LFC HEARING BRIEF

DATE: August 19, 2011

PURPOSE OF HEARING: Inventory of New Mexico's Tax Expenditures

WITNESS: Richard May, Cabinet Secretary, Department of Finance and Administration, Demesia Padilla, Cabinet Secretary, Taxation and Revenue Department; Tom Clifford, Policy and Research Director, TRD

PREPARED BY: Elisa Walker-Moran, Chief Economist, LFC

EXPECTED OUTCOME: Information and update on tax expenditure budget

BACKGROUND INFORMATION

Tax expenditures are government spending programs authorized through the tax code. Although tax expenditures are an important component of the state's annual budget, the state does not have a systematic means of reporting and analyzing their effects. Tax expenditures can be an efficient means of targeting selected populations for benefits, and also of influencing the decisions of private individuals to further the goals of public policy.

However, in the current fiscal environment, a particularly troubling aspect of tax expenditures is that they function like entitlement spending, i.e. anyone who meets the statutory criteria may claim tax benefits. Thus the only way to control the outflow of revenue is to amend the statutes, and the state typically lacks the information needed to craft the appropriate amendments. Although many tax expenditures appear to violate the LFC's principles of good tax policy (see sidebar on page 2), their supporters point to their advantages in meeting other public policy goals. This argument indicates the need to evaluate each of these programs to insure that the foregone public funds are meeting the intended goals with a minimum of waste.

WHAT ARE "TAX EXPENDITURES"?

Tax expenditures are defined in the Congressional Budget Act of 1974 as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability."

The idea of "tax expenditures" - tax provisions that are presented as equivalent to governmental outlays - has evolved as part of the budget process in recent decades. Tax payments are viewed from the viewpoint of the government as opposed to the viewpoint of taxpayers. For example, if a taxpayer were asked if the amount of his or her IRA deduction or 401(k) deferral should be properly viewed as the taxpayer's property or as the property of the government, the practical problems of the tax expenditure budget would become even more evident. [1]

New Mexico's tax code has hundreds of tax expenditures. Each of New Mexico's major tax programs contains numerous tax expenditures that affect virtually all NM taxpayers. These programs give people, groups and businesses special tax credits, deductions, exclusions, exemptions, deferrals, and preferential rates in support of various government policies. Tax expenditures are not limited to economic development incentives. Some of these programs help people save for retirement, buy a home, or pay for college; others encourage companies to invest in green energy technologies; they even subsidize corporations that drill for oil or purchase real estate; and much more.

[1] From a 1999 'Tax Expenditures: A Review and Analysis" report by the Joint Economic Committee, US Congress.

LFC TAX POLICY PRINCIPLES:

Adequacy:
Revenue should be adequate to fund needed government services.
Efficiency:
Tax base should be as broad as possible and avoid excess reliance on one tax.
Equity:
Different taxpayers should be treated fairly.
Simplicity:
Collection should be simple and easily understood.
Accountability:
Preferences should be easy to monitor and evaluate.

The Film credit is the largest economic development expenditure.

Tables 1 through 4 present lists of tax expenditures presently contained in New Mexico statutes along with estimates of the revenue foregone due to each provision. The following table summarizes these provisions. Total general fund revenue foregone in FY13 is estimated at $922.8 million. As shown in Tables 1 through 4, local government revenues have been largely held harmless for these provisions, 92 percent of the total fiscal impact is felt by the general fund.

	Target of Expenditures	**Number of Provisions**	**FY13 General Fund Impact ($millions)**
Table 1	Economic Development	20	($84.6)
Table 2	Poverty, Health, Education	30	($367.5)
Table 3	Renewable Energy	13	($24.8)
Table 4	All Other	36	($445.9)
	Total	**99**	**($922.8)**

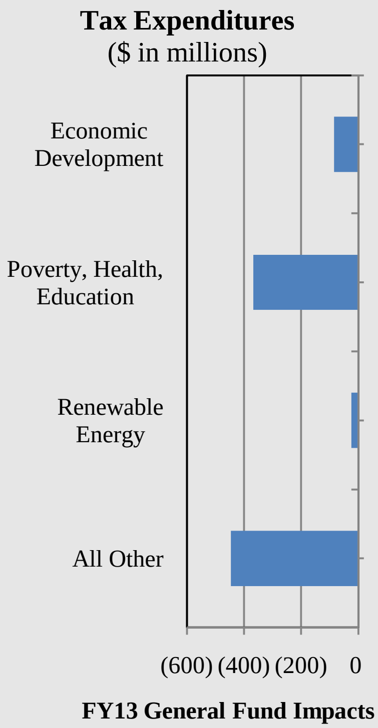
Source: LFC calculations, TRD.

Economic development: Tax expenditures in this category reduce General Fund revenue by $84.6 million in FY13, with the Film credit accounting for largest impact of $50 million. The majority of the state's economic development tax expenditures have been created within the last 10 years. Many of the incentives have little impact.

Many states have increased their use of targeted economic development incentives in recent years. Such incentives may provide a relatively low-cost means of making the state a more attractive place for new investment. However, the state is seldom privy to all the information needed to determine how much incentive should be offered. In addition, targeted incentives create inequities within the tax code. States should be cautious in their use of economic development incentives, and require return on investment proof from those who propose new incentives.

Anti-poverty, health care and education: Health care is targeted with $220.7 million of the total $367.5 million in tax expenditures in this category. The largest components are the Insurance Premiums tax credit for New Mexico Medical Insurance Pool (NMMIP) assessments, and the gross receipts tax (GRT) deduction for managed care medical services. The largest anti-poverty tax expenditures are the working families' tax credit, the low/middle income personal exemption, low income comprehensive tax rebate (LICTR) and the food stamp GRT exemption.

One concern raised by health care tax expenditures is that they deprive the state of funds that could be spent on health care and generate matching



To calculate the exact cost of GRT deductions and exemptions requires them to be listed on tax returns. This is burdensome for taxpayers and TRD.

federal funds. Thus, the health care sector may not even be a net beneficiary from the tax breaks. Meanwhile, a "patchwork" of varying tax treatment has been created in which some providers and payments are given preferred treatment, and the fairness of the tax system is called into question.

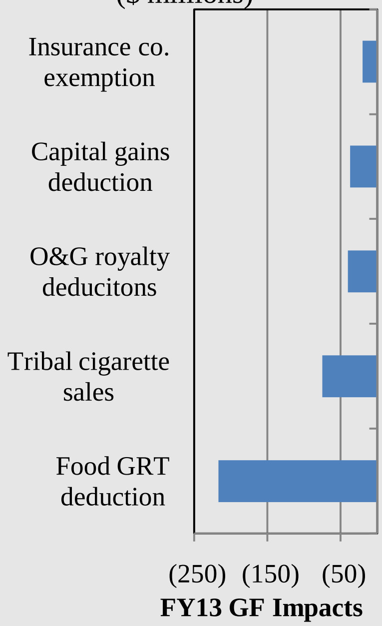
Through its LICTR, New Mexico has been an innovator in the use of the personal income tax to re-distribute income. These policies have been enhanced in recent years with the addition of the working families' tax credit and the low/middle income personal exemption. These policies play an important role in reducing the "regressivity" of the state's GRT. Although the income tax is a relatively efficient means of delivering these benefits, they do impose an administrative burden on the tax department, which, if not addressed through staffing, could result in funds going to unintended beneficiaries.

Renewable energy and energy conservation: The renewable energy production tax credit at $20 million per year is the largest tax expenditure in this category, followed by the wind-energy equipment deduction at $2 million. The remaining eleven have less than a $3 million impact combined. Actual claims have been lower than this amount in recent years because some taxpayers have failed to utilize all of their credits. However, taxpayers can carry unused credits forward to future years, so $20 million is the total amount of credits the state could end up paying. Also, new projects are eligible for refundable tax credits so no liability is needed to utilize these credits.

Two concerns are raised by these tax expenditures. One is the lack of detailed information and analysis on the "rate of return" the state is receiving. Second, information is lacking on the interaction of these benefits with other subsidies and mandates. In addition to state tax benefits, renewable power investors may benefit from property tax relief, federal income tax relief and from subsidies paid by regulated utilities. In addition, regulated utilities may subsidize these investments through their regulated rate setting because they are mandated to generate specific portions of their power generation from renewable sources.

Other tax expenditures: The tax expenditures that cannot be categorized have grown. Of the total $445.8 million in tax expenditures in this category, $217 million, or 46 percent, is due to the GRT deduction for food sold for home consumption. Some provisions in this category have been in place longer, dating back decades in some cases. Since the provisions in this category address varying purposes, it is difficult to generalize about their effects.

"Other" Tax Expenditures
($ millions)



LFC has included a list of tax expenditures in volume 1 of the annual budget recommendation and plans to continue this practice until a formal tax expenditure budget is prepared by TRD.

WHAT PREFERENCES[2] ARE <u>NOT</u> TAX EXPENDITURES?

Tax expenditures can be difficult to identify. They do not include provisions that define the proper scope of the tax base, prevent double taxation or avoid interference in interstate commerce. It is difficult in some cases to make these distinctions. For example, the 50 percent deduction for net capital gain income can be viewed as an incentive to invest in New Mexico or as an attempt to reduce the taxation of inflationary gains, i.e. to define the proper tax base. Another example is the food GRT deduction, which has been excluded from the sales tax base in many states. Developing a tax expenditure list involves subjective judgments.

The broad-based nature of New Mexico's gross receipts tax (GRT) means that many exemptions and deductions are needed just to limit the tax base to something closer to the retail sales taxes imposed in most other states. These are not tax expenditures. Examples include deductions for goods and services sold to governments and non-profit organizations. In addition, the broad base definition of the GRT would have the effect of creating double taxation either within the GRT or when combined with income taxes and other sales taxes. Many exemptions and deductions are needed to prevent such double taxation. Examples include the exemptions for wages, dividends and interest. These are not tax expenditures. Similar issues arise in other tax programs.

Table 5 attached presents a list of 65 tax preference items that do not fit the definition of tax expenditure.

TAX RATE DIFFERENCES

The concept of tax expenditure is not easily applied to differences in tax rates. In part this is because there is no generally accepted definition of the "correct" tax rate for a particular program. The usual approach is to compare to tax rates in other states. This raises two problems: (1) Differences in the tax base definition; and (2) Different taxes play different roles in each state's overall tax system. Comparing tax rates between tax programs – for example the motor vehicle excise tax rate vs. the GRT rate – must also be adjusted for tax base differences. Within a given tax program, different rates are sometimes applied to different industry segments, for example the oil and gas school tax rate on natural gas is 4 percent while the rate on crude oil is 3.15 percent. However, since there is no generally accepted definition of the correct rate, it isn't clear whether oil is taxed too low or gas is taxed too high. Finally, some goods – e.g. liquor and cigarettes -- are taxed at both the wholesale and retail level, so the combined effective tax on these items is larger than suggested by the wholesale tax rate alone.

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[2] The general term "preferences" is used to refer to all types of tax relief including credits, exemptions and deductions.

Average Tax Rate
(% of retail price)

Gross receipts tax	7%
Motor vehicle excise	3%
Oil and gas taxes	8.5%
Hard minerals taxes	1% - 3%
Insurance premiums	3% - 4%
Liquor excise	7.5%
Cigarette	30%
Fuels taxes	6.6%

Source: LFC estimates

The process of appropriating should include a side by side analysis of line item expenditures and a comparison of foregone revenue.

Model Tax Expenditure Reporting States:
1. Louisiana
2. Minnesota
3. Connecticut
4. Oregon

TAX EXPENDITURE ACCOUNTABILITY
Spending through the tax code should be considered the same, or nearly the same as program expenditures. The difference between the two is that tax expenditures reduce revenues and generally bypass the annual legislative review process. Most often, tax expenditures are open-ended with respect to tenure and the amount of foregone revenue. Any review of tax expenditures is generally accomplished as a process toward generating a revenue projection.

For the most part, most tax expenditures start out with a specific public-policy goal – such as poverty reduction, tax payer equity, or job creation; however, once tax expenditures are enacted there is generally no agency held accountable, other than the revenue collecting agency, for the effectiveness of the program. A tax expenditure budget allows policy makers to compare tax incentives benefitting different industries and income levels and to indicate publicly whether they support or oppose certain tax expenditures.

New Mexico, as part of the Accountability in Government Act (AGA), adopted performance based budgeting; however, tax expenditures were not a part of the AGA. Annual review of tax expenditures is necessary to ensure that they are effective, equitable, and accomplishing their intended purpose. Measuring revenue that is foregone alongside an agency's performance goals could improve statewide resource allocation, allowing for re-prioritization during difficult economic times.

Transparency of the tax code improves accountability by providing a complete picture of government spending and subsidies. Tax payers regularly want to know and participate in how their tax dollars are spent. In many cases, it is unclear who actually benefited from a given tax break and what unintended consequences many have occurred. Transparency also helps to avoid cross-agency or governmental subsidies to the same beneficiary – often characterized as corporate welfare.

<u>Elements of a Good Tax Expenditure Report.</u> Although the best practice would be to incorporate tax expenditures into the annual budgetary process, or appropriation bill; most states publish a separate tax expenditure budget report. A good tax expenditure report is a difficult undertaking. Calculating foregone revenue is only the first step. To answer questions like whether the expenditure is achieving its goals requires detailed analysis. Objectivity is required. Agencies or individuals with a vested interest in promoting a program may not provide a reliable assessment of program effectiveness.

To achieve its goals of improving transparency, encouraging accountability, and saving money, a tax expenditure report should have the features listed below:

1. Accessibility. The report should be:
    a. Published regularly.
    b. Incorporated into the budget process.
    c. Available on the Web.

Seven states do not regularly report tax expenditures:

1. Alabama
2. Alaska
3. Indiana
4. Nevada,
5. New Mexico
6. South Dakota
7. Wyoming

August 9, 2011 – Governor Susana Martinez issues Executive Order 2011-071 "Requiring Preparation of an Annual Tax Expenditure Budget"

2. Scope. The report should include:
    a. Tax expenditures related to all taxes.
    b. Explicit and implicit tax expenditures.
    c. Tax expenditures enacted by the state that affect local government.
3. Detail. The report should include:
    a. The cost of the tax expenditure, using current data.
    b. The cost in future years, to allow comparison with other proposed expenditures.
    c. A description of the tax expenditure.
    d. The relevant legal citation and year of enactment.
    e. Detail on the taxpayers who benefit from the tax expenditure.
    f. Separate reporting for the state and local revenue losses, where applicable.
4. Analysis. The report should:
    a. Classify tax expenditures using the same categories as direct spending.
    b. State the intended purpose of the tax expenditure.
    c. Evaluate the extent to which that intended purpose has been accomplished.
    d. Analyze the distribution of benefits by income level and size of business.

Developing such a report will require that taxpayer beneficiaries provide more information than they do now, and the TRD be authorized to release the information. A balance will have to be struck between the need for public information and the taxpayer's need for confidentiality.

Action Steps. On August 9, 2011 Governor Susana Martinez signed an executive order requiring preparation of an annual tax expenditure budget. As ordered by the Governor, the annual tax expenditure budget will be prepared as a joint product of the executive branch agencies. The Taxation and Revenue Department will lead this effort and coordinate with other agencies to develop the budget.

STAFF RECOMMENDATIONS

1. TRD will coordinate with other agencies to define which tax provisions are tax expenditures.
2. TRD will lead other agencies to develop a tax expenditure report to review and analyze the effects of all of its major tax expenditures.
3. New tax expenditure proposals should be subject to thorough review, including detailed information on all major costs and benefits of the proposal.
4. The need for caps and/or sunset provisions should be examined to enable the state to manage the fiscal impacts of tax expenditures in times of falling revenues.

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Table 1: Economic Development Tax Expenditures

Item	NMSA section	Description	Tax Program	Created	Estimated FY13 Fiscal Impacts [1] ($ millions) General Fund	Local gov'ts	Total
1	7-2F	Film production credit	PIT, CIT	2002	(50.0)	-	(50.0)
2	7-9A	Investment credit	CRS	1979	(7.0)	-	(7.0)
3	7-9F	Technology jobs credit	PIT, CIT, CRS	2000	(6.6)	-	(6.6)
4	7-9G-1	High-wage jobs credit	CRS [2]	2004	(5.6)	-	(5.6)
5	7-4-10	Double-weighted sales	CIT	1993	(5.0)	-	(5.0)
6	7-9E	Laboratory small business credit	GRT & Comp.	2000	(3.0)	-	(3.0)
7	7-9-40	Racetrack exemption	GRT & Comp.	1970	(2.0)	-	(2.0)
8	5-15	Tax increment districts	GRT & Comp.	2006	(2.0)	(1.6)	(3.6)
9	7-9-86	Sales to film companies	GRT & Comp.	1995	(1.0)	(0.8)	(1.8)
10	7-2E	Rural jobs credit	PIT, CIT, CRS	1999	(0.7)	-	(0.7)
11	7-9-106	Military construction	GRT & Comp.	2007	(0.5)	(0.3)	(0.8)
12	7-9H	R&D small business credit	CRS	2005	(0.2)	-	(0.2)
13	7-9-13.3	Baseball stadium exemption	GRT & Comp.	2001	(0.2)	(0.2)	(0.4)
14	7-9-94	Military transformation programs	GRT & Comp.	2005	(0.2)	(0.1)	(0.3)
15	7-2-18.17	Angel investment credit	PIT	2007	(0.1)	-	(0.1)
16	7-9-54.2	Spaceport deduction	GRT & Comp.	2001	(0.1)	(0.0)	(0.1)
17	7-9-54.4, -54.5	Space test articles	GRT & Comp.	2003, 2004	(0.1)	(0.1)	(0.2)
18	7-9-26.1	Space vehicle fuel deduction	GRT & Comp.	2003	(0.1)	(0.1)	(0.2)
19	7-9-57.2	Software services in rural areas	GRT & Comp.	2002	(0.1)	(0.1)	(0.2)
20	7-9-107	Boxing promotion	GRT & Comp.	2007	(0.1)	(0.1)	(0.2)
21		Industrial Revenue Bonds [3]	Property Tax		-	na	na
		Total			**(84.6)**	**(3.4)**	**(88.0)**

Notes: 1. Estimates are preliminary and subject to revision.
2. Credits can be applied against Withholding, GRT, Compensating and other CRS taxes.
3. Estimates are not available at this time.

Table 2: Tax Expenditures to Relieve Poverty, Improve Health and Education

Item	NMSA section	Description	Tax Program	Created	Estimated FY13 Fiscal Impacts [1] ($ millions) General Fund	Local gov'ts	Total
		Premiums tax credit for NMMIP assessments	Ins. Premiums		(77.0)	-	(77.0)
1	7-9-93	Managed care medical services deduction	GRT & Comp.	2004	(75.0)	-	(75.0)
2	7-2-18.15	Working families credit	PIT	2007	(45.0)	-	(45.0)
3	7-2-5.8	Low-/middle income exemption	PIT	2005	(30.0)	-	(30.0)
4	7-2-14	LICTR	PIT	1972	(24.0)	-	(24.0)
5	7-9-18.1	Food stamp exemption	GRT & Comp.	1987	(20.0)	(17.0)	(37.0)
6	7-2-5.2	Over-65 or blind exemption	PIT	1985	(19.0)	-	(19.0)
7	7-9-73.2	Prescription drugs deduction	GRT & Comp.	1998	(19.0)	(16.0)	(35.0)
8	7-9-96.1	Hospital receipts credit	GRT & Comp.	2007	(12.5)	-	(12.5)
9	7-9-77.1	Medicare medical services deduction	GRT & Comp.	1998	(12.0)	(10.0)	(22.0)
10	7-9-73.1	50% of for-profit hospital receipts deduction	GRT & Comp.	1991	(11.0)	(9.0)	(20.0)
11	7-2-18.22	Rural health practitioner credit	PIT	2007	(5.0)	-	(5.0)
12	7-2-35	Uncompensated care deduction	PIT	2000	(3.5)	-	(3.5)
13	7-2-18	Over-65 property tax rebate	PIT	1977	(3.5)	-	(3.5)
14	7-2-32	Education trust deduction	PIT	1997	(2.0)	-	(2.0)
15	7-9-96.2	Unreimbursed services credit	GRT & Comp.	2007	(2.0)	-	(2.0)
16	7-2-18.1	Child care expense credit	PIT	1981	(1.5)	-	(1.5)
17	7-2-18.16	Special needs child adoption	PIT	2007	(1.0)	-	(1.0)
18	7-9-16	Non-profit nursing home exemption	GRT & Comp.	1970	(1.0)		(1.0)
19	7-9-73	Prosthetic device deduction	GRT & Comp.	1970	(1.0)	-	(1.0)
20	7-9-111	Hearing and vision aids deduction	GRT & Comp.	2007	(0.9)	(0.7)	(1.6)
21	7-9-99, -100	Hospital construction deduction	GRT & Comp.	2006	(0.4)	(0.3)	(0.7)
22	7-2-5.6	Medical savings accounts	PIT	1995	(0.2)	-	(0.2)
23	7-2-5.9, 7-2-18.13	Over-65 uncompensated medical care	PIT	2005	(0.2)	-	(0.2)
24	7-9-41	Religious organization exemption	GRT & Comp.	1972	(0.2)	(0.1)	(0.3)
25	7-2-36	Organ donor expenses	PIT	2005	(0.1)	-	(0.1)
26	7-2-18.5, 7-2A-8.8	Welfare-to-work credit	PIT, CIT	1998	(0.1)	-	(0.1)
27	7-2-14.3	Low-income property tax rebate	PIT	1994	(0.1)	-	(0.1)
28	7-2A-14	Corporate child care deduction	CIT	1983	(0.1)	-	(0.1)
29	7-9I	Affordable housing credit	CRS, PIT, CIT	2005	(0.1)	-	(0.1)
30	7-2A-17.1, 7-2-18.11	Job mentorship credit	CIT. PIT	2003	(0.1)	-	(0.1)
		Total			**(367.5)**	**(53.1)**	**(420.6)**

Notes: 1. Estimates are preliminary and subject to revision.
2. Credits can be applied against Withholding, GRT, Compensating and other CRS taxes.

Table 3: Renewable Energy and Energy Conservation Tax Expenditures

Item	NMSA section	Description	Tax Program	Created	Estimated FY13 Fiscal Impacts [1] ($ millions) General Fund	Local gov'ts	Total
1	7-2-18.8, 7-2A-19	Renewable energy production credit	PIT, CIT	2002	(20.0)	-	(20.0)
2	7-9-54.3	Wind energy equipment deduction	GRT & Comp.	2002	(2.0)	(1.0)	(3.0)
3	Laws 2010, Ch. 78	Solar generating facility deduction	GRT & Comp.	2010	(0.8)	(0.3)	(1.1)
4	7-2-18.14	Solar market development credit	PIT	2006	(0.6)	-	(0.6)
5	7-2-18.19, 7-2A-21	Sustainable building credit	PIT, CIT	2007	(0.4)	-	(0.4)
6	7-9G-2, 7-2A-25, 7-2-18.25	Advanced energy credit	CRS, PIT, CIT	2007	(0.1)	(0.1)	*
7	7-9J	Altern. Energy manufacturer's credit	CRS	2007	(0.1)	(0.1)	*
8	7-2-18.21, 7-2A-23	Blended biodiesel fuel credit	PIT, CIT	2007	(0.1)	-	(0.1)
9	7-9-98	Biomass deductions	GRT & Comp.	2005	(0.1)	(0.1)	(0.2)
10	7-9-101, -102, -103	Renewable energy transmission authority	GRT & Comp.	2007	(0.1)	(0.1)	(0.2)
11	7-9-112	Solar energy systems deduction	GRT & Comp.	2007	(0.1)	(0.1)	(0.2)
12	7-9-113	Vegetable oil for special fuels	GRT & Comp.	2009	(0.1)	(0.1)	(0.2)
13	Laws 2011, Ch 108	Plant photosynthesis as alternative energy	GRT & Comp.	2011	(0.3)	-	(0.3)
		Total			**(24.8)**	**(1.9)**	**(26.3)**

Notes: 1. Estimates are preliminary and subject to revision.
2. Credits can be applied against Withholding, GRT, Compensating and other CRS taxes.

Table 4: Other Tax Expenditures

Item	NMSA section	Description	Tax Program	Created	Estimated FY13 Fiscal Impacts [1] ($ millions)		
					General Fund	Local gov'ts	Total
1	7-9-92	Food for home consumption deduction	GRT & Comp.	2004	(217.0)	-	(217.0)
2	7-12-4	Tribal sales exemption	Cigarette	1992	(75.0)	-	(75.0)
3	7-31-5	Royalty deductions	O&G School	1959	(40.0)	-	(40.0)
4	7-2-34	Exclusion of 50% of capital gains	PIT	2003	(37.0)	-	(37.0)
5	59A-6-6	Insurance company exemption	CIT	1984	(20.0)	-	(20.0)
6	7-2-5.1	Armed forces salary exemption	PIT	2007	(12.0)	-	(12.0)
7	7-9-56	Intrastate transportation	GRT & Comp.	1994	(12.0)	(2.0)	(14.0)
8	7-9-24	Insurance not subject to premiums tax	GRT & Comp.	1969	(6.0)	(5.0)	(11.0)
9	7-9-30	Railroad, aircraft, space vehicle deduction	Comp.	1969	(6.0)	(1.5)	(7.5)
10	7-9-87	Lottery tickets and commissions deduction	GRT & Comp.	1995	(6.0)	(4.0)	(10.0)
11	7-9-95	Back-to-school sales tax "holiday"	GRT & Comp.	2005	(2.7)	(2.2)	(4.9)
12	7-2-18.10, 7-2A-8.9	Open space land donation credit	PIT, CIT	2003	(2.5)	-	(2.5)
13	7-9-7.1	Compensating tax estoppel on households	Comp.	1993	(2.0)	(0.4)	(2.4)
14	7-9-63, -64	Newspapers, magazines deduction	GRT & Comp.	1969	(2.0)	(1.6)	(3.6)
15	7-9-61.2	Sals to credit unions deduction	GRT & Comp.	2000	(1.0)	(0.8)	(1.8)
16	7-9-20, -39	Fees of social organizations	GRT & Comp.	1988	(1.0)	(0.8)	(1.8)
17	7-2-18.20	Ag. Water conservation credit	PIT	2007	(0.5)	(0.3)	(0.8)
18	7-25-3	Royalty deductions	Resources	1966	(0.5)	-	(0.5)
19	7-12-7	Cigarette stamp discount	Cigarette	1943	(0.3)	-	(0.3)
20	7-2-18.2, 7-2A-8.6	Cultural property preservation credit	PIT, CIT	1984	(0.2)	-	(0.2)
21	7-9-13.4	Textbook exemption	GRT & Comp.	2002	(0.2)	(0.2)	(0.4)
22	7-2-18.8, 7-2A-18	Electronic I.D, equipment deduction	PIT, CIT	2001	(0.1)	(0.1)	(0.2)
23	7-2-5.10	Nat'l guard insurance exemption	PIT	2006	(0.1)	(0.1)	(0.2)
24	7-2-5.7	Over age 100 exemption	PIT	2002	(0.1)	-	(0.1)
25	7-9-97	Mining reclamation bond deduction	GRT & Comp.	2005	(0.1)	(0.1)	(0.2)
26	7-9-13.5	Municipal event center charges	GRT & Comp.	2005	(0.1)	(0.1)	(0.2)
27	7-9-41.3	Disabled street vendor deduction	GRT & Comp.	2007	(0.1)	(0.1)	(0.2)
28	7-9-41.1	University athletic event deduction	GRT & Comp.	2007	(0.1)	(0.1)	(0.2)
29	7-9-56.3	Border trade companies deduction	GRT & Comp.	2003	(0.1)	(0.1)	(0.2)
30	7-9-89	Sales to diplomats	GRT & Comp.	1998	(0.1)	(0.1)	*
31	7-9-83	Jet fuel deduction	GRT & Comp.	1993	-	(1.0)	(1.0)
32	7-29B-3	Reduced O&G tax rate for stripper wells	O&G School	1995	-	-	-
33	7-2-18.4, 7-2A-15	Business facility rehabilitation credit	PIT, CIT	1994	*	*	*
34	Laws 2010, Ch 31	Gaming tax credit (counties reimbursed)	GRT	2010	(0.3)	-	(0.3)
35	Laws 2010, Ch 84	Transport of dairy waste	PIT, CIT	2010	(0.7)	-	(0.7)
		Total			**(445.8)**	**(20.6)**	**(466.2)**

Notes: 1. Estimates are preliminary and subject to revision.
2. Credits can be applied against Withholding, GRT, Compensating and other CRS taxes.

Table 5: Deductions and Exemptions that are not Tax Expenditures

Item	NMSA Section	Description	Tax Program	Explanation
1	7-9-18	Agricultural products exemption	GRT & Comp.	Anti-pyramiding
2	7-9-3.3	Third-party call center operations	GRT & Comp.	Anti-pyramiding
3	7-9-3.5	Interest income	GRT & Comp.	Avoids double-taxation
4	7-9-3.5	Agents' income	GRT & Comp.	Anti-pyramiding
5	7-9-3.5	Florists' receipts on out-of-state sales	GRT & Comp.	Avoids double-taxation
6	7-9-3.5	Government receipts	GRT & Comp.	Not in typical retail sales tax base
7	7-9-13.1	Imported services	GRT & Comp.	Not in typical retail sales tax base
8	7-9-15, -60	Non-profit purchases	GRT & Comp.	Not in typical retail sales tax base
9	7-9-29, -85	Non-profit sales	GRT & Comp.	Not in typical retail sales tax base
10	7-9-17	Wages	GRT & Comp.	Avoids double-taxation
11	7-9-25	Dividends & interest	GRT & Comp.	Avoids double-taxation
12	7-9-18	Livestock, unprocessed ag. Products	GRT & Comp.	Anti-pyramiding
13	7-9-19	Livestock services	GRT & Comp.	Anti-pyramiding
14	7-9-109	Veterinary services for livestock	GRT & Comp.	Anti-pyramiding
15	7-9-22, -23	Motor vehicles	GRT & Comp.	Avoids double-taxation
16	7-9-22.1, -23.1	Boats	GRT & Comp.	Avoids double-taxation
17	7-9-24	Insurance receipts subject to premiums tax	GRT & Comp.	Avoids double-taxation
18	7-9-26	Fuels subject to other taxes	GRT & Comp.	Avoids double-taxation
19	7-9-28	Occasional sales	GRT & Comp.	Reduced administrative/compliance burden
20	7-9-47, -48, -96	Sales for re-sale	GRT & Comp.	Anti-pyramiding
21	7-9-32	O&G mineral interests	GRT & Comp.	Avoids double-taxation
22	7-9-33	O&G products subject to other taxes	GRT & Comp.	Avoids double-taxation
23	7-9-34	Gas processing subject to NGPT	GRT & Comp.	Avoids double-taxation
24	7-9-35	Resources subject to resource excise tax	GRT & Comp.	Avoids double-taxation
25	7-9-36, -37	O&G used in pipeline transportation	GRT & Comp.	Anti-pyramiding
26	7-9-38	Electricity used in production & transportation	GRT & Comp.	Anti-pyramiding
27	7-33	Gas products used in production	NGPT	Anti-pyramiding
28	7-9-46	Manufacturers' ingredients	GRT & Comp.	Anti-pyramiding
29	7-9-49, -50, -78	Sale/leasing for re-leasing	GRT & Comp.	Anti-pyramiding
30	7-9-51, -52	Construction materials/services for re-sale	GRT & Comp.	Anti-pyramiding
31	7-9-53	Sale/lease of real property	GRT & Comp.	Avoids double-taxation
32	7-9-14, -54	Sales to governments	GRT & Comp.	Not in typical retail sales tax base
33	7-9-54.1	Aerospace services to the USAF	GRT & Comp.	Not in typical retail sales tax base
34	7-9-55	Interstate commerce	GRT & Comp.	Not in typical retail sales tax base
35	7-9-56.1	Internet services for re-sale	GRT & Comp.	Anti-pyramiding
36	7-9-56.2	Website hosting	GRT & Comp.	Anti-pyramiding
37	7-9-57	Services for export	GRT & Comp.	Not in typical retail sales tax base
38	7-9-57.1	Internet sales for export	GRT & Comp.	Not in typical retail sales tax base
39	7-9-58	Feed, fertilizer	GRT & Comp.	Anti-pyramiding

Table 5: Deductions and Exemptions that are not Tax Expenditures

Item	NMSA Section	Description	Tax Program	Explanation
40	7-9-59	Warehousing agricultural products	GRT & Comp.	Anti-pyramiding
41	7-9-61.1	Loan origination fees	GRT & Comp.	
42	7-9-62, -77	Agricultural implements, aircraft	GRT & Comp.	Anti-pyramiding
43	7-9-62.1	Aircraft services	GRT & Comp.	Anti-pyramiding
44	7-9-65	Chemicals to mining industry	GRT & Comp.	Anti-pyramiding
45	7-9-66	Sales commissions on tangible property	GRT & Comp.	Anti-pyramiding
46	7-9-66.1	Sales commissions on real property	GRT & Comp.	Anti-pyramiding
47	7-9-67	Bad debt	GRT & Comp.	Avoids taxation of non-existent receipts
48	7-9-68	Warranty services	GRT & Comp.	Anti-pyramiding
49	7-9-69	Admin, & accounting services for affiliate	GRT & Comp.	Anti-pyramiding
50	7-9-70	Lease of vehicles for interstate travel	GRT & Comp.	Not in typical retail sales tax base
51	7-9-71	Trade-in allowances	GRT & Comp.	Avoids double-taxation
52	7-9-74	Property in jewelry manufacturing	GRT & Comp.	Anti-pyramiding
53	7-9-75	Certain services to manufacturers	GRT & Comp.	Anti-pyramiding
54	7-9-76	Certain travel agents' commissions	GRT & Comp.	Anti-pyramiding
55	7-9-76.1	Manufactured homes	GRT & Comp.	Avoids double-taxation
56	7-9-76.2	Leasing films for re-lease	GRT & Comp.	Anti-pyramiding
57	7-9-78.1	Uranium plant equipment	GRT & Comp.	Anti-pyramiding
58	7-2-13, -79, -79.1	Credit for taxes to another state	GRT & Comp.	Avoids double-taxation
59	7-2A-16, 7-29C, 7-9-88.1, -88.2	Credit for taxes to a tribe	GRT & Comp.	Avoids double-taxation
60	7-9-90	Uranium enrichment services	GRT & Comp.	Anti-pyramiding
61	7-9-108	Mutual fund services	GRT & Comp.	Anti-pyramiding
62	7-9-96	Credit for certain services for re-sale	GRT & Comp.	Anti-pyramiding
63	7-25, 7-31	Processing cost deductions	O&G school, Resources	Anti-pyramiding
64	7-29, 7-30, 7-31, 7-32	Trucking cost deductions	O&G taxes	Avoids double-taxation
65	7-2-2.3	Interest on U.S. debt issues	PIT	Federal pre-emption