico's business tax competitiveness.

[1] See Ernst & Young LLP, *Competitiveness of State and Local Business Taxes on New Investment: Ranking States by Tax Burden on New Investment* (April 2011). This study was done in conjunction with the Council on State Taxation (COST).

Key Study Findings

Table ES-1 provides an overview of the analysis results. It shows the average ETRs (before credits) by state for the manufacturing and services investments included in the study. The states are ranked by ETRs with 1 representing the highest ETR ranking.

Table ES-1 shows that New Mexico business taxes, before credits, rank highest for all nine industries included in the analysis. Compared to the all-industry average effective tax rate for the other eight states included in the analysis, New Mexico's average ETR is more than twice as high.

Table ES-1
Average Effective State and Local Business Tax Rates by Investment Type, Before Credits

State	Services		Manufacturing		All Industries	
	ETR	Rank	ETR	Rank	ETR	Rank
Arizona	10.3%	3	6.9%	5	8.4%	4
California	10.2%	4	6.0%	6	7.9%	5
Colorado	7.7%	6	5.8%	7	6.6%	7
Nevada	6.9%	7	6.9%	4	6.9%	6
New Mexico	13.4%	1	17.9%	1	15.9%	1
Oklahoma	12.0%	2	9.9%	3	10.8%	2
Oregon	2.0%	9	2.7%	9	2.4%	9
Texas	7.9%	5	10.8%	2	9.5%	3
Utah	6.9%	8	4.5%	8	5.6%	8
Other States' Average ETR	*8.0%*		*6.7%*		*7.3%*	

Figures ES-1 through ES-3 show the source of New Mexico's high ETRs by type of tax for services, manufacturing, and all industries. The results of the study show that:

- For the manufacturing investments, New Mexico imposes significantly higher state and local tax burdens (60% higher) than the comparison-state average. By ranking, New Mexico has the highest overall effective tax rate on each of the manufacturing investments.

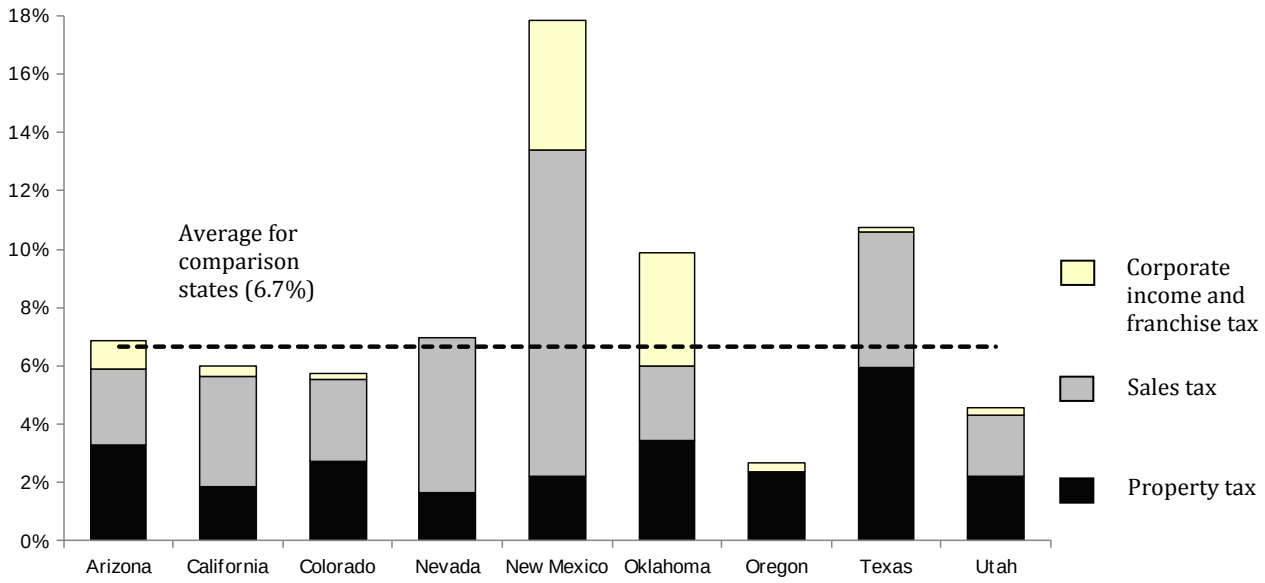
- Average state and local tax burdens for the service sector investments in New Mexico are 62.5 percent higher than average burdens in the eight comparison states. New Mexico ranks highest overall for each of the four service industries, due to generally high burdens for all taxes except local property and sales taxes.

- New Mexico imposes the highest corporate income taxes of the comparison states for the five manufacturing industries in this study. This is due to both a relatively high statutory tax rate and the use of relatively large weights on in-state payroll and property in the formula used to apportion U.S.-wide income to New Mexico.

- Sales taxes on business purchases of capital and operating goods and services generally impose higher business tax burdens than the corporate income tax and may approach the level of the property tax burden. For all of the manufacturing investments, New Mexico state and local sales taxes (GRTs) account for 62% of the estimated total business tax burden; the average for manufacturers in the other states is 42%. This results from the fact that New Mexico's GRT applies to a relatively high percentage of business input purchases.

- Property tax ETRs are below the average for the other states. The property tax calculations use tax rates that reflect statutory mill rates, assessment ratios, and sales ratios applied to estimates of taxable property.

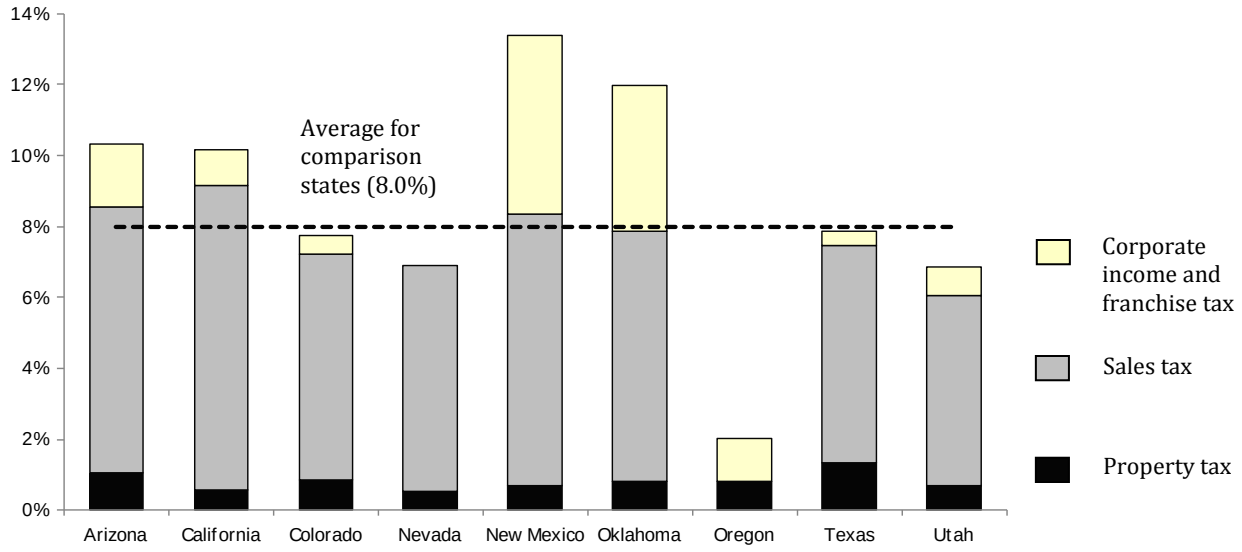
Figure ES-1
Average Effective Tax Rates for Manufacturing Industries, Before Credits



Source: E&Y Business Tax Competitiveness Model

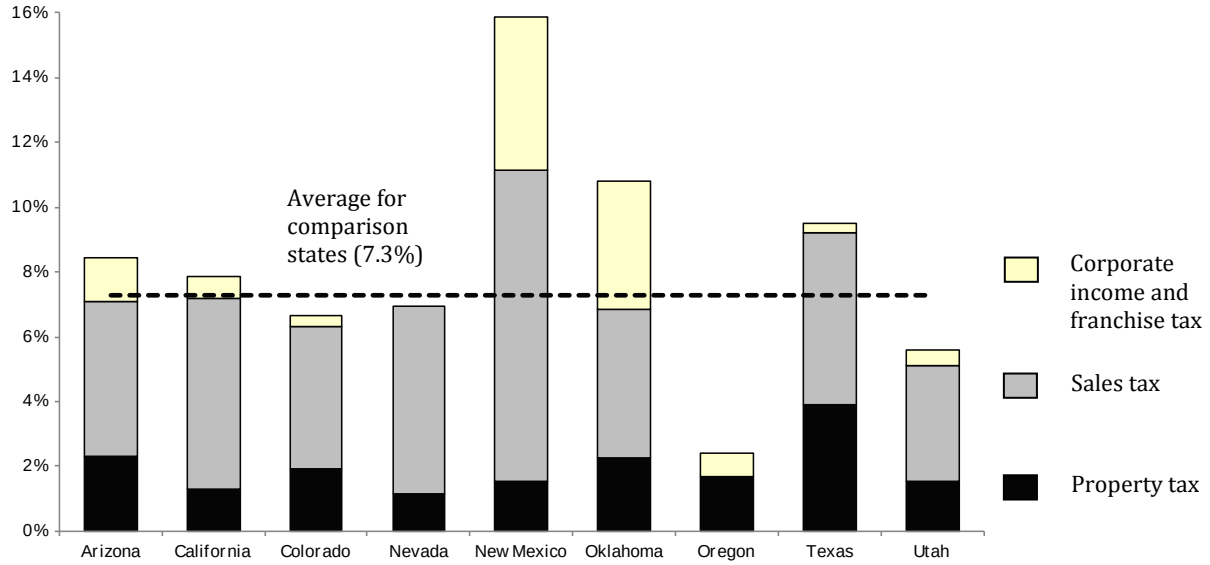
Table ES-2 presents the ETRs, before credits, by industry and state. Note that two locations are included in New Mexico, Albuquerque and Deming. The results show that the two New Mexico locations rank 1st or 2nd highest in state and local business tax burdens among the included states for each industry. For comparison purposes, the last line in Table ES-2 shows the average ETR for the other eight industries.

Figure ES-2
Average Effective Tax Rates for Services, Before Credits



Source: E&Y Business Tax Competitiveness Model

Figure ES-3
Overall Average Effective Tax Rates for All Include Industries, Before Credits



Source: E&Y Business Tax Competitiveness Model

Table ES-2
Summary of State and Local Effective Tax Rates and Rankings among Comparison States, Before Credits

State	Headquarters		Research & Development		Renewable Energy Equipment Manufacturing		Business Support Services		Food Product Manufacturing		Computer & Electronics Manufacturing		Electrical Equipment Manufacturing		Aerospace & Parts Manufacturing		Management, Scientific, and Technical Consulting Services	
	ETR	Rank	ETR	Rank	ETR	ETR	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank
Arizona	1.3%	4	10.3%	4	5.9%	6	17.9%	5	5.5%	7	7.4%	5	7.7%	5	8.0%	5	11.8%	5
California	0.7%	5	9.6%	5	5.3%	7	18.4%	3	4.7%	8	6.9%	6	6.3%	7	6.8%	7	12.0%	4
Colorado	0.5%	6	7.6%	7	4.4%	8	13.8%	6	6.4%	5	5.6%	8	6.3%	7	6.2%	8	9.1%	7
Nevada	0.2%	10	6.3%	9	7.2%	5	12.7%	8	6.4%	5	6.6%	7	7.0%	6	7.5%	6	8.4%	8
New Mexico																		
Albuquerque	4.9%	1	12.1%	1	17.5%	1	20.1%	2	15.4%	1	15.0%	1	20.2%	1	21.1%	1	16.5%	2
Deming	4.9%	1	11.7%	2	16.9%	2	20.4%	1	14.7%	2	14.5%	2	19.0%	2	20.2%	2	16.8%	1
Oklahoma	4.4%	3	11.4%	3	8.7%	3	18.0%	4	8.1%	3	10.2%	3	10.3%	4	12.1%	4	14.2%	3
Oregon	0.4%	7	3.7%	10	2.4%	10	3.0%	10	2.4%	10	1.9%	10	3.6%	10	3.1%	10	1.0%	10
Texas	0.4%	7	8.3%	6	7.9%	4	13.6%	7	6.5%	4	10.1%	4	13.1%	3	16.1%	3	9.2%	6
Utah	0.4%	7	7.1%	8	3.8%	9	12.3%	9	3.5%	9	5.1%	9	5.1%	9	5.4%	9	7.5%	9
Other States' Avg.	*1.0%*		*8.0%*		*5.7%*		*13.7%*		*5.4%*		*6.7%*		*7.4%*		*8.2%*		*9.2%*	

Table ES-3
Average Effective State and Local Business Tax Rates, After Credits
by Investment Type

State	Services		Manufacturing		All Industries	
	ETR	Rank	ETR	Rank	ETR	Rank
Arizona	9.0%	3	4.4%	8	6.5%	5
California	9.8%	2	5.8%	4	7.6%	3
Colorado	7.5%	5	5.7%	6	6.5%	4
Nevada	6.3%	7	5.7%	5	6.0%	7
New Mexico	3.4%	8	8.1%	3	6.0%	6
Oklahoma	12.0%	1	9.0%	2	10.3%	1
Oregon	1.9%	9	2.6%	9	2.2%	9
Texas	7.9%	4	10.8%	1	9.5%	2
Utah	6.5%	6	4.4%	7	5.3%	8
Other States' Average ETR	*7.6%*		*6.1%*		*6.7%*	

The detailed before- and after-credits results reported in the study show that:

- Business tax credits in New Mexico increase the competitiveness of the tax system by reducing the overall state and local tax burden by an average of more than 62%. With credits, New Mexico's business tax ranking varies from 1st for headquarters, renewable energy equipment, food product and electrical equipment manufacturing to 9th for research and development, aerospace products and parts manufacturing and management, scientific, and technical consulting services.

- However, the results show a large variance in the industry-by-industry impacts of New Mexico's credits on business tax competitiveness. In some cases New Mexico's credits fall short of overcoming the states' relatively high ETRs, and in other cases the credits more than offset the state's competitive tax disadvantage.

- The findings demonstrate how difficult it is to use targeted tax credits that are sensitive to the economic and financial characteristics of specific firms to provide the more uniform tax reductions across all industries needed to overcome New Mexico's non-competitiveness.

- Firms considering new investments in New Mexico must navigate through a complex and uncertain tax credit and incentive system in order to determine the net business taxes that New Mexico imposes on the initial investments and on-going operations of firms investing in the state.

Policy Implications

New Mexico's state and local business tax system is almost certainly impeding economic growth. Because new capital investment is the channel through which innovative, competitive technology and new jobs are added to the state's economic base, it is ultimately the source of growth in New Mexico's economy. Even more important, an expanded capital base is also a key driver of the labor productivity that generates a higher standard of living for New Mexico's citizens. With corporate income and sales taxes that are out-of- line with comparison states, New Mexico risks deterring new investment, added employment and higher real incomes for residents.

New Mexico Business Tax Competitiveness

Overview

This analysis compares the state and local tax burdens on selected new business investments in New Mexico and eight competitive states. The competitive states included in this analysis are: Arizona, California, Colorado, Nevada, Oklahoma, Oregon, Texas, and Utah. The tax burden estimates can be used to determine how competitive New Mexico's business tax system is for new investment and job creation in the state for specific industries.

Estimates of state and local business tax burdens by industry are derived from EY's New Mexico business tax competitiveness model (BTCM). The BTCM calculates current state and local business tax burdens imposed on new in-state capital investments, and projects these burden by year over a 30-year life span. Additionally, the BTCM can be used to simulate how tax policy changes may affect New Mexico's business tax competitiveness. Tax policy changes that improve New Mexico's competitive position are expected to contribute to higher long-run state economic growth.

The BTCM provides a firm-level perspective on how New Mexico's business tax burdens compare to the tax burdens a firm would face in other states. Unlike aggregate measures of total taxes paid by business, this approach looks at the marginal impact of making a new, profitable investment in a state. It is a forward-looking, marginal tax burden analysis as opposed to an aggregate measure of average business taxes paid on existing investments. This is the type of analysis that businesses conduct when deciding to locate or expand in a state. The competitiveness model identifies the additional taxes that a firm faces in adding investment and jobs in a state. Differences in state business tax systems can have a significant impact on these marginal investment decisions.

The New Mexico BTCM generated the measures of a state's tax competitiveness reported in this study. EY designed the tax simulation model to estimate combined state and local business tax burdens paid by different types of firms expanding in various states. The BTCM provides comprehensive estimates of additional state and local taxes paid by the business as a direct result of the expansion. Effective tax rates (ETRs), presented in this report are tax rates on new investments before tax credits and incentives (referred to as "credits" in this report) that are generally available to most taxpayers. These ETRs measure the competitiveness of New Mexico's business tax system before the consideration of statutory and negotiated tax credits used to offset business tax burdens.

It is important for policy makers to understand how competitive New Mexico's state and local tax structure is when taxpayers compare general tax provisions, both rates and bases, across states. While tax credits are important in almost all states, the value to taxpayers may be limited by number of years, caps based on operating results, and uncertainty over qualification for credits. As a result of the uncertainty of credits, firm's considering new investments in New Mexico may place more weight on the expected tax burdens before credits in making investment decisions.

The next section of the report discusses the methodology used to estimate ETRs. The following section presents the estimates of effective tax rates by state, industry and tax type. The final section reports ETRs for the industries included in the study after any reductions due to major statutory tax credits designed to encourage new capital investment, employment and research and development

spending in New Mexico. The comparison of before- and after-credit ETRs indicates how statutory tax credits affect a state's business tax competitiveness. Negotiated tax credits and geographically limited credits, such as enterprise zone credits are not considered in the analysis.

Modeling Business Tax Burdens

Taxes are computed for selected types of firms expanding in New Mexico and eight comparison state locations. State and local taxes included in the analysis are: state and local corporate income and franchise taxes, state and local sales taxes on business inputs (including New Mexico's gross receipts tax), and local property taxes. The tax parameters are based on current tax laws applicable to tax year 2011. Current-law changes in tax provisions through 2015, including tax rates and apportionment formulas, are modeled beginning in the tax year the changes are scheduled to take effect.

Firm financial profiles (balance sheets and income statements) are used to capture relevant financial characteristics of the investments for representative firms in selected industries. The nine industries or activities included are: renewable energy equipment manufacturing, food product manufacturing, computer manufacturing, electrical equipment manufacturing, aerospace products and parts manufacturing, corporate headquarters, research and development facilities, business support services, and management, scientific and technical consulting services. (See Appendix B for a detailed description of the included industries.)

State and local tax laws are programmed into the BTCM. (See Appendix A for the tax parameters included for each state.) Each industry or activity's income and balance sheet data are extrapolated over a 30-year period. The model computes state and local taxes for each year using the tax law parameters and the tax base estimates generated from the financial data. The resulting stream of annual tax burdens is then subtracted from the before-tax income stream of each new investment to derive the after-tax income stream. The tax impacts are summarized as effective tax rates (ETRs) measured as the percentage reduction in the rate of return on the before-tax income stream due to state and local taxes on the new investment. For example, if the before-tax rate of return is 10% and the after-tax rate of return is 9%, the ETR is 10%.

Overall Competitiveness Results

Table 1 provides an overview of the BTCM results. It presents the average ETRs by state for the manufacturing and services investments included in the study, as well as the average for all the investments. The final row of the table reports the average ETRs in all the states other than New Mexico.

Table 1 clearly shows how non-competitive New Mexico's general business tax system is before accounting for the impact of credits. Compared to the average in the eight other states, New Mexico's ETR (13.4%) is 1.7 times higher than the average for the services industries in the other states (8%); New Mexico's manufacturing ETR (17.9%) is 2.7 times higher than the other-state average (6.7%). For all industries combined, New Mexico is more than double the average for the other eight states. In ranking the states, 1 represents the highest ETR.[2]

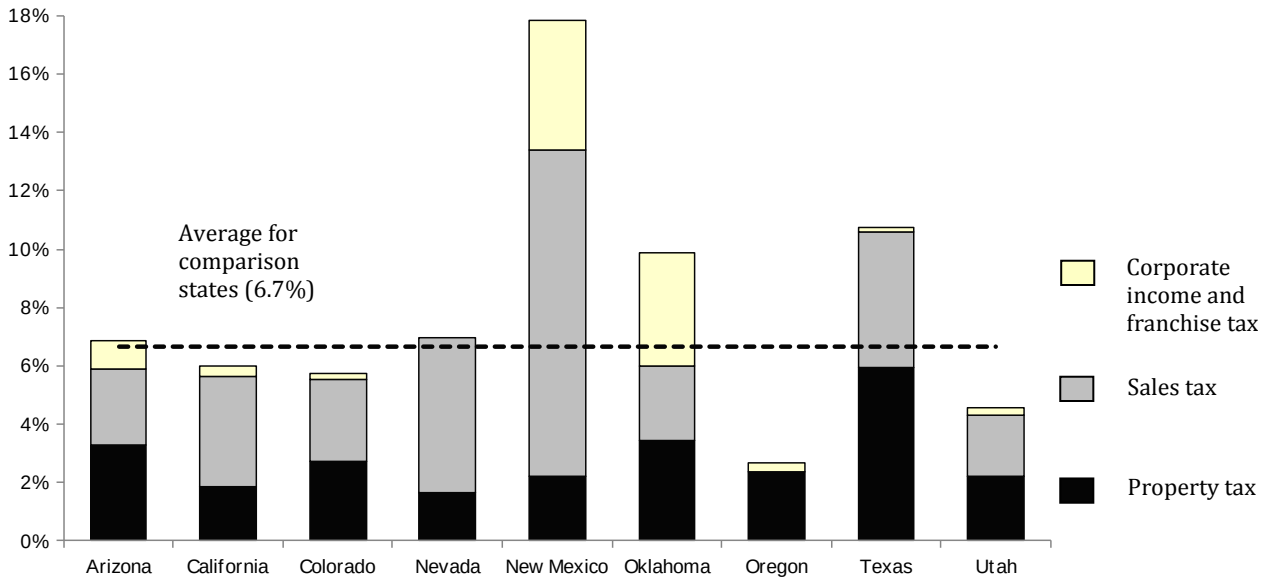
Table 1
Average Effective State and Local Business Tax Rates by Investment Type, Before Credits

State	Services		Manufacturing		All Industries	
	ETR	Rank	ETR	Rank	ETR	Rank
Arizona	10.3%	3	6.9%	5	8.4%	4
California	10.2%	4	6.0%	6	7.9%	5
Colorado	7.7%	6	5.8%	7	6.6%	7
Nevada	6.9%	7	6.9%	4	6.9%	6
New Mexico	13.4%	1	17.9%	1	15.9%	1
Oklahoma	12.0%	2	9.9%	3	10.8%	2
Oregon	2.0%	9	2.7%	9	2.4%	9
Texas	7.9%	5	10.8%	2	9.5%	3
Utah	6.9%	8	4.5%	8	5.6%	8
Other States' Average ETR	*8.0%*		*6.7%*		*7.3%*	

[2] The other-state average is being pulled down by the relatively low state and local business tax burden in Oregon. The recent 50-state EY study, *Competitiveness of State and Local Business Taxes on New Investment* (April 2011) ranks Oregon as having the second lowest business tax burden among all the states in sharp contrast to New Mexico's ranking as the state with the highest business tax burden. While the EY 50-state study covers a different combination of investments than included in the New Mexico, it does show that Oregon and New Mexico represent the two extreme ends of the business tax burden distribution among all the states.

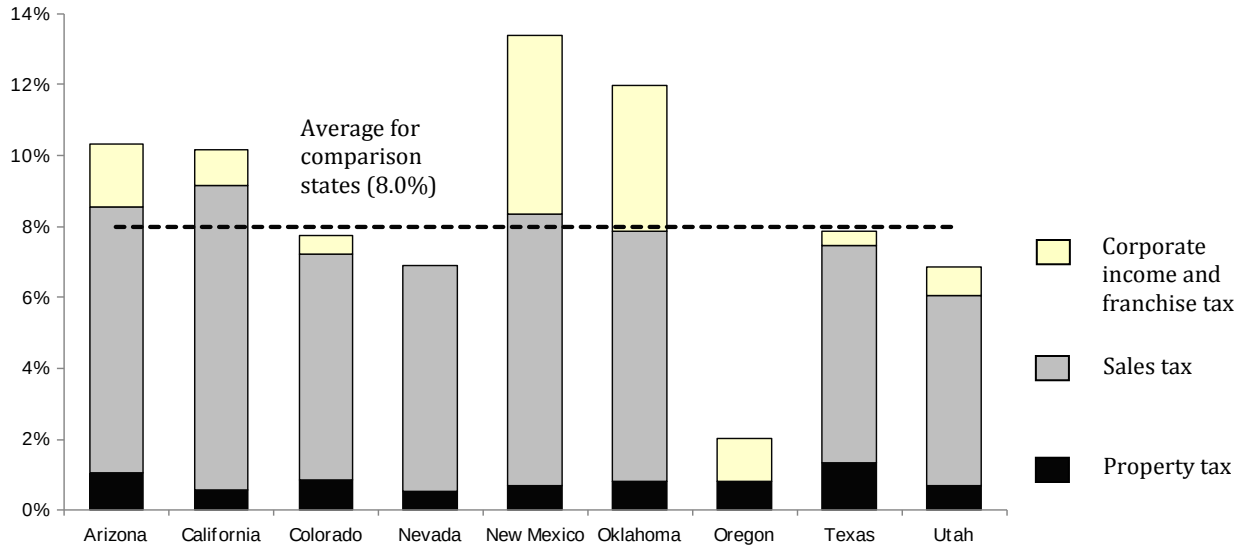
Figures 1 to 3 show how New Mexico compares to the eight other states in terms of average ETRs for manufacturing (Figure 1), services (Figure 2), and all industries (Figure 3) included in the study. The horizontal dotted lines in each figure show the eight-state average ETRS for each sector group and the combined investments. Each bar shows the contribution of property, sales and corporate income and franchise taxes to the total ETR. The figures show that New Mexico's relatively higher business tax burdens (as measure by ETRs) is due to a combination of relatively high corporate income taxes and sales taxes on business purchases under New Mexico's gross receipts tax. (The next section includes a more detailed discussion of ETRs by tax type for both state and local business taxes.

Figure 1
Average Effective Tax Rates for Manufacturing Industries, Before Credits



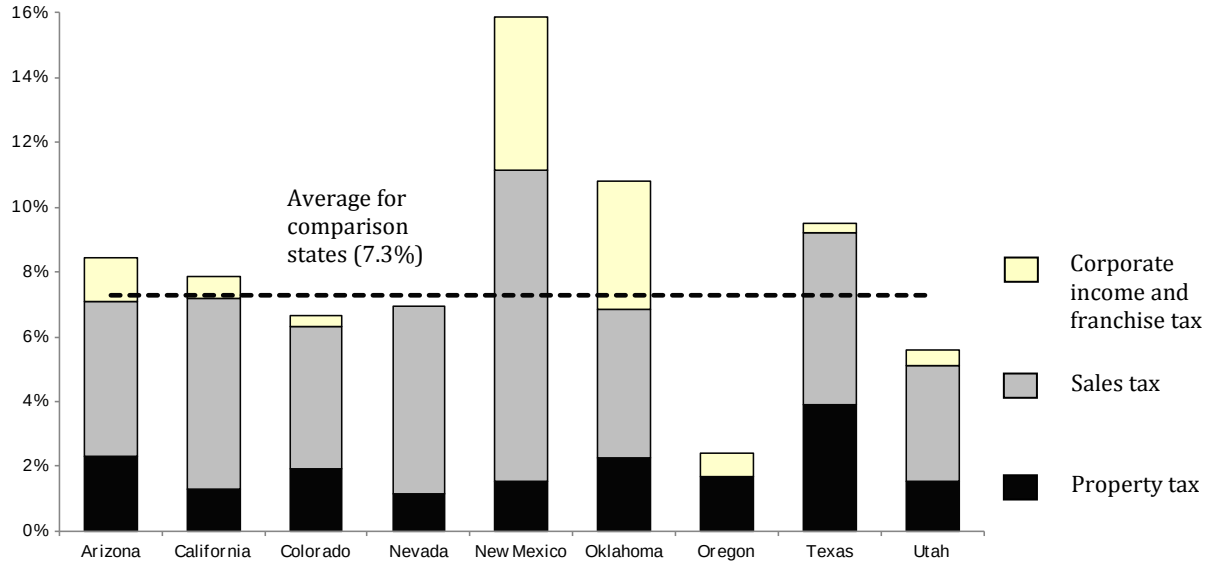
Source: E&Y Business Tax Competitiveness Model

Figure 2
Average Effective Tax Rates for Services, Before Credits



Source: E&Y Business Tax Competitiveness Model

Figure 3
Overall Average Effective Tax Rates for All Include Industries, Before Credits



Source: E&Y Business Tax Competitiveness Model

Detailed Effective Tax Rates by Industry and Tax Type

Tables 2 and 3 summarize the results of the analysis in more detail. Table 2 presents the ETRs by industry and by state for all state and local business taxes combined. It shows for example that New Mexico's total effective tax rate on the headquarters investment is 4.9% compared to the eight-state average of 1.0%; for food product manufacturing, New Mexico's ETR is 15.4% compared to the other states' average of 5.4%.

New Mexico has the highest ETRs (number 1 rank) for each type of investment. The last line in Table 2 shows the ratio of New Mexico's ETR to the average ETR in the other eight states. New Mexico's relative ETRs range from 1.5 times higher than the other-state average for research and development and renewable energy equipment manufacturing to 4.9 times the average for the headquarters investment.

Table 3 shows tax burdens for each state indexed to the New Mexico ETR for each industry; the New Mexico rate is set equal to 100 percent. For example, Arizona's state and local tax burden index number is 25.9% for the headquarters investment; in other words, the Arizona ETR is 74.1 percent lower than New Mexico's ETR. The average ETRs in the other states range from 21.4% of the New Mexico ETR (headquarters) to 68.2% of the New Mexico ETR (business support services).

Table 4 adds more detail on the source of the relatively high ETRs imposed on new investments and economic activity in New Mexico. The table presents ETRs and rankings by state and local tax type and by industry for each of the states. State business taxes are presented in the first section of the table followed by local business taxes.
The results of the analysis show that:

- In the manufacturing sectors (renewable energy equipment, food products, computer and electronics, electrical equipment and aerospace products and parts manufacturing), New Mexico imposes significantly higher state and local tax burdens (60% higher) than the comparison-state average. By ranking, New Mexico has the highest overall effective tax rate on each of the manufacturing investments. For three of the five manufacturing sectors, Oklahoma has the second highest effective tax rate, in part because it imposes both corporate income and franchise taxes.

- Sales taxes on business purchases of capital and operating goods and services generally impose higher business tax burdens than the corporate income tax and may approach the level of the property tax burden. For example, the combined state and local sales tax ETR for the food manufacturing example averages 2.1% (state plus local sales and use taxes) for the eight other competitive states. For these states, the corporate income tax and franchise tax ETR averages 0.7% and the local property tax ETR averages 2.6%.

- In New Mexico, the combined state and local sales tax ETR for food manufacturing is 8.9% compared to ETRs of 4.4% for corporate income taxes and 2% for local property taxes. For all of the manufacturing examples, New Mexico state and local sales taxes account for 62% of the estimated total business tax burden; the average for manufacturers in the other states is 42%. In most other states, sales tax exemptions eliminate a significant percentage of the taxation of business inputs under the sales tax, resulting in lower ETRs (before credits). However, in New

Mexico, the GRT is imposed on a relatively high percentage of business input purchases with reductions then provided through various credit programs.[3]

Firms considering new investments in New Mexico must navigate through a complex and uncertain tax credit system in order to determine the net sales tax ETRs after credits. The BTCM calculations also show that the sales tax on business capital investments has a disproportionate impact on the ETRs because sales taxes on these purchases occur in the initial years of the 30-year investment period. For this reason, the relatively high New Mexico sales taxes on capital investments are not heavily discounted in the ETR calculations. These large, front-loaded taxes on significant capital investments will have a major negative impact on business investment decisions.

- New Mexico imposes the highest corporate income taxes of the comparison states for the five manufacturing industries in this study. Manufacturers primarily exporting final products generally face higher corporate income tax burdens in states that assign lower weights to the in-state sales factor and higher weights to the in-state payroll and property factors used to apportion U.S.-wide income to a state. New Mexico has high corporate income tax ETRs because it assigns a relatively high weight (33%) to both in-state property and payroll.. Because the BTCM assumes that the new investment has 100% of its payroll and property in the state, but exports 95% to other states, New Mexico's apportionment formula assigns 68% of the income generated by the new investment to the state. In contrast, in states with a 100% weight on the sales factor (no weight on in-state payroll and property), only 5% of the additional income from the new investment is taxed in the expansion state.

  For this reason, manufacturers face higher business income tax burdens in Arizona, New Mexico, and Oklahoma and lower burdens in California, Colorado, Oregon, Texas, and Utah. Effective corporate income tax rates for the three states with double-weighted or equally-weighted sales factors in the apportionment formulas average 3.2 percent compared to an average rate of only 0.4% in states with a 100% weight on the sales factor. (See the section on tax policy options that looks at changes in the New Mexico apportionment formula.)

- Average state and local tax burdens for service sector firms (headquarters, research and development, business support services, and management, scientific, and technical consulting services) in New Mexico are 62.5 percent higher than average burdens in the eight comparison states (see Figure 2). New Mexico ranks highest overall for each of the four service industries, due to generally high burdens for all taxes except local property and sales taxes.

  New Mexico's relatively high ETRs on the headquarters expansion (almost 5 times the other-state average) is due primarily to the relatively high corporate income tax rate. The New Mexico corporate income tax rate is 3.9 percentage points higher than the average in the other states. This is due primarily to the relatively high weight on in-state property and payroll in the New Mexico apportionment formula. For the headquarters investment, the corporate income tax accounts for 94% of the combined state and local tax burden in New Mexico.

[3] Based on analysis with the E&Y 50-state sales tax model and feedback from the New Mexico Taxation and Revenue Department, the percentage of business capital purchases subject to the GRT in New Mexico is estimated to exceed 90% for capital purchases and 40% for inputs purchased for on-going operations.

- Property tax ETRs are below the average for the other states. The property tax calculations use tax rates that reflect statutory mill rates, assessment ratios, and sales ratios applied to estimates of taxable property.[4] In Table 4, the property tax rates and provisions are for the largest city in each state, including Albuquerque. (Estimates for ETRs in Deming, New Mexico are presented in a later section).

[4] The property tax information for other states is based on effective tax rates calculated in the 2011 Minnesota Taxpayers Association, *50-State Property Tax Comparison Study*.

Table 2
State and Local Effective Business Tax Rates and Rankings among Comparison States, by Industry and State, Before Credits

State	Headquarters		Research & Development		Renewable Energy Equipment Manufacturing		Business Support Services		Food Product Manufacturing		Computer & Electronics Manufacturing		Electrical Equipment Manufacturing		Aerospace & Parts Manufacturing		Management, Scientific, and Technical Consulting Services	
	ETR	Rank	ETR	Rank	ETR	ETR	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank
Arizona	1.3%	3	10.3%	3	5.9%	5	17.9%	4	5.5%	6	7.4%	4	7.7%	4	8.0%	4	11.8%	4
California	0.7%	4	9.6%	4	5.3%	6	18.4%	2	4.7%	7	6.9%	5	6.3%	6	6.8%	6	12.0%	3
Colorado	0.5%	5	7.6%	6	4.4%	7	13.8%	5	6.4%	5	5.6%	7	6.3%	7	6.2%	7	9.1%	6
Nevada	0.2%	9	6.3%	8	7.2%	4	12.7%	7	6.4%	4	6.6%	6	7.0%	5	7.5%	5	8.4%	7
New Mexico	4.9%	1	12.1%	1	17.5%	1	20.1%	1	15.4%	1	15.0%	1	20.2%	1	21.1%	1	16.5%	1
Oklahoma	4.4%	2	11.4%	2	8.7%	2	18.0%	3	8.1%	2	10.2%	2	10.3%	3	12.1%	3	14.2%	2
Oregon	0.4%	7	3.7%	9	2.4%	9	3.0%	9	2.4%	9	1.9%	9	3.6%	9	3.1%	9	1.0%	9
Texas	0.4%	8	8.3%	5	7.9%	3	13.6%	6	6.5%	3	10.1%	3	13.1%	2	16.1%	2	9.2%	5
Utah	0.4%	6	7.1%	7	3.8%	8	12.3%	8	3.5%	8	5.1%	8	5.1%	8	5.4%	8	7.5%	8
Other States' Avg.	1.0%		8.0%		5.7%		13.7%		5.4%		6.7%		7.4%		8.2%		9.1%	
Ratio of NM to Avg.	4.9		1.5		3.1		1.5		2.9		2.2		2.7		2.6		1.8	

Table 3
Summary of State and Local Effective Tax Rates by Industry, Before Credits
Indexed to New Mexico's Effective Tax Rate
(New Mexico = 100%)

State	Headquarters	Research & Development	Renewable Energy Equipment Manufacturing	Business Support Services	Food Product Manufacturing	Computer & Electronics Manufacturing	Electrical Equipment Manufacturing	Aerospace & Parts Manufacturing	Management, Scientific, and Technical Consulting Services
Arizona	25.9%	85.2%	33.6%	89.3%	36.0%	49.2%	37.9%	37.6%	71.3%
California	14.8%	79.4%	30.0%	91.5%	30.8%	45.8%	31.0%	32.3%	72.5%
Colorado	10.5%	62.4%	25.0%	68.7%	41.4%	37.1%	31.0%	29.4%	55.1%
Nevada	5.0%	51.7%	41.2%	63.2%	41.6%	43.6%	34.8%	35.6%	50.8%
New Mexico	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Oklahoma	89.3%	93.8%	49.7%	89.4%	52.4%	67.6%	51.0%	57.4%	85.9%
Oregon	8.4%	30.5%	13.9%	14.9%	15.8%	12.5%	17.7%	14.4%	6.0%
Texas	8.0%	68.2%	45.0%	67.6%	42.6%	67.2%	65.0%	76.4%	56.0%
Utah	9.1%	58.5%	21.4%	61.4%	22.6%	34.0%	25.0%	25.3%	45.7%
Other States' Avg.	*21.4%*	*66.2%*	*32.5%*	*68.2%*	*35.4%*	*44.6%*	*36.7%*	*38.6%*	*55.4%*

Table 4
State and Local Effective Business Tax Rates, Before Credits by Industry, Tax Type and State

State	Headquarters		Research & Development		Renewable Energy Equipment Manufacturing		Business Support Services		Food Product Manufacturing		Computer & Electronics Manufacturing		Electrical Equipment Manufacturing		Aerospace & Parts Manufacturing		Management, Scientific, and Technical Consulting Services	
Total State and Local Taxes	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank
Arizona	1.3%	3	10.3%	3	5.9%	5	17.9%	4	5.5%	6	7.4%	4	7.7%	4	8.0%	4	11.8%	4
California	0.7%	4	9.6%	4	5.3%	6	18.4%	2	4.7%	7	6.9%	5	6.3%	6	6.8%	6	12.0%	3
Colorado	0.5%	5	7.6%	6	4.4%	7	13.8%	5	6.4%	5	5.6%	7	6.3%	7	6.2%	7	9.1%	6
Nevada	0.2%	9	6.3%	8	7.2%	4	12.7%	7	6.4%	4	6.6%	6	7.0%	5	7.5%	5	8.4%	7
New Mexico	4.9%	1	12.1%	1	17.5%	1	20.1%	1	15.4%	1	15.0%	1	20.2%	1	21.1%	1	16.5%	1
Oklahoma	4.4%	2	11.4%	2	8.7%	2	18.0%	3	8.1%	2	10.2%	2	10.3%	3	12.1%	3	14.2%	2
Oregon	0.4%	7	3.7%	9	2.4%	9	3.0%	9	2.4%	9	1.9%	9	3.6%	9	3.1%	9	1.0%	9
Texas	0.4%	8	8.3%	5	7.9%	3	13.6%	6	6.5%	3	10.1%	3	13.1%	2	16.1%	2	9.2%	5
Utah	0.4%	6	7.1%	7	3.8%	8	12.3%	8	3.5%	8	5.1%	8	5.1%	8	5.4%	8	7.5%	8
Other States' Avg.	*1.0%*		*8.0%*		*5.7%*		*13.7%*		*5.4%*		*6.7%*		*7.4%*		*8.2%*		*9.1%*	
State Corporate/Business Tax																		
Arizona	0.9%	3	2.2%	3	1.0%	3	2.7%	3	1.0%	3	1.0%	3	0.9%	3	1.0%	3	1.3%	3
California	0.4%	4	1.6%	5	0.4%	4	1.7%	5	0.4%	4	0.4%	4	0.4%	4	0.4%	4	0.4%	4
Colorado	0.2%	7	0.8%	7	0.2%	7	0.9%	8	0.2%	7	0.2%	7	0.2%	7	0.2%	8	0.2%	7
Nevada	0.0%	9	0.0%	9	0.0%	9	0.0%	9	0.0%	9	0.0%	9	0.0%	9	0.0%	9	0.0%	9
New Mexico	4.6%	1	5.1%	1	4.5%	1	5.5%	1	4.4%	1	4.5%	1	4.5%	1	4.5%	1	4.9%	1
Oklahoma	3.6%	2	3.9%	2	3.5%	2	4.2%	2	3.5%	2	3.5%	2	3.5%	2	3.6%	2	3.9%	2
Oregon	0.3%	5	2.0%	4	0.3%	5	2.2%	4	0.3%	5	0.3%	5	0.3%	5	0.3%	5	0.4%	5
Texas	0.0%	8	0.5%	8	0.2%	8	1.0%	7	0.1%	8	0.1%	8	0.2%	8	0.2%	6	0.2%	8
Utah	0.2%	6	1.3%	6	0.2%	6	1.4%	6	0.2%	6	0.2%	6	0.2%	6	0.2%	7	0.2%	6
Other States' Avg.	*0.7%*		*1.5%*		*0.7%*		*1.8%*		*0.7%*		*0.7%*		*0.7%*		*0.7%*		*0.8%*	
State Sales Tax																		
Arizona	0.2%	5	4.3%	4	1.5%	5	10.3%	4	1.2%	5	3.1%	5	1.6%	5	2.2%	5	7.0%	4
California	0.2%	1	5.2%	1	2.5%	3	12.2%	1	2.0%	3	4.0%	4	2.5%	4	3.2%	4	8.4%	2
Colorado	0.1%	8	2.2%	8	0.8%	8	5.2%	8	1.6%	4	1.6%	8	1.0%	8	1.2%	8	3.6%	8
Nevada	0.2%	4	4.7%	2	5.2%	2	11.0%	3	4.4%	2	5.0%	3	4.3%	3	5.0%	3	7.2%	3
New Mexico	0.2%	2	4.7%	3	10.3%	1	11.3%	2	7.9%	1	8.6%	1	11.5%	1	12.7%	1	8.7%	1
Oklahoma	0.1%	6	3.1%	7	1.0%	7	7.4%	7	0.8%	8	2.4%	7	1.3%	7	1.9%	6	5.5%	6
Oregon	0.0%	9	0.0%	9	0.0%	9	0.0%	9	0.0%	9	0.0%	9	0.0%	9	0.0%	9	0.0%	9
Texas	0.2%	3	3.9%	5	1.9%	4	9.1%	5	1.1%	6	5.0%	2	4.9%	2	5.9%	2	6.5%	5
Utah	0.1%	7	3.3%	6	1.2%	6	7.7%	6	1.0%	7	2.6%	6	1.4%	6	1.9%	7	5.1%	7
Other States' Avg.	*0.1%*		*3.3%*		*1.8%*		*7.9%*		*1.5%*		*3.0%*		*2.1%*		*2.7%*		*5.4%*	

Table 4 (continued)
State and Local Effective Tax Rates, Before Credits
by Industry, Tax Type and State

State	Headquarters		Research & Development		Renewable Energy Equipment Manufacturing		Business Support Services		Food Product Manufacturing		Computer & Electronics Manufacturing		Electrical Equipment Manufacturing		Aerospace & Parts Manufacturing		Management, Scientific, and Technical Consulting Services	
State Franchise Tax	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank
Arizona	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2
California	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2
Colorado	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2
Nevada	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2
New Mexico	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2
Oklahoma	0.5%	1	0.3%	1	0.3%	1	0.1%	1	0.3%	1	0.3%	1	0.5%	1	0.3%	1	0.1%	1
Oregon	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2
Texas	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2
Utah	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2	0.0%	2
Other States' Avg.	*0.1%*		*0.0%*		*0.0%*		*0.0%*		*0.0%*		*0.0%*		*0.1%*		*0.0%*		*0.0%*	
Local Property Tax																		
Arizona	0.1%	2	2.2%	2	2.9%	3	1.1%	2	2.9%	2	2.1%	3	4.5%	2	3.9%	3	0.8%	2
California	0.1%	8	1.2%	8	1.6%	8	0.6%	8	1.7%	8	1.2%	8	2.6%	8	2.3%	8	0.5%	8
Colorado	0.1%	3	1.8%	4	2.4%	4	0.9%	3	2.5%	4	1.8%	4	3.8%	4	3.3%	4	0.7%	3
Nevada	0.1%	9	1.1%	9	1.4%	9	0.5%	9	1.5%	9	1.1%	9	2.3%	9	2.0%	9	0.4%	9
New Mexico	0.1%	5	1.4%	6	1.9%	7	0.7%	7	2.0%	7	1.4%	7	3.0%	7	2.7%	7	0.5%	7
Oklahoma	0.1%	6	1.8%	3	3.1%	2	0.8%	5	2.9%	3	2.2%	2	3.9%	3	5.0%	2	0.6%	5
Oregon	0.1%	7	1.7%	5	2.1%	5	0.8%	4	2.1%	5	1.6%	5	3.2%	5	2.7%	5	0.6%	4
Texas	0.2%	1	2.9%	1	5.3%	1	1.2%	1	5.1%	1	3.7%	1	6.9%	1	8.5%	1	1.0%	1
Utah	0.1%	4	1.4%	7	1.9%	6	0.7%	6	2.0%	6	1.4%	6	3.1%	6	2.7%	6	0.6%	6
Other States' Avg.	*0.1%*		*1.8%*		*2.6%*		*0.8%*		*2.6%*		*1.9%*		*3.8%*		*3.8%*		*0.6%*	
Local Sales Tax																		
Arizona	0.1%	5	1.6%	4	0.6%	5	3.9%	4	0.4%	6	1.2%	5	0.6%	6	0.8%	6	2.7%	4
California	0.1%	4	1.7%	3	0.8%	3	3.9%	3	0.6%	3	1.3%	3	0.8%	5	1.0%	5	2.7%	3
Colorado	0.1%	1	2.8%	1	1.0%	1	6.8%	1	2.1%	1	2.0%	1	1.3%	1	1.5%	1	4.6%	1
Nevada	0.0%	8	0.5%	8	0.5%	6	1.2%	8	0.5%	5	0.5%	8	0.4%	7	0.5%	8	0.7%	8
New Mexico	0.1%	3	0.9%	7	0.9%	2	2.6%	5	1.0%	2	0.5%	7	1.1%	3	1.3%	4	2.3%	5
Oklahoma	0.1%	2	2.3%	2	0.8%	4	5.5%	2	0.6%	4	1.8%	2	1.0%	4	1.4%	3	4.1%	2
Oregon	0.0%	9	0.0%	9	0.0%	9	0.0%	9	0.0%	9	0.0%	9	0.0%	9	0.0%	9	0.0%	9
Texas	0.0%	6	0.9%	6	0.5%	7	2.2%	7	0.3%	8	1.2%	4	1.2%	2	1.4%	2	1.6%	7
Utah	0.0%	7	1.0%	5	0.4%	8	2.5%	6	0.3%	7	0.8%	6	0.4%	8	0.6%	7	1.6%	6
Other States' Avg.	*0.1%*		*1.4%*		*0.6%*		*3.3%*		*0.6%*		*1.1%*		*0.7%*		*0.9%*		*2.2%*	

Impact of Tax Credits

The business tax competitiveness results presented above do not include the impact of business tax credits and incentives. This section examines the additional impact of the major statutory credits on the ETRs by state and by industry.

The credits included in the calculations below are those available statutorily, as opposed to negotiated credits that are determined on a case-by-case basis.[5] These credits are administered through the tax system, although they may require prior approval before the credits may be claimed on tax returns. In addition, credits that are limited to specific geographic areas, such as enterprise zone credits, are not included. Examples of credits included in the analysis are those that reduce the cost of new in-state capital investment and provide targeted incentives to hire new employees and expand research and development spending.[6] Up to four credits were included in each state. Appendix C lists the credits that are included for each state.

Table 5 presents estimates of the percentage point reduction in the combined state and local ETRs by industry from statutory credits related to business investment, job expansion, and research activities. As evident in Table 5, the impact of tax credits on total state and local ETRs range from minimal to close to 100% depending on the state and industry. Generally, the tax credits are more significant for manufacturing than services investments. For the eight competitive states, reductions in ETRs range from 1.7% for the headquarters investment to 11% for aerospace products and parts manufacturing. For all included industries, the simple average reduction in ETRs due to credits for the competitive states is 7.2%.

As shown in Table 5, New Mexico's very high before-credit ETRs are offset by very high credit offsets. For the nine industries, New Mexico credits provide an average reduction in ETRs of almost 60%, far larger than the reductions provided by credits in the other states. What is also unusual about New Mexico is the large variation in the credit offset percentages across the industries. Credits reduce New Mexico ETRs by only 4% for headquarters investments, but by roughly 100% for research and development activities, aerospace manufacturing, and management and scientific consulting services. This large variance illustrates the difficulty in using targeted tax credits that are dependent upon the economic and financial characteristics of business investments to provide tax relief from relatively high before-credit, state and local business taxes.

[5] In some states, Texas, for example, the negotiated credits are paid for out of specific funds available to governors or economic development agencies. These types of incentives are not included in the analysis.

[6] The impact of credits on the before-credit ETRs often depends upon limits on the size of combined business credits. For example, a state may limit the amount of credits that can be claimed to no more than 50% or 100% or claiming one credit may prohibit a taxpayer from claiming another credit. The BTCM calculations include the impact of these limits and restrictions.

Table 5
Percentage Reduction in Total State and Local Business Effective Tax Rates Due to Statutory Credits

State	Headquarters	Research and Development	Renewable Energy Equipment Manufacturing	Business Support Services	Food Products Manufacturing	Computer & Electronics Manufacturing	Electrical Equipment Manufacturing	Aerospace Products and Parts Manufacturing	Management, Scientific, and Technical Consulting Services
Arizona	0.0%	-21.2%	-37.3%	-11.3%	-37.6%	-29.6%	-28.8%	-45.6%	-8.4%
California	0.0%	-7.1%	-3.3%	-3.0%	-3.1%	-2.8%	-2.9%	-2.8%	-1.6%
Colorado	-0.6%	-4.8%	-2.0%	-3.2%	-1.4%	-1.6%	-1.3%	-1.5%	-1.2%
Nevada	-13.4%	-16.9%	-17.1%	-6.9%	-18.1%	-13.7%	-18.4%	-21.1%	-7.0%
New Mexico	-4.2%	-105.9%	-52.9%	-43.0%	-27.3%	-53.1%	-33.1%	-97.3%	-111.3%
Oklahoma	0.0%	0.0%	-10.8%	0.0%	-10.6%	-5.9%	-7.0%	-9.9%	0.0%
Oregon	0.0%	-9.6%	-3.5%	-7.5%	-2.6%	-7.5%	-2.6%	-5.2%	-9.7%
Texas	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Utah	0.0%	-9.3%	-2.9%	-5.8%	-3.1%	-2.1%	-2.1%	-2.0%	-1.6%
Other States' Avg.	*-1.7%*	*-8.6%*	*-9.6%*	*-4.7%*	*-9.5%*	*-7.9%*	*-7.9%*	*-11.0%*	*-3.7%*

Figure 4
Potential Reduction in Total State and Local Effective Tax Rate from Statutory Credits, (Percentage Reduction in Pre-Credit Overall Effective Tax Rates)

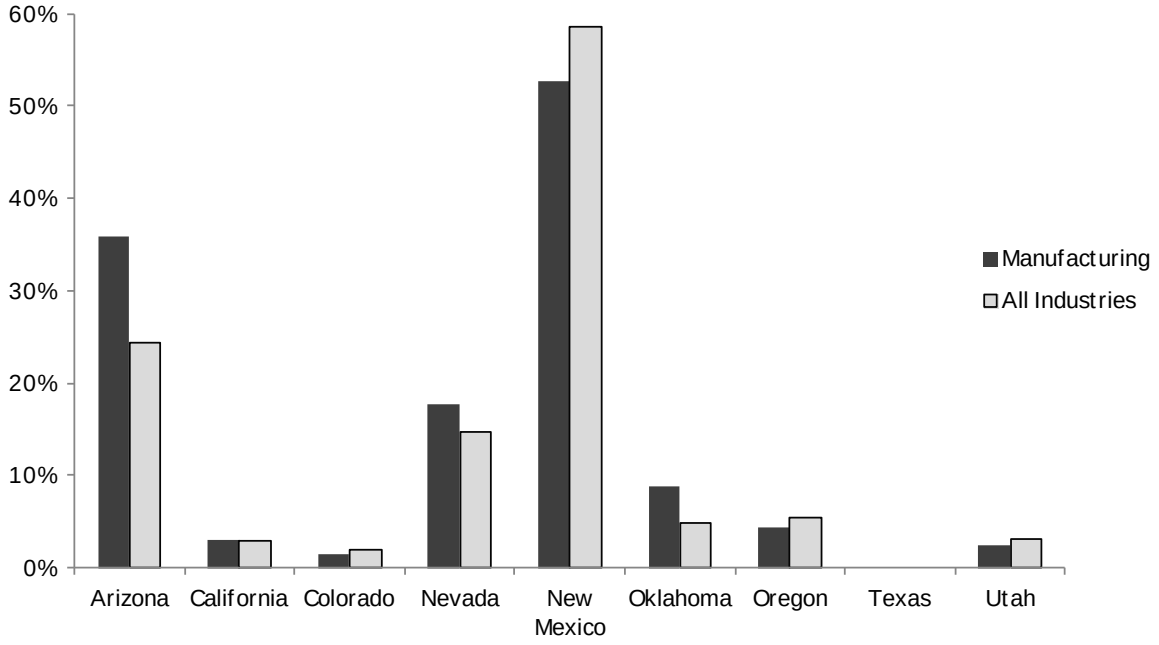


Figure 4 shows the percentage reduction in the ETRs due to statutory credits for manufacturing as a group and for all industries combined in each state. It shows how much more generous tax credits in New Mexico are compared to the other states. As shown in Figure 4, in some states manufacturing industries benefit more from tax credits due to the number and size of credits targeted at new capital investment. The benefit of credits to manufacturers is compounded in many states that allow manufacturers to use a 100% sales-factor apportionment formula. In these states, there is relatively little incremental tax liability from new investments with little in-state sales, but they may receive relatively large credits associated with in-state capital investment.

In New Mexico, however, the average potential reduction in ETRs due to statutory credits for the service sector is 66.1% compared to 52.7% for the five manufacturing industries. Large statutory credits offered to the research and development investment and the management, scientific and technical consulting service investment in New Mexico contribute substantially to reducing ETRs for the service sector.

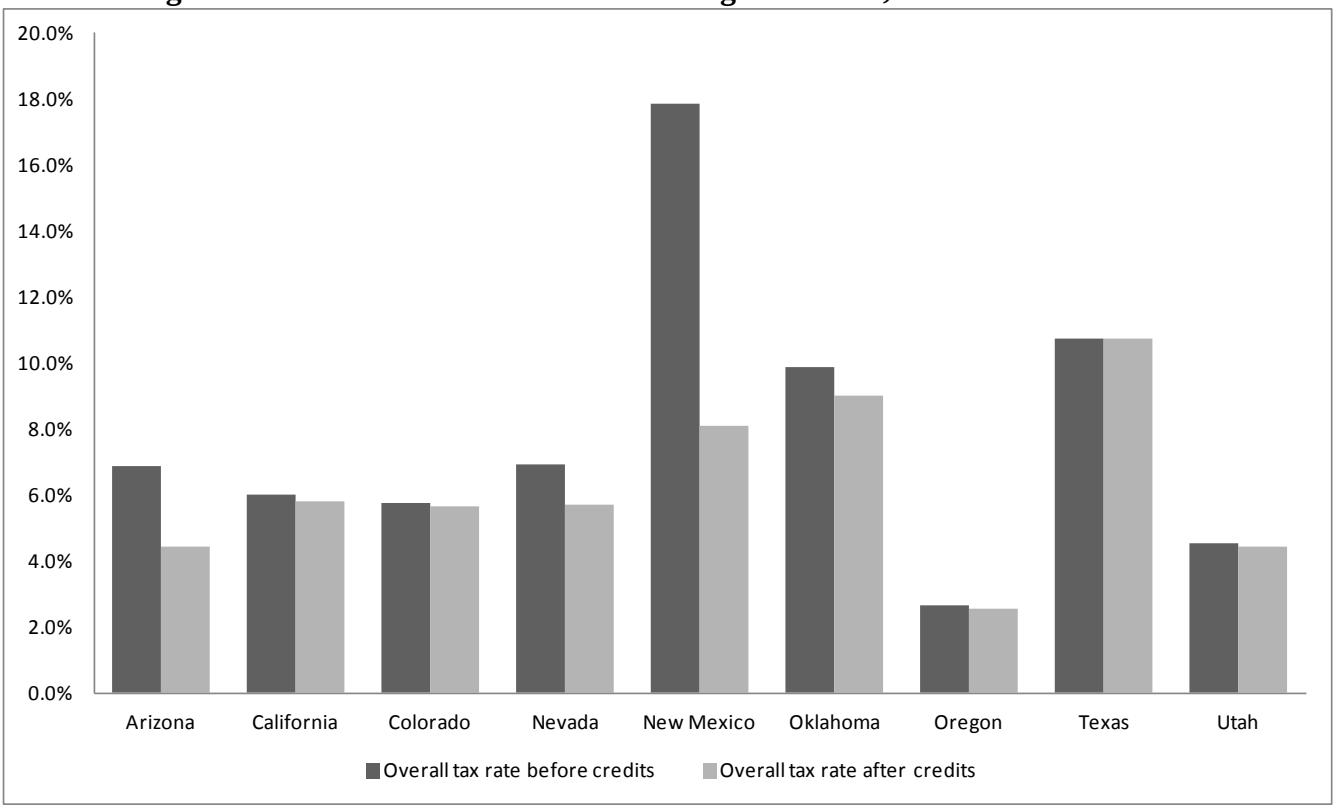
The credit that is providing such large offsets to tax liabilities in these service industries is the High-Wage Jobs Tax Credit. This program offers a refundable credit equal to 10% of the payroll and benefits paid to new workers (up to $12,000 per employee) if the payments meet required minimum amounts per employee. The credits are paid for up to four years, the number of years assumed in the modeling. The R&D and management consulting investments benefit from adding significant new jobs that qualify for the credit.

Table 6 and Figures 5 through 7 present the net ETRs for industries and comparison states after the subtraction of statutory credits from before-credit taxes. As shown in Table 6, for the services investments, New Mexico ranks 8th highest out of nine states after credits are included. However, New Mexico's ranking for manufacturing is still relatively high (3rd highest). For all industries, New Mexico drops from the highest average ETR before credits (2.1 times higher than the other-state average) to 6th highest ETR after credits (10% below the average in the other states).

Table 6
Average Effective State and Local Business Tax Rates, After Credits
by Investment Type

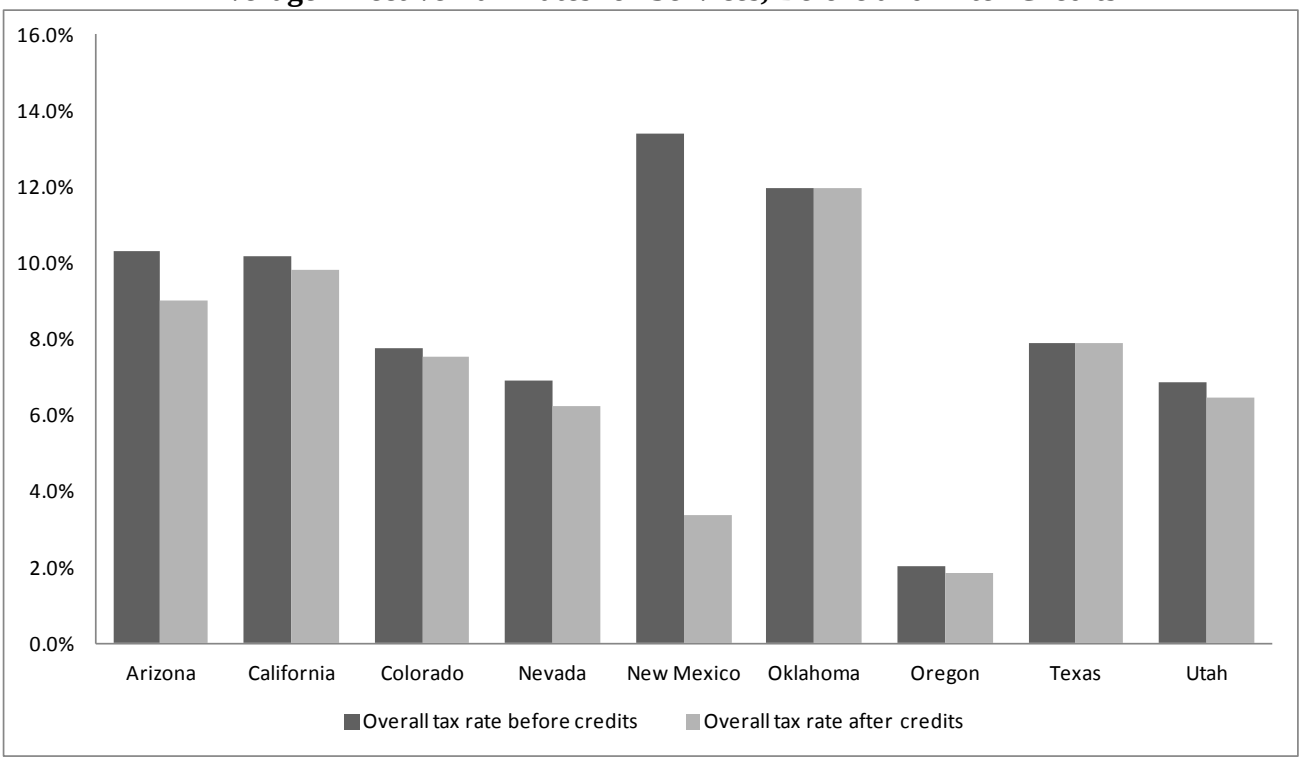
State	Services		Manufacturing		All Industries	
	ETR	Rank	ETR	Rank	ETR	Rank
Arizona	9.0%	3	4.4%	8	6.5%	5
California	9.8%	2	5.8%	4	7.6%	3
Colorado	7.5%	5	5.7%	6	6.5%	4
Nevada	6.3%	7	5.7%	5	6.0%	7
New Mexico	3.4%	8	8.1%	3	6.0%	6
Oklahoma	12.0%	1	9.0%	2	10.3%	1
Oregon	1.9%	9	2.6%	9	2.2%	9
Texas	7.9%	4	10.8%	1	9.5%	2
Utah	6.5%	6	4.4%	7	5.3%	8
Other States' Average ETR	*7.6%*		*6.1%*		*6.7%*	

Figure 5
Average Effective Tax Rates for Manufacturing Industries, Before and After Credits



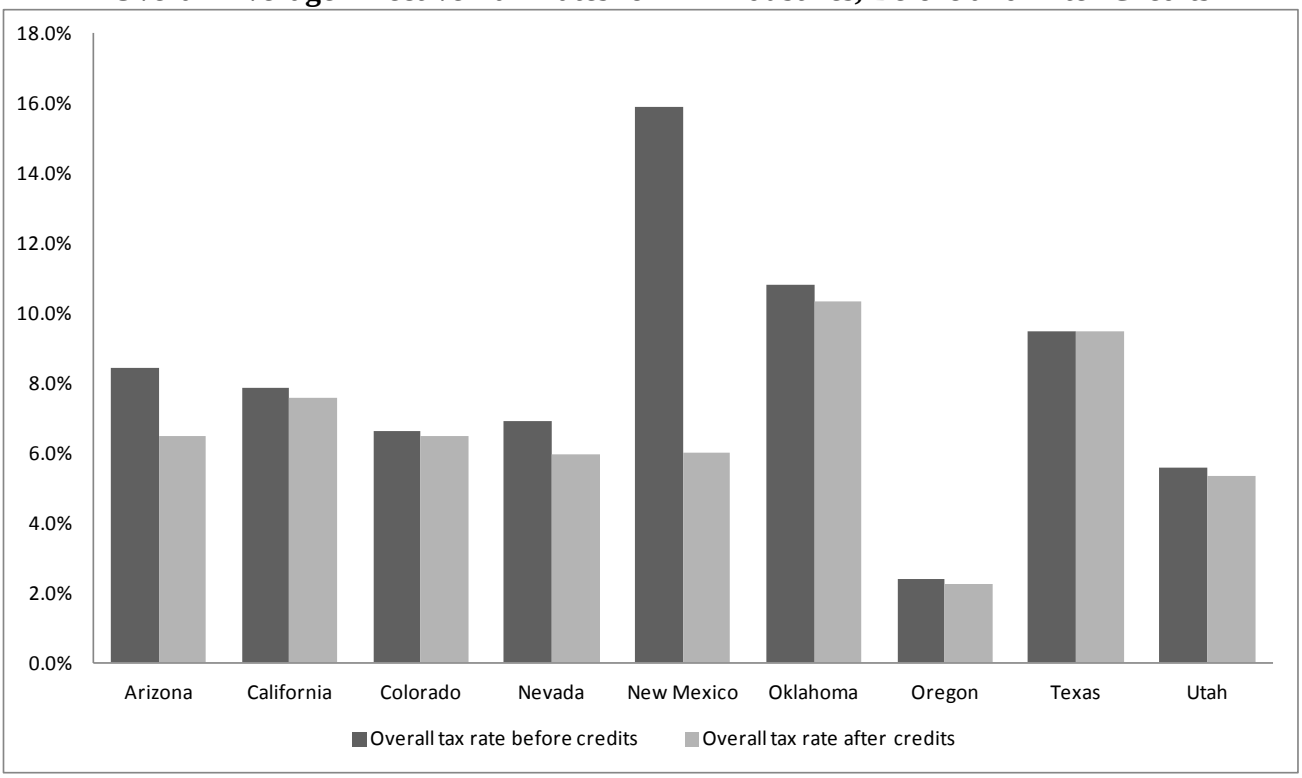
Source: E&Y Business Tax Competitiveness Model

Figure 6
Average Effective Tax Rates for Services, Before and After Credits



Source: E&Y Business Tax Competitiveness Model

Figure 7
Overall Average Effective Tax Rates for All Industries, Before and After Credits



Source: E&Y Business Tax Competitiveness Model

Table 7 compares the before-credit ETRs and the after-credit ETRs by state and by industry. The middle block of the table shows the ETR equivalent of the value of credits. For example, for the food manufacturing investment, New Mexico credits are equivalent to a -4.2% effective tax rate. This reduces New Mexico's combined state and local before-credit ETR from 15.4% to 11.2% after credits, a 27% reduction.

As shown in Table 7, for five of nine industries, New Mexico's total state and local tax burdens, net of credits, are still higher than the comparison state average ETRs. In fact, in four of the investments -- headquarters, renewable energy equipment manufacturing, food products manufacturing and electrical equipment manufacturing -- New Mexico still has the highest ETRs among the states. In contrast, the New Mexico credits, primarily the refundable, front-loaded High-Wage Jobs Credit, are sufficient to offset positive taxes paid in later years and, therefore, create slightly negative ETRs on the new investments generating the qualified jobs. No other state has negative after-credit ETRs for of the example investments.[7]

[7]The credits included in the analysis are statutory tax credits generally available to taxpayers in all industries. Tax credits that apply to a single industry example, such as New Mexico's Alternative Energy Product Manufacturers Tax Credit, were not included. The BTCM was used to estimate the impact of adding this credit on the New Mexico ETR for the renewable energy equipment manufacturing investment. With the addition of this credit, the New Mexico after-credit ETR for this industry drops from 8.3% to 7.5%, a reduction of almost 10%.

The results in Table 7 again demonstrate how difficult it is to use targeted tax credits to provide uniform tax reductions across all industries needed to overcome New Mexico's non-competitiveness. In some cases New Mexico's credits fall short of overcoming the states' relatively high ETRs, and in other cases the credits more than offset the state's competitive tax disadvantage.

Table 7
State and Local Effective Tax Rates by Industry and State, Before and After Credits

State	Headquarters		Research & Development		Renewable Energy Equipment Manufacturing		Business Support Services		Food Product Manufacturing		Computer & Electronics Manufacturing		Electrical Equipment Manufacturing		Aerospace & Parts Manufacturing		Management, Scientific, and Technical Consulting Services	
Total State and Local Taxes	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank
Arizona	1.3%	3	10.3%	3	5.9%	5	17.9%	4	5.5%	6	7.4%	4	7.7%	4	8.0%	4	11.8%	4
California	0.7%	4	9.6%	4	5.3%	6	18.4%	2	4.7%	7	6.9%	5	6.3%	6	6.8%	6	12.0%	3
Colorado	0.5%	5	7.6%	6	4.4%	7	13.8%	5	6.4%	5	5.6%	7	6.3%	7	6.2%	7	9.1%	6
Nevada	0.2%	9	6.3%	8	7.2%	4	12.7%	7	6.4%	4	6.6%	6	7.0%	5	7.5%	5	8.4%	7
New Mexico	4.9%	1	12.1%	1	17.5%	1	20.1%	1	15.4%	1	15.0%	1	20.2%	1	21.1%	1	16.5%	1
Oklahoma	4.4%	2	11.4%	2	8.7%	2	18.0%	3	8.1%	2	10.2%	2	10.3%	3	12.1%	3	14.2%	2
Oregon	0.4%	7	3.7%	9	2.4%	9	3.0%	9	2.4%	9	1.9%	9	3.6%	9	3.1%	9	1.0%	9
Texas	0.4%	8	8.3%	5	7.9%	3	13.6%	6	6.5%	3	10.1%	3	13.1%	2	16.1%	2	9.2%	5
Utah	0.4%	6	7.1%	7	3.8%	8	12.3%	8	3.5%	8	5.1%	8	5.1%	8	5.4%	8	7.5%	8
Other States' Avg.	*1.0%*		*8.0%*		*5.7%*		*13.7%*		*5.4%*		*6.7%*		*7.4%*		*8.2%*		*9.1%*	
Less Tax Credits																		
Arizona	0.0%	1	-2.2%	8	-2.2%	8	-2.0%	8	-2.1%	8	-2.2%	8	-2.2%	8	-3.6%	8	-1.0%	8
California	0.0%	1	-0.7%	6	-0.2%	5	-0.6%	5	-0.1%	5	-0.2%	5	-0.2%	5	-0.2%	5	-0.2%	6
Colorado	0.0%	7	-0.4%	4	-0.1%	3	-0.4%	4	-0.1%	3	-0.1%	2	-0.1%	2	-0.1%	2	-0.1%	4
Nevada	0.0%	8	-1.1%	7	-1.2%	7	-0.9%	7	-1.2%	7	-0.9%	7	-1.3%	7	-1.6%	7	-0.6%	7
New Mexico	-0.2%	9	-12.8%	9	-9.3%	9	-8.6%	9	-4.2%	9	-8.0%	9	-6.7%	9	-20.6%	9	-18.4%	9
Oklahoma	0.0%	1	0.0%	1	-0.9%	6	0.0%	1	-0.9%	6	-0.6%	6	-0.7%	6	-1.2%	6	0.0%	1
Oregon	0.0%	1	-0.4%	3	-0.1%	2	-0.2%	3	-0.1%	2	-0.1%	4	-0.1%	3	-0.2%	4	-0.1%	3
Texas	0.0%	1	0.0%	1	0.0%	1	0.0%	1	0.0%	1	0.0%	1	0.0%	1	0.0%	1	0.0%	1
Utah	0.0%	1	-0.7%	5	-0.1%	4	-0.7%	6	-0.1%	4	-0.1%	3	-0.1%	4	-0.1%	3	-0.1%	5
Other States' Avg.	*0.0%*		*-0.7%*		*-0.6%*		*-0.6%*		*-0.6%*		*-0.5%*		*-0.6%*		*-0.9%*		*-0.3%*	
Total State and Local Taxes after Credits																		
Arizona	1.3%	3	8.1%	4	3.7%	7	15.9%	3	3.5%	7	5.2%	7	5.4%	7	4.3%	7	10.8%	3
California	0.7%	4	8.9%	2	5.1%	5	17.8%	2	4.6%	6	6.7%	4	6.1%	5	6.6%	3	11.8%	2
Colorado	0.5%	5	7.2%	5	4.3%	6	13.4%	5	6.3%	4	5.5%	6	6.2%	4	6.1%	4	9.0%	5
Nevada	0.2%	9	5.2%	7	6.0%	4	11.8%	6	5.2%	5	5.7%	5	5.7%	6	5.9%	5	7.8%	6
New Mexico	4.7%	1	-0.7%	9	8.3%	1	11.5%	8	11.2%	1	7.1%	3	13.5%	1	0.6%	9	-1.9%	9
Oklahoma	4.4%	2	11.4%	1	7.8%	3	18.0%	1	7.2%	2	9.6%	2	9.6%	3	10.9%	2	14.2%	1
Oregon	0.4%	7	3.3%	8	2.3%	9	2.8%	9	2.4%	9	1.7%	9	3.5%	9	2.9%	8	0.9%	8
Texas	0.4%	8	8.3%	3	7.9%	2	13.6%	4	6.5%	3	10.1%	1	13.1%	2	16.1%	1	9.2%	4
Utah	0.4%	6	6.4%	6	3.6%	8	11.6%	7	3.4%	8	5.0%	8	5.0%	8	5.2%	6	7.4%	7
Other States' Avg.	*1.0%*		*7.4%*		*5.1%*		*13.1%*		*4.9%*		*6.2%*		*6.8%*		*7.3%*		*8.9%*	

Comparison of ETRs in Albuquerque and Deming

The results presented earlier are based on gross receipts tax, property tax, and tax credit rates and provisions that apply to Albuquerque. The following tables show how the New Mexico ETRs would change if the same investments occur in Deming.

Table 8 compares the ETRs by industry for Albuquerque and Deming, both before- and after-credits. Deming has a property tax rate that is almost 50% lower than Albuquerque. This is offset by a 25% higher local gross receipts tax rate in Deming. The net result is slightly lower before-credit ETRs in Deming for the investments included in the study. In addition, the investments in Deming qualify for more generous Technology Jobs Tax Credits and High-Wage Jobs Tax Credits. The combination of lower before-credit ETRs and larger tax credits on the same investments that were made in Albuquerque results in substantially lower overall ETRs in Deming. The results for the Deming location show that the aerospace manufacturing investment joins R&D and management consulting services with negative ETRs for combined state and local taxes

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In Table 9, the combined state and local tax ETR, before credits, as well as the ranking among the comparison states, is presented by industry. The comparison is made for both before-credit and after-credit ETRs. Table 9 shows that Albuquerque and Deming are ranked either 1st or 2nd highest in state and local tax burdens for each industry.

Table 8
Comparison of Albuquerque and Deming ETRs, Before- and After-Credits

State	Headquarters	Research and Development	Renewable Energy Equipment Manufacturing	Business Support Services	Food Products Manufacturing	Computer & Electronics Manufacturing	Electrical Equipment Manufacturing	Aerospace Products and Parts Manufacturing	Management, Scientific, and Technical Consulting Services
I. Taxes before Credits									
Total State and Local Taxes									
Albuquerque	4.9%	12.1%	17.5%	20.1%	15.4%	15.0%	20.2%	21.1%	16.5%
Deming	4.9%	11.7%	16.9%	20.4%	14.7%	14.5%	19.0%	20.2%	16.8%
Corporate/Business Tax									
Albuquerque	4.6%	5.1%	4.5%	5.5%	4.4%	4.5%	4.5%	4.5%	4.9%
Deming	4.6%	5.1%	4.5%	5.5%	4.4%	4.5%	4.5%	4.5%	4.9%
Sales Tax									
Albuquerque	0.2%	4.7%	10.3%	11.3%	7.9%	8.6%	11.5%	12.7%	8.7%
Deming	0.2%	4.7%	10.3%	11.3%	7.9%	8.6%	11.5%	12.7%	8.7%
Property Tax									
Albuquerque	0.1%	1.4%	1.9%	0.7%	2.0%	1.4%	3.0%	2.7%	0.5%
Deming	0.0%	0.7%	1.0%	0.4%	1.0%	0.7%	1.6%	1.4%	0.3%
Local Sales Tax									
Albuquerque	0.1%	0.9%	0.9%	2.6%	1.0%	0.5%	1.1%	1.3%	2.3%
Deming	0.1%	1.1%	1.1%	3.2%	1.3%	0.7%	1.4%	1.6%	2.9%
II. Taxes after Credits									
Tax Credits									
Albuquerque	-0.2%	-12.8%	-9.3%	-8.6%	-4.2%	-8.0%	-6.7%	-20.6%	-18.4%
Deming	-0.2%	-14.5%	-11.8%	-15.6%	-4.9%	-9.0%	-7.5%	-24.7%	-22.5%
Total State and Local Taxes after Credits									
Albuquerque	4.7%	-0.7%	8.3%	11.5%	11.2%	7.1%	13.5%	0.6%	-1.9%
Deming	4.7%	-2.9%	5.0%	4.8%	9.8%	5.5%	11.5%	-4.5%	-5.7%

Table 9
Summary of State and Local Effective Tax Rates and Rankings among Comparison States, Before Credits, Albuquerque and Deming Locations

State	Headquarters		Research & Development		Renewable Energy Equipment Manufacturing		Business Support Services		Food Product Manufacturing		Computer & Electronics Manufacturing		Electrical Equipment Manufacturing		Aerospace & Parts Manufacturing		Management, Scientific, and Technical Consulting Services	
	ETR	Rank	ETR	Rank	ETR	ETR	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank
Arizona	1.3%	4	10.3%	4	5.9%	6	17.9%	5	5.5%	7	7.4%	5	7.7%	5	8.0%	5	11.8%	5
California	0.7%	5	9.6%	5	5.3%	7	18.4%	3	4.7%	8	6.9%	6	6.3%	7	6.8%	7	12.0%	4
Colorado	0.5%	6	7.6%	7	4.4%	8	13.8%	6	6.4%	5	5.6%	8	6.3%	7	6.2%	8	9.1%	7
Nevada	0.2%	10	6.3%	9	7.2%	5	12.7%	8	6.4%	5	6.6%	7	7.0%	6	7.5%	6	8.4%	8
New Mexico																		
Albuquerque	4.9%	1	12.1%	1	17.5%	1	20.1%	2	15.4%	1	15.0%	1	20.2%	1	21.1%	1	16.5%	2
Deming	4.9%	1	11.7%	2	16.9%	2	20.4%	1	14.7%	2	14.5%	2	19.0%	2	20.2%	2	16.8%	1
Oklahoma	4.4%	3	11.4%	3	8.7%	3	18.0%	4	8.1%	3	10.2%	3	10.3%	4	12.1%	4	14.2%	3
Oregon	0.4%	7	3.7%	10	2.4%	10	3.0%	10	2.4%	10	1.9%	10	3.6%	10	3.1%	10	1.0%	10
Texas	0.4%	7	8.3%	6	7.9%	4	13.6%	7	6.5%	4	10.1%	4	13.1%	3	16.1%	3	9.2%	6
Utah	0.4%	7	7.1%	8	3.8%	9	12.3%	9	3.5%	9	5.1%	9	5.1%	9	5.4%	9	7.5%	9
Other States' Avg.	*1.0%*		*8.0%*		*5.7%*		*13.7%*		*5.4%*		*6.7%*		*7.4%*		*8.2%*		*9.2%*	

Simulations of Selected New Mexico Business Tax Policy Changes

EY has prepared estimates of the impact of proposed business tax policy changes, selected by the New Mexico Research Institute, on the state's business tax competitiveness. The estimates are derived from EY's New Mexico business tax competitiveness model. The competitiveness model is described in detail in the EY study, *New Mexico Business Tax Competitiveness* (December 2, 2011). Appendix Table 1 summarizes the current-law, before-credit effective tax rates for the nine types of new investments included in the model.

The tax policy simulations include:

A. Corporate income tax changes
- A 36% reduction in the corporate income tax rate
- The adoption of a single sales factor corporate income tax apportionment formula
- The adoption of a double-weighted corporate income tax apportionment formula

B. Tax credit changes
- A new corporate income tax credit modeled after Utah's economic development tax increment financing credit

C. Gross receipts tax changes
- An exemption of the sales of manufacturing consumables

The results of the simulations are presented in Tables 1 through 3. The first section of the table presents the current-law, New Mexico ETRs and rankings for each industry. A rank of 1 represents the highest ETR among the nine included states.

For each policy option, Table 1 shows the new ETR and ranking for New Mexico and the percentage change in New Mexico's ETR compared to the before-credit, current-law ETRs. The ETRs in Table 1 are for all state and business taxes combined; the New Mexico ETRs are for the Albuquerque location. Appendix Table 3 presents the corporate income ETRs before credits under current law and the various policy scenarios.

Table 2 shows the current and proposed law ETRs after credits. The first section of the table shows the current law ETR after credits for each industry; the subsequent sections present the ETRs for each of the proposed policy scenarios, after credits.

A. Corporate Income Tax Changes

The first three simulations reported in Table 1 are for the corporate income tax proposals. The results show the change in ETRs for all the state and local taxes included in the analysis combined. Appendix Table 3 is provided to show the changes in the ETRs for the corporate income tax alone.

Tax Rate Reduction

The first policy option is a reduction in the corporate income tax rate from 7.6 to 4.9%, a 36% reduction. As shown in Table 1, reductions in effective tax rates range from 7.6% for aerospace manufacturing to 33.3% for the headquarters investment. While the statutory rate reduction is the same for each investment, the percentage reduction in the combined state and local tax ETR depends upon the relative importance of the corporate income tax in the mix of total taxes. As shown in Table 2, the reduction of the tax rate would improve the after-credit rankings of several of the industries by one or two places.

Single Sales Factor Apportionment

The second policy option in Table 1 is a taxpayer option to use a single sales factor apportionment formula in place of the current, equally-weighted three factor apportionment formula that includes instate shares of sales, payroll and property. The analysis of this policy change uses the current-law tax rate of 7.6% and assumes that all of the taxpayer examples would choose the single sales factor formula in apportioning corporate income to New Mexico. The results show that this change results in larger percentage reductions in ETRs than the 36% reduction in the corporate tax rate. The ETR reductions range from -16.8% for business support services to -86.2% for the headquarters investment. The overall ETR for the corporate headquarters example is larger than for the other investment examples because the corporate income tax accounts for is a much larger percentage of the combined ETR (94% for the corporate headquarters example).

Table 2 shows that on an after-credit basis, single sales factor apportionment would improve the ranking in several industries significantly. The ranking for headquarters activities improves from 1 under current law to 5 under single sales factor apportionment and for renewable energy equipment manufacturing from 1 under current law to 6 under single sales factor apportionment.

Double-Weighted Sales Factor Apportionment

The third corporate income tax policy option in Table 1 is a taxpayer option to use an apportionment formula with a fifty percent sales factor weight. The analysis of this policy change uses the current-law tax rate of 7.6% and assumes that all of the taxpayers would choose the double-weighted sales factor formula. The ETR reductions range from -4.2% for business support services to -21.6% for the headquarters investment. As in the single sales factor example, the ETR reduction is much larger for the headquarters investment.

Table 2 shows the after-credit ETRs for current law and the double-weighted sales factor apportionment scenario. As shown in the table, on an after-credit basis, the rankings of several industries improve, but by less than under single sales factor apportionment.

B. Tax Credit Changes

Tax Increment Credit

This tax policy simulation estimates the impact of a new tax credit system on New Mexico's effective tax rates. All of the investment examples are assumed to be eligible for the new

incremental tax credit. To isolate the impact of adopting the new credit, New Mexico's ETRs after subtracting the new credit are compared with the pre-credit ETRs in New Mexico and the other state locations.

The tax increment credit is modeled after Utah's economic development tax increment financing credit (EDTIF). The refundable credit is based on the sum of the New Mexico corporate income tax, the state individual income tax withheld on payrolls, and gross receipts (sales) tax paid on business input purchases. The annual refundable credit is limited to 30% of the sum of the three tax amounts generated by the new investment. It is assumed that all of the investment examples qualify for the tax increment credit.

Table 1 shows that the tax increment credit is sufficient in size to reduce the before-credit ETRs by over 70% for research and development, business support services, and management consulting services. Compared to existing New Mexico credits included in the current-law study, the tax increment credit is actually larger than all the included current-law credits for five of the investment examples: renewable energy manufacturing, business support services, food product manufacturing, computer manufacturing and electrical equipment manufacturing. This comparison indicates that the adoption of a tax increment credit could serve as a substitute for the existing New Mexico tax credit system and still result in additional tax relief for a number of industries.

This scenario is not included in the after-credit ETR comparison in Table 2 because the interaction of this proposed credit with other credits currently offered in New Mexico must be determined.

C. Gross Receipts Tax Changes

Exemption for Manufacturing Consumables

This proposal would exempt purchases of "consumables" by manufacturers from the gross receipts and compensating taxes. The exemption is modeled as an exemption for purchases of tangible property that is consumed in the manufacturing process, but does not become an integral part of the final product. In addition, purchases of electricity, fuel and natural gas by manufacturers is also assumed to be exempt.

The results in the last section of the corporate income policy change section in Table 1 show that on average this exemption would reduce overall ETRs for manufacturers by a little over 23%. This is roughly the same size as the overall ETR percentage reduction for manufacturers from adopting a single sales factor apportionment formula.

Table 2 shows the change in the after-credit ETRs for the proposed GRT exemption for manufacturing consumables. For energy equipment manufacturing and computer manufacturing, the consumables exemption reduces the rate significantly and improves the ranking significantly. For food products and electrical equipment manufacturing, the ETR is reduced but the ranking improves less dramatically because other states continue to offer a more competitive tax environment than New Mexico.

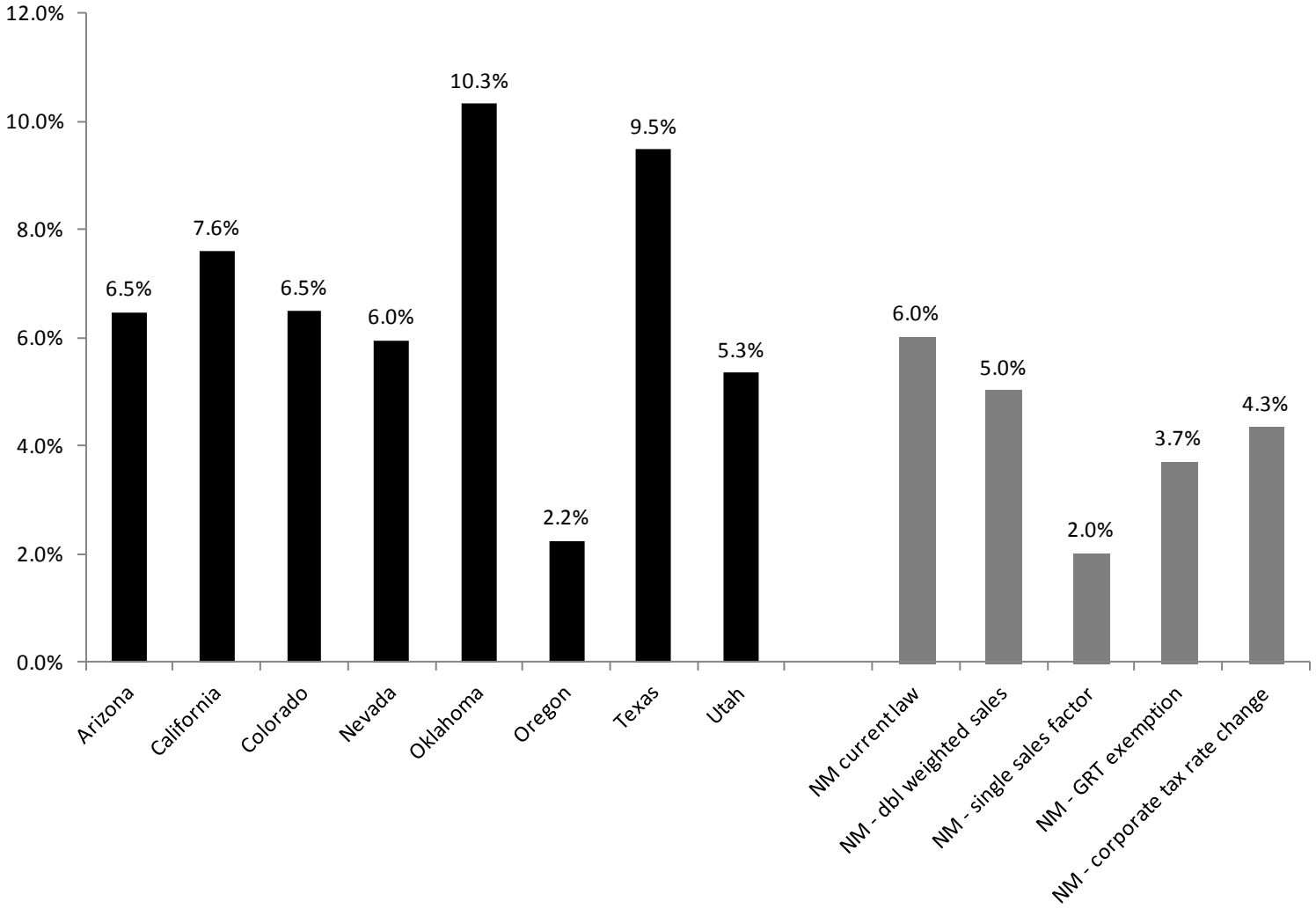
Table 1
Impact of Proposed Policy Changes on New Mexico's Business Tax Competitiveness:
Comparison of ETR before Credits under Current Law and Selected Policy Scenarios

Proposal	Headquarters	Research and Development	Renewable Energy Equipment Manufacturing	Business Support Services	Food Products Manufacturing	Computer & Electronics Manufacturing	Electrical Equipment Manufacturing	Aerospace Products and Parts Manufacturing	Management, Scientific, and Technical Consulting Services
Current Law before Credits									
ETR for all taxes	4.9%	12.1%	17.5%	20.1%	15.4%	15.0%	20.2%	21.1%	16.5%
Rank	1	1	1	1	1	1	1	1	1
Corporate Rate Change									
ETR for all taxes	3.3%	10.3%	16.0%	18.1%	13.8%	13.4%	18.6%	19.5%	14.8%
Rank	2	3	1	2	1	1	1	1	1
% ETR Change	*-33.2%*	*-15.1%*	*-9.0%*	*-9.8%*	*-10.3%*	*-10.6%*	*-7.9%*	*-7.6%*	*-10.6%*
Double-Weighted Sales Apportionment									
ETR for all taxes	3.8%	11.3%	16.5%	19.3%	14.3%	14.0%	19.1%	20.1%	15.4%
Rank	2	2	1	1	1	1	1	1	1
% ETR Change	*-21.6%*	*-6.5%*	*-5.9%*	*-4.2%*	*-6.7%*	*-6.9%*	*-5.2%*	*-5.0%*	*-6.9%*
Single Sales Factor Apportionment									
ETR for all taxes	0.7%	9.0%	13.4%	16.7%	11.2%	10.9%	16.0%	16.9%	11.9%
Rank	4	4	1	4	1	1	1	1	3
% ETR Change	*-86.2%*	*-25.8%*	*-23.6%*	*-16.8%*	*-26.8%*	*-27.7%*	*-20.6%*	*-19.9%*	-27.6%
GRT Consumables Exemption									
ETR for all taxes	4.9%	12.1%	12.8%	20.1%	12.5%	11.6%	14.6%	17.0%	16.5%
Rank	1	1	1	1	1	1	1	1	1
% ETR Change	*0.0%*	*0.0%*	*-27.3%*	*0.0%*	*-18.5%*	*-22.8%*	*-27.5%*	*-19.8%*	*0.0%*
Tax Increment Credit									
ETR for all taxes	2.9%	3.5%	7.3%	5.0%	8.4%	6.4%	11.9%	7.3%	4.2%
Rank	2	9	3	8	1	6	2	5	8
% ETR Change	*-40.9%*	*-70.7%*	*-58.4%*	*-75.3%*	*-45.6%*	*-57.6%*	*-41.1%*	*-65.6%*	*-74.8%*

Table 2
Impact of Proposed Policy Changes on New Mexico's Business Tax Competitiveness: Comparison of ETR after Credits under Current Law and Selected Policy Scenarios

Proposal	Headquarters	Research and Development	Renewable Energy Equipment Manufacturing	Business Support Services	Food Products Manufacturing	Computer & Electronics Manufacturing	Electrical Equipment Manufacturing	Aerospace Products and Parts Manufacturing	Management, Scientific, and Technical Consulting Services
Current Law									
ETR for all taxes	4.7%	-0.7%	8.3%	11.5%	11.2%	7.1%	13.5%	0.6%	-1.9%
Rank	1	9	1	8	1	3	1	9	9
Corporate Rate Change									
ETR for all taxes	3.1%	-2.5%	6.7%	9.5%	9.6%	5.5%	11.9%	-1.0%	-3.6%
Rank	2	9	3	8	1	6	2	9	9
Double-Weighted Sales Apportionment									
ETR for all taxes	3.6%	-1.5%	7.2%	10.6%	10.1%	6.0%	12.5%	-0.5%	-3.0%
Rank	2	9	3	8	1	4	2	9	9
SSF Apportionment									
ETR for all taxes	0.5%	-3.8%	4.1%	8.1%	7.0%	2.9%	9.3%	-3.6%	-6.4%
Rank	5	9	6	8	2	8	3	9	9
GRT Consumable Exemption									
ETR for all taxes	4.7%	-0.7%	3.5%	11.5%	8.3%	3.6%	8.0%	-3.6%	-1.9%
Rank	1	9	8	8	1	8	3	9	9

Figure 1. Comparison of After-Credit Effective Tax Rate for Comparison States and New Mexico under Selected Policy Options (All Industry Average)



Appendix Table 1
Summary of Current-Law State and Local Effective Tax Rates (ETRs) and Rankings among Comparison States, Before Credits

State	Headquarters		Research & Development		Renewable Energy Equipment Manufacturing		Business Support Services		Food Product Manufacturing		Computer & Electronics Manufacturing		Electrical Equipment Manufacturing		Aerospace & Defense Manufacturing		Management, Scientific, and Technical Consulting Services	
	ETR	Rank	ETR	Rank	ETR	ETR	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank
Arizona	1.3%	4	10.3%	4	5.9%	6	17.9%	5	5.5%	7	7.4%	5	7.7%	5	8.0%	5	11.8%	5
California	0.7%	5	9.6%	5	5.3%	7	18.4%	3	4.7%	8	6.9%	6	6.3%	7	6.8%	7	12.0%	4
Colorado	0.5%	6	7.6%	7	4.4%	8	13.8%	6	6.4%	5	5.6%	8	6.3%	7	6.2%	8	9.1%	7
Nevada	0.2%	10	6.3%	9	7.2%	5	12.7%	8	6.4%	5	6.6%	7	7.0%	6	7.5%	6	8.4%	8
New Mexico																		
Albuquerque	4.9%	1	12.1%	1	17.5%	1	20.1%	2	15.4%	1	15.0%	1	20.2%	1	21.1%	1	16.5%	2
Deming	4.9%	1	11.7%	2	16.9%	2	20.4%	1	14.7%	2	14.5%	2	19.0%	2	20.2%	2	16.8%	1
Oklahoma	4.4%	3	11.4%	3	8.7%	3	18.0%	4	8.1%	3	10.2%	3	10.3%	4	12.1%	4	14.2%	3
Oregon	0.4%	7	3.7%	10	2.4%	10	3.0%	10	2.4%	10	1.9%	10	3.6%	10	3.1%	10	1.0%	10
Texas	0.4%	7	8.3%	6	7.9%	4	13.6%	7	6.5%	4	10.1%	4	13.1%	3	16.1%	3	9.2%	6
Utah	0.4%	7	7.1%	8	3.8%	9	12.3%	9	3.5%	9	5.1%	9	5.1%	9	5.4%	9	7.5%	9
Other States' Avg.	*1.0%*		*8.0%*		*5.7%*		*13.7%*		*5.4%*		*6.7%*		*7.4%*		*8.2%*		*9.2%*	

Appendix Table 2
Summary of Current-Law State and Local Effective Tax Rates (ETRs) and Rankings among Comparison States, After Credits

State	Headquarters		Research & Development		Renewable Energy Equipment Manufacturing		Business Support Services		Food Product Manufacturing		Computer & Electronics Manufacturing		Electrical Equipment Manufacturing		Aerospace & Defense Manufacturing		Management, Scientific, and Technical Consulting Services	
	ETR	Rank	ETR	Rank	ETR	ETR	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank	ETR	Rank
Arizona	1.3%	4	8.1%	4	3.7%	8	15.9%	3	3.5%	8	5.2%	8	5.4%	8	4.3%	7	10.8%	3
California	0.7%	5	8.9%	2	5.1%	5	17.8%	2	4.6%	7	6.7%	4	6.1%	6	6.6%	3	11.8%	2
Colorado	0.5%	6	7.2%	5	4.3%	7	13.4%	5	6.3%	5	5.5%	6	6.2%	5	6.1%	4	9.0%	5
Nevada	0.2%	10	5.2%	7	6.0%	4	11.8%	6	5.2%	6	5.7%	5	5.7%	7	5.9%	5	7.8%	6
New Mexico																		
Albuquerque	4.7%	1	-0.7%	9	8.3%	1	11.5%	8	11.2%	1	7.1%	3	13.5%	1	0.6%	9	-1.9%	9
Deming	4.7%	1	-2.9%	10	5.0%	6	4.8%	9	9.8%	2	5.5%	6	11.5%	3	-4.5%	10	-5.7%	10
Oklahoma	4.4%	3	11.4%	1	7.8%	3	18.0%	1	7.2%	3	9.6%	2	9.6%	4	10.9%	2	14.2%	1
Oregon	0.4%	7	3.3%	8	2.3%	10	2.8%	10	2.4%	10	1.7%	10	3.5%	10	2.9%	8	0.9%	8
Texas	0.4%	7	8.3%	3	7.9%	2	13.6%	4	6.5%	4	10.1%	1	13.1%	2	16.1%	1	9.2%	4
Utah	0.4%	7	6.4%	6	3.6%	9	11.6%	7	3.4%	9	5.0%	9	5.0%	9	5.2%	6	7.4%	7
Other States' Avg.	*1.0%*		*7.4%*		*5.1%*		*13.1%*		*4.9%*		*6.2%*		*6.8%*		*7.3%*		*8.9%*	

Appendix Table 3
Changes in New Mexico's Corporate Income ETRS for Selected Tax Proposals:
Comparison of Corporate Income ETRs before Credits under Current Law and Selected Policy Scenarios

Proposal	Headquarters	Research and Development	Renewable Energy Equipment Manufacturing	Business Support Services	Food Products Manufacturing	Computer & Electronics Manufacturing	Electrical Equipment Manufacturing	Aerospace Products and Parts Manufacturing	Management, Scientific, and Technical Consulting Services
Current Law									
ETR for corporate income tax	*4.6%*	*5.1%*	*4.5%*	*5.5%*	*4.4%*	*4.5%*	*4.5%*	*4.5%*	*4.9%*
Rank	*1*	*1*	*1*	*1*	*1*	*1*	*1*	*1*	*1*
Corporate Rate Change									
ETR for corporate income tax	*2.9%*	*3.3%*	*2.9%*	*3.6%*	*2.9%*	*2.9%*	*2.9%*	*2.9%*	*3.2%*
Rank	*2*	*2*	*2*	*2*	*2*	*2*	*2*	*2*	*2*
% ETR Change	*-35.7%*	*-35.6%*	*-35.6%*	*-35.5%*	*-35.6%*	*-35.6%*	*-35.7%*	*-35.6%*	*-35.5%*
Double-Weighted Sales Apportionment									
ETR for corporate income tax	*3.5%*	*4.3%*	*3.4%*	*4.7%*	*3.4%*	*3.5%*	*3.4%*	*3.5%*	*3.8%*
Rank	*2*	*1*	*2*	*1*	*2*	*2*	*2*	*2*	*2*
% ETR Change	*-23.3%*	*-15.2%*	*-23.2%*	*-15.2%*	*-23.2%*	*-23.2%*	*-23.3%*	*-23.2%*	*-23.2%*
Single Sales Factor Apportionment									
ETR for corporate income tax	*0.3%*	*2.0%*	*0.3%*	*2.2%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.4%*
Rank	*4*	*3*	*4*	*3*	*4*	*4*	*4*	*4*	*4*
% ETR Change	*-92.7%*	*-60.9%*	*-92.7%*	*-60.9%*	*-92.7%*	*-92.7%*	*-92.7%*	*-92.7%*	*-92.7%*

Conclusions

The analysis of the combined burden of state and local business taxes on new investments in selected industries in New Mexico, compared to locations in eight comparison states, provides important information needed to evaluate New Mexico's business tax competitiveness. Key results find that:

- New Mexico business taxes, before credits, rank highest for all nine industries included in the analysis. Compared to the all-industry average effective tax rate for the other eight states included in the analysis, New Mexico's average ETR is more than twice as high.

- The burden of the New Mexico corporate income tax, before credits, is significantly higher than the burden of the corporate income taxes imposed in the comparison states. New Mexico has the highest corporate income tax ETRs for each industry. Corporate income tax burdens for all the included industries account for 36% of the total state and local tax burdens in New Mexico compared to 16% for the average in the other eight states.

  This is due to both New Mexico's corporate income apportionment formula weights, which equally weight property, payroll and sales, and the 7.6% statutory corporate income tax rate, the highest rate among the included states. Five of the states use only the sales factor to apportion nationwide income to the state. This formula lowers the effective tax rates on new investments in the state for industries that sell into national markets. New Mexico and Oklahoma use an equally-weighted formula, while Arizona allows industries to weight sales 80% and payroll and property 10%. Nevada has no corporate income tax.

- New Mexico imposes a significant sales tax burden on manufacturers. It has the highest before-credit ETR among comparison states for all of the study industries.

- Business tax credits in New Mexico increase the competitiveness of the tax system by reducing the overall state and local tax burden by an average of more than 62%. Including the effects of statutory credits, New Mexico's business tax ranking varies from 1st for headquarters, renewable energy equipment, food product and electrical equipment manufacturing to 9th for research and development, aerospace products and parts manufacturing and management, scientific, and technical consulting services. However, the current tax credits vary significantly in their impact by industry and financial characteristics of a taxpayer's operations in New Mexico.

New Mexico's state and local business tax system is almost certainly impeding economic growth. Because new capital investment is the channel through which innovative, competitive technology is added to the state's economic base, it is ultimately the source of growth in New Mexico's economy. Importantly, the expanded capital base is also a key driver of the labor productivity that generates a higher standard of living for New Mexico's citizens. With corporate income and sales taxes that are out-of- line with comparison states, New Mexico risks deterring new investment and added jobs.

Appendix A
Tax Parameters by State and Tax Type

Table A-1
State Business Entity Tax Characteristics

State	Top marginal rate	Apportionment weighting	Special apportionment for selected industries	Business income tax base
Arizona	6.00%	90% weighted sales	Yes	Corporate income
California	8.84%	Single sales factor	No	Corporate income
Colorado	4.63%	Single sales factor	No	Corporate income
Nevada	0.00%	-	-	-
New Mexico	7.60%	Equally weighted	No	Corporate income
Oklahoma	6.00%	Equally weighted	No	Corporate income
Oregon	7.60%	Single sales factor	No	Corporate income
Texas	1.00%	Single sales factor	No	Modified gross receipts
Utah	5.00%	Single sales factor	No	Corporate income

Table A-2
State Sales Tax Characteristics

State	State rate	Local rate	Total state and local tax rate
Arizona	5.6%	2.3%	7.9%
California	7.3%	2.3%	9.6%
Colorado	2.9%	3.8%	6.7%
Nevada	6.5%	0.7%	7.2%
New Mexico	5.1%	1.9%	7.0%
Oklahoma	4.5%	3.3%	7.8%
Oregon	0.0%	0.0%	0.0%
Texas	6.3%	1.5%	7.8%
Utah	4.7%	1.5%	6.2%

Note: Local tax rate is a statewide average based on local sales tax collection data; differential rates may apple to some types of business purchases.

Table A-3
Effective Property Tax Rates

State	Commercial structures	Industrial structures	Commercial equipment	Other industrial machinery and equipment
Arizona	1.97%	1.97%	2.47%	2.49%
California	1.27%	1.27%	1.27%	1.27%
Colorado	1.84%	1.84%	1.89%	1.89%
Nevada	1.12%	1.12%	1.15%	1.15%
New Mexico	1.44%	1.44%	1.55%	1.55%
Oklahoma	1.26%	1.26%	1.57%	1.57%
Oregon	1.14%	1.14%	2.11%	2.11%
Texas	2.32%	2.52%	2.41%	2.52%
Utah	1.47%	1.47%	1.54%	1.54%

Note: Effective tax rates are from Minnesota Taxpayers Association, 50-State Property Tax Comparison Study, April 2011; rates are for the largest cities in each state.

Table A-4
State Franchise Tax Characteristics

State	Rate	Apportionment weighting	Franchise tax base
Arizona	-	-	-
California	-	-	-
Colorado	-	-	-
Nevada	-	-	-
New Mexico	-	-	-
Oklahoma	0.125%	50% weighted sales	Capital stock
Oregon	-	-	-
Texas	-	-	-
Utah	-	-	-

Table A-5
Percent of New Mexico Credits Accounted for by the Technology and High Wage Jobs Credits

Investment	Percent attributable to job credits
Headquarters	58%
R&D	82%
Renewable energy equipment mfg.	64%
Business support services	78%
Food products	28%
Computer & electronics mfg	69%
Electrical equipment	44%
Aerospace products and parts	77%
Management, scientific, tech. consulting services	93%

Appendix B
Industry Descriptions

The following describes the industries (and NAICS codes) included in the New Mexico competitiveness analysis. Income and balance sheet information for representative firms in each industry is used to determine state and local taxes the firms will pay as a result of a significant capital investment in New Mexico and each of the comparison states.

NAICS	Industry	NAICS Definition
551112	Offices of Other Holding Companies	This U.S. industry comprises legal entities known as holding companies (except bank holding) primarily engaged in holding the securities of (or other equity interests in) companies and enterprises for the purpose of owning a controlling interest or influencing the management decisions of these firms. The holding companies in this industry do not administer, oversee, and manage other establishments of the company or enterprise whose securities they hold.
5417	Scientific Research and Development Services	This industry group comprises establishments engaged in conducting original investigation undertaken on a systematic basis to gain new knowledge (research) and/or the application of research findings or other scientific knowledge for the creation of new or significantly improved products or processes (experimental development). The industries within this industry group are defined on the basis of the domain of research; that is, on the scientific expertise of the establishment.
333611	Turbine and Turbine Generator Set Units Manufacturing	This U.S. industry comprises establishments primarily engaged in manufacturing turbines (except aircraft); and complete turbine generator set units, such as steam, hydraulic, gas, and wind.
561499	All Other Business Support Services	This U.S. industry comprises establishments primarily engaged in providing business support services (except secretarial and other document preparation services; telephone answering and telemarketing services; private mail services or document copying services conducted as separate activities or in conjunction with other office support services; monetary debt collection services; credit reporting services; repossession services; and court reporting and stenotype recording services).
311	Food Manufacturing	Industries in the Food Manufacturing subsector transform livestock and agricultural products into products for intermediate or final consumption. The industry groups are distinguished by the raw materials (generally of animal or vegetable origin) processed into food products. The food products manufactured in these establishments are typically sold to wholesalers or retailers for distribution to consumers, but establishments primarily engaged in retailing bakery and candy products made on the premises not for immediate consumption are included.

NAICS	Industry	NAICS Definition
334	Computer and Electronic Product Manufacturing	Industries in the Computer and Electronic Product Manufacturing subsector group establishments that manufacture computers, computer peripherals, communications equipment, and similar electronic products, and establishments that manufacture components for such products.
335	Electrical Equipment, Appliance, and Component Manufacturing	Industries in the Electrical Equipment, Appliance, and Component Manufacturing subsector manufacture products that generate, distribute and use electrical power. Electric Lighting Equipment Manufacturing establishments produce electric lamp bulbs, lighting fixtures, and parts. Household Appliance Manufacturing establishments make both small and major electrical appliances and parts. Electrical Equipment Manufacturing establishments make goods, such as electric motors, generators, transformers, and switchgear apparatus. 0ther Electrical Equipment and Component Manufacturing establishments make devices for storing electrical power (e.g., batteries), for transmitting electricity (e.g., insulated wire), and wiring devices (e.g., electrical outlets, fuse boxes, and light switches).
33641	Aerospace Product and Parts Manufacturing	This industry comprises establishments primarily engaged in one or more of the following: (1) manufacturing complete aircraft, missiles, or space vehicles; (2) manufacturing aerospace engines, propulsion units, auxiliary equipment or parts; (3) developing and making prototypes of aerospace products; (4) aircraft conversion (i.e., major modifications to systems); and (5) complete aircraft or propulsion systems overhaul and rebuilding (i.e., periodic restoration of aircraft to original design specifications).

Sources: Census Bureau, Bureau of Economic Analysis.

Appendix C
State and Local Tax Credits Included in the New Mexico Business Tax Competitiveness Study

Arizona

Research Credit

Arizona Quality Jobs Credit

- Credit based on a minimum investment amount and number of jobs created.

Renewable Energy Industry Credit

- Credit based on capital investment for manufacturing renewable energy.

California

Research Credit

Colorado

The New Investment Tax Credit

Job Growth Credit

Nevada

Tangible Personal Property Tax Credit

- Partial abatement from personal property taxes up to 50% of taxes due for up to 10 years.

Sales and Use Tax Abatement

- Partial sales and use tax abatement for the purchase of capital equipment, which reduces applicable tax rate to 2%.

New Mexico

Industrial Revenue Bonds

- Investments under local IRB programs qualify for two types of tax reductions
- Qualifying companies receive exemptions from gross receipt and compensating taxes on initial purchases of equipment made with bond proceeds
- Companies also qualify for an exemption of 95% of the investment's property taxes for up to 20 years.

Investment Tax Credit

- Credit for investment in manufacturing equipment equal to 5.125% of investment if requirement of at least one new job per $500,000 of investment is met.

Technology Jobs Tax Credit

- Credit with two parts:
    - Basic credit equal to 4% (8% if in rural area) of research expenditures.
    - Additional credit equal to 4% (8% if in rural area) of research expenditures if in-state payroll is raised by $75,000 for every $1 million in qualified expenditures.

- The two credits are subject to different limitations on the amount that can claimed in any tax year.

High Wage Jobs Tax Credit

- Credit equal to 10% of wages and benefits of all new employees that are paid at least $40,000 ($28,000 in rural areas). Credit is calculated in first year, and taken in years 1, 2, 3, & 4. The maximum credit that can be taken per employee is $12,000.

Oklahoma

Investment/New Jobs Credit

Oregon

Qualified Research Activities Credit

Texas

With the adoption of the margin tax in 2006, Texas no longer provides the type of statutory tax credits included in this study for businesses subject to the margins tax.

Utah

Increasing Research Activities Credit

Credit for Machinery and Equipment Used to Conduct Research