

New Mexico Legislature Revenue  
Stabilization Committee

# COMPARING NEW MEXICO'S TAX STRUCTURE TO OTHER STATES

JULY 20, 2022



# TAX POLICY PRINCIPLES

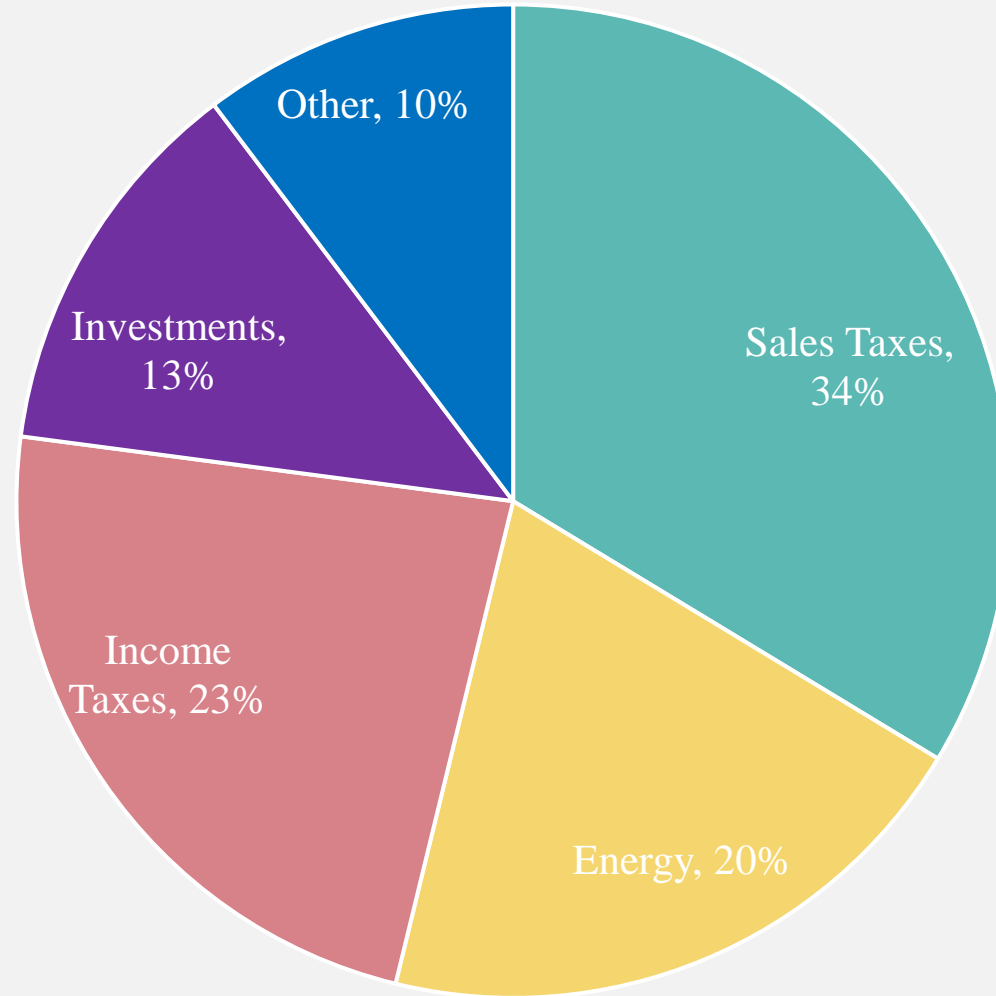
*N.M. Tax Research Institute is a non-profit, non-partisan member-supported organization dedicated to advancing the following principles of good tax policy in New Mexico:*

- ***Adequacy***
  - Revenues should be sufficient to fund needed services
- ***Efficiency***
  - Interference with the private economy should be minimized
- ***Equity***
  - Taxpayers should be treated fairly
- ***Simplicity***
  - Laws, regulations, forms and procedures should be as simple as possible
- ***Comprehensiveness***
  - All taxes should be considered when evaluating the system
- ***Accountability***
  - Exceptions should be rare and should be carefully evaluated and justified



# NEW MEXICO FISCAL SITUATION

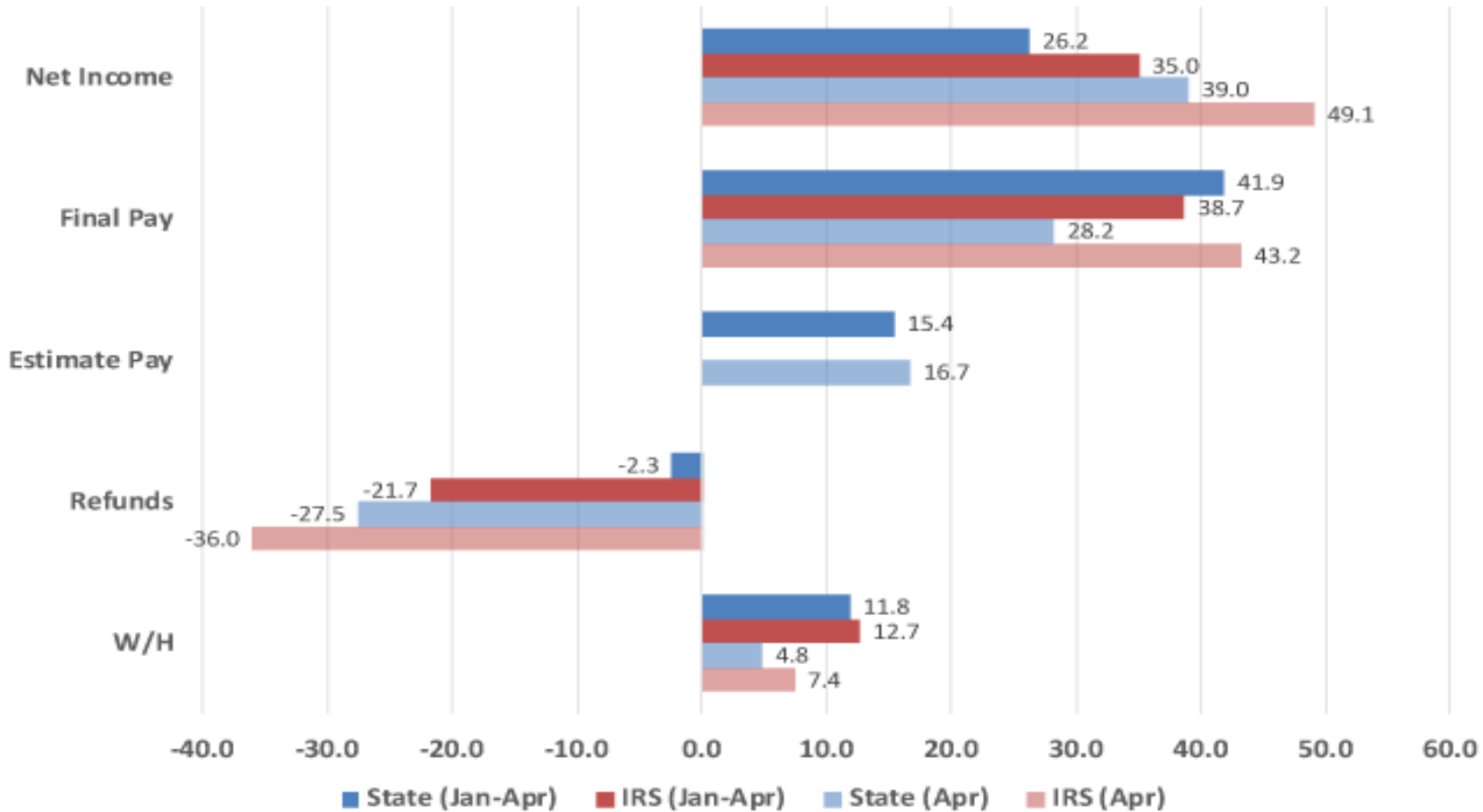
General Fund 2023 Revenue: \$9.05B



# ALL STATE FISCAL STATUS

State & Federal Individual Income Tax Collection - 2022 Processing Year

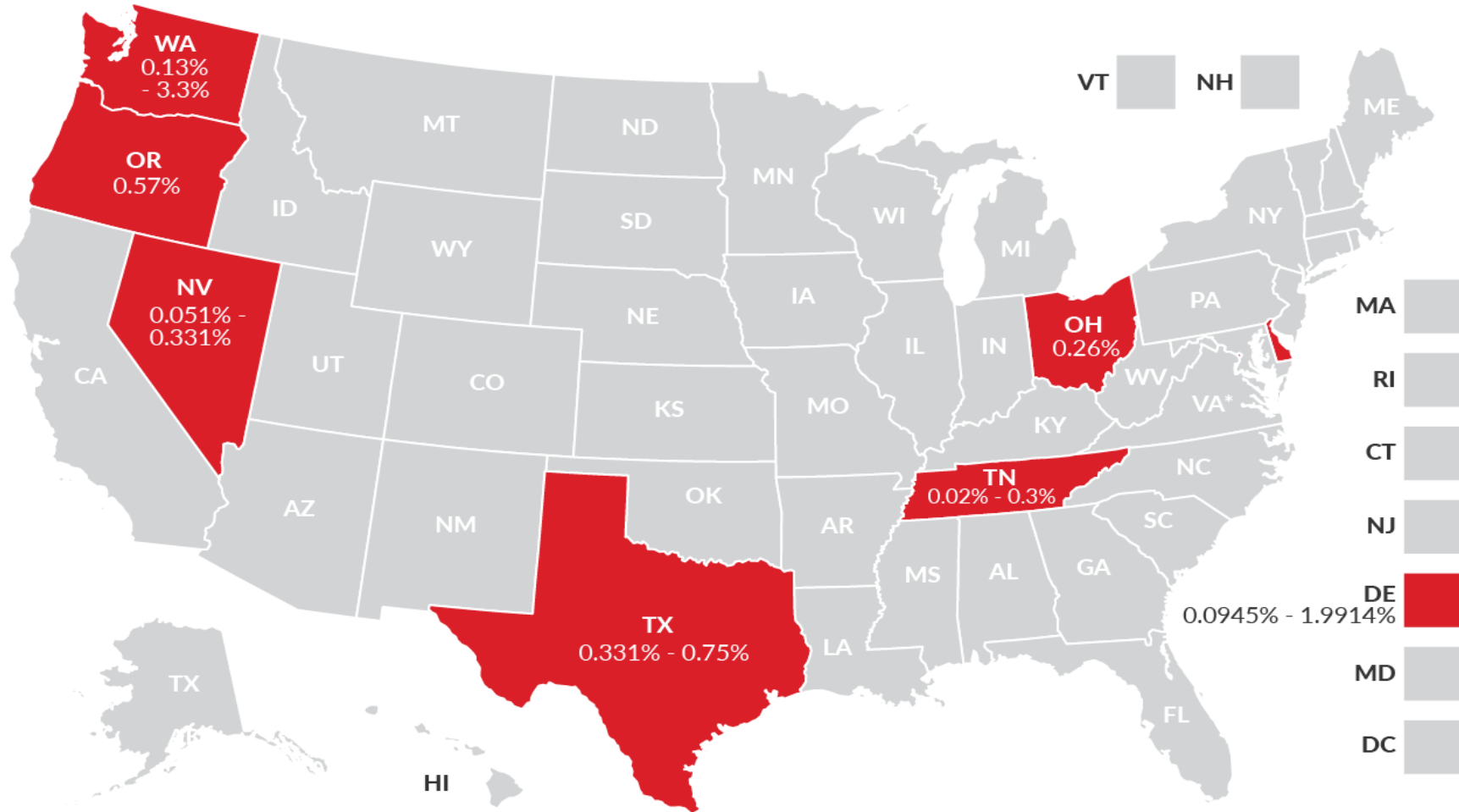
[percentage change - adjusted base]



Federation of Tax Administrators

# Does Your State Have a Gross Receipts Tax?

State Gross Receipts Taxes, January 2022



- MA
- RI
- CT
- NJ
- DE
- MD
- DC

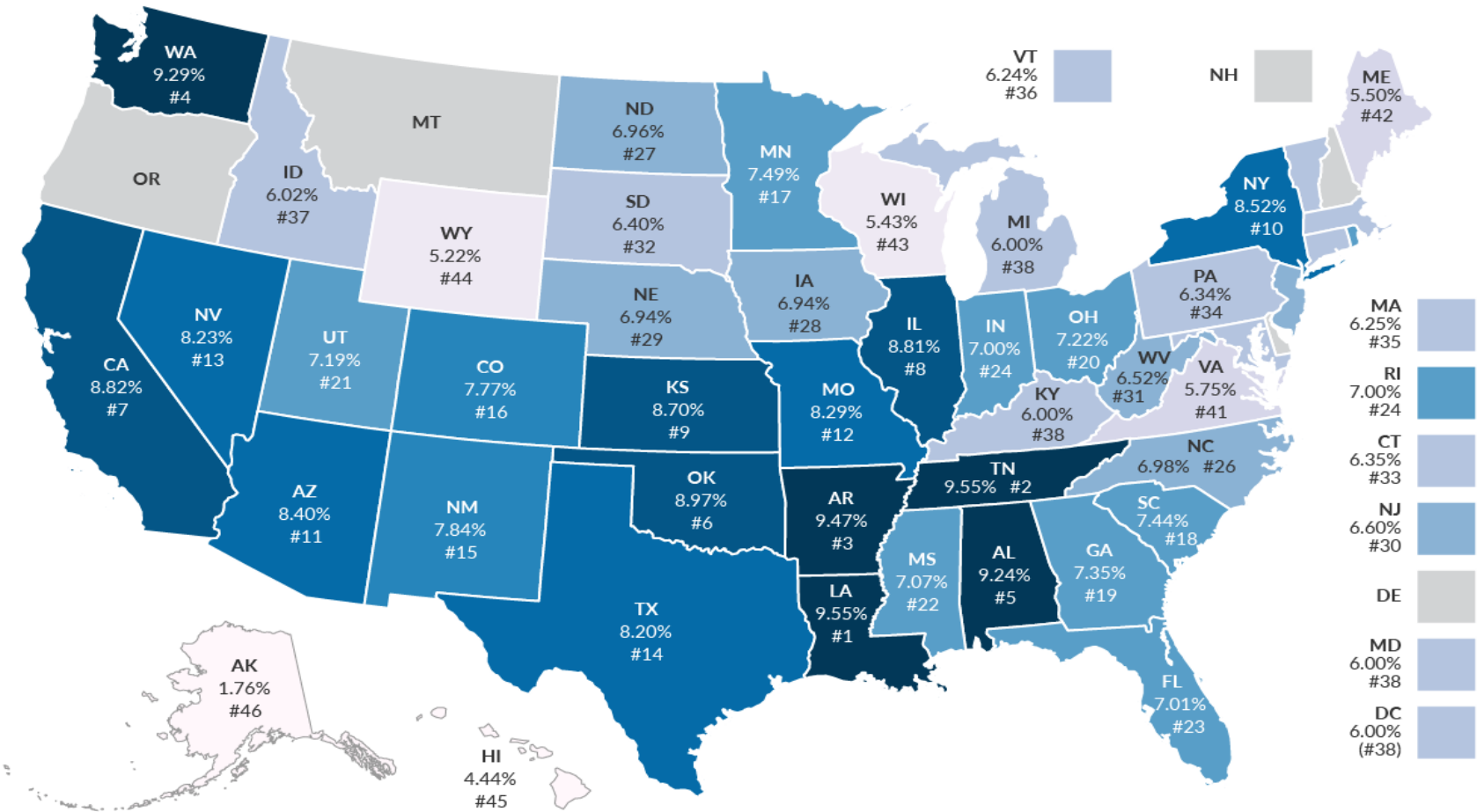
*State with gross receipts taxes*

\*Virginia's tax is locally levied and rates vary by business and jurisdiction. Approximately half of counties do not levy the tax. Some counties instead levy a capital stock tax.  
 Note: Gross receipts taxes are complex business taxes imposed at a low rate but on a wide base of transactions, resulting in high effective tax rates that can vary by industry. These taxes also often have minimum taxes that can result in much higher effective rates for some small businesses.  
 Source: Bloomberg Tax; state revenue departments; Weldon Cooper Center for Public Service.

■ Has a State Gross Receipts Tax  
■ No State Gross Receipts Tax

# How High are Sales Taxes in Your State?

Combined State & Average Local Sales Tax Rates, January 2022



*Combined Average State and Average Local Sales Tax Rates*

Notes: City, county and municipal rates vary. These rates are weighted by population to compute an average local tax rate. The sales taxes in Hawaii, New Mexico and South Dakota have broad bases that include many business-to-business services. D.C.'s rank does not affect states' ranks, but the figure in parentheses indicates where it would rank if included.

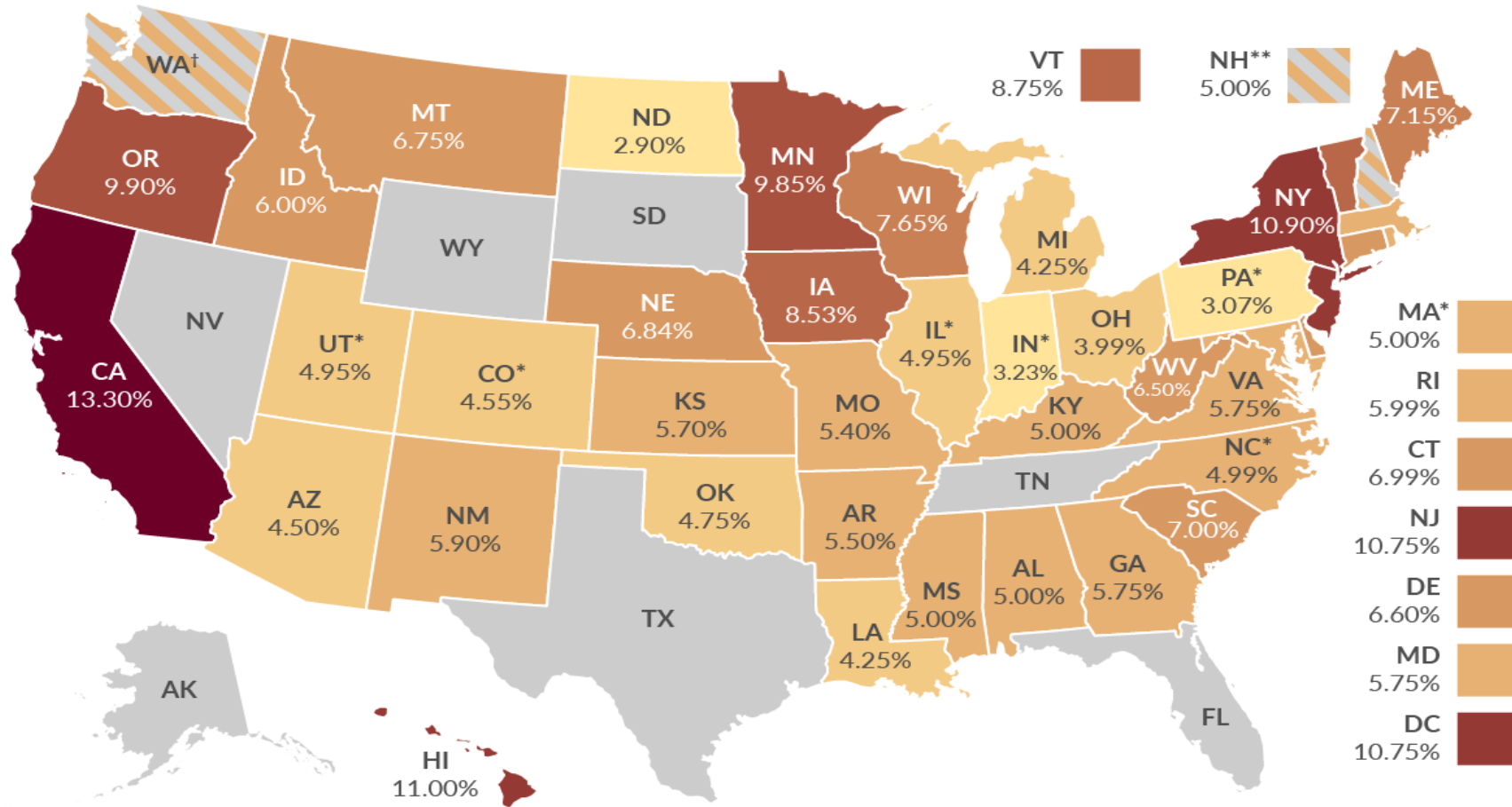
Sources: Sales Tax Clearinghouse; Tax Foundation calculations; State Revenue Department websites





# How High Are Individual Income Tax Rates in Your State?

Top Marginal State Individual Income Tax Rates (as of January 1, 2022)



Note: Map shows top marginal rates: the maximum statutory rate in each state. This map does not show effective marginal tax rates, which would include the effects of phase-outs of various tax preferences. Local income taxes are not included. Missouri's top marginal rate will be reduced to 5.3% if certain revenue triggers are met.

(\*) State has a flat income tax.

(\*\*) State only taxes interest and dividends income.

(†) State only taxes capital gains income.

Sources: Tax Foundation; state tax statutes, forms, and instructions; Bloomberg Tax.

*Personal Income Tax -  
Top Marginal Tax Rates*

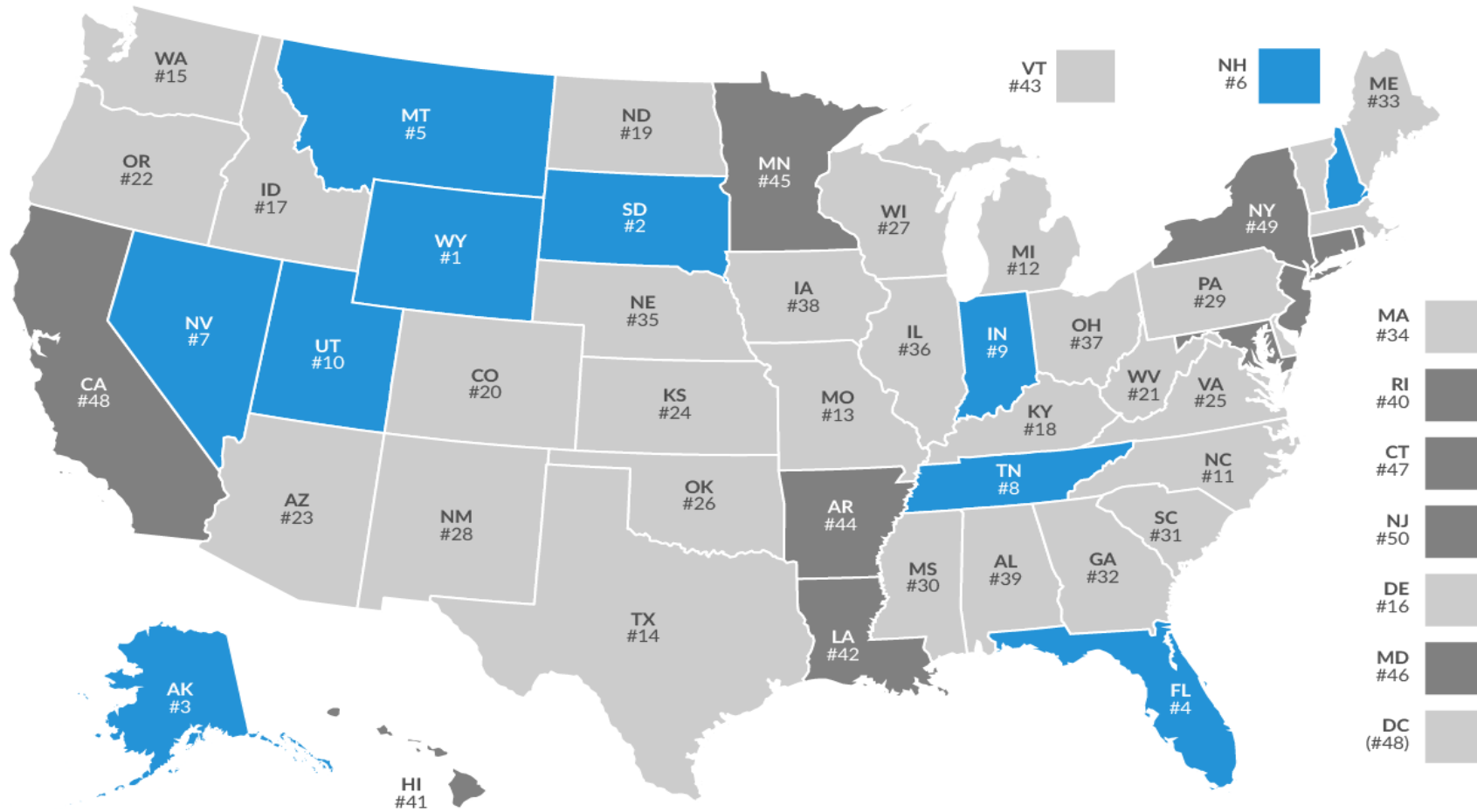
Top State Marginal Individual Income Tax Rates



Lower

Higher

# 2022 State Business Tax Climate Index



Note: A rank of 1 is best, 50 is worst. D.C.'s score and rank do not affect other states. The report shows tax systems as of July 1, 2021 (the beginning of Fiscal Year 2022).

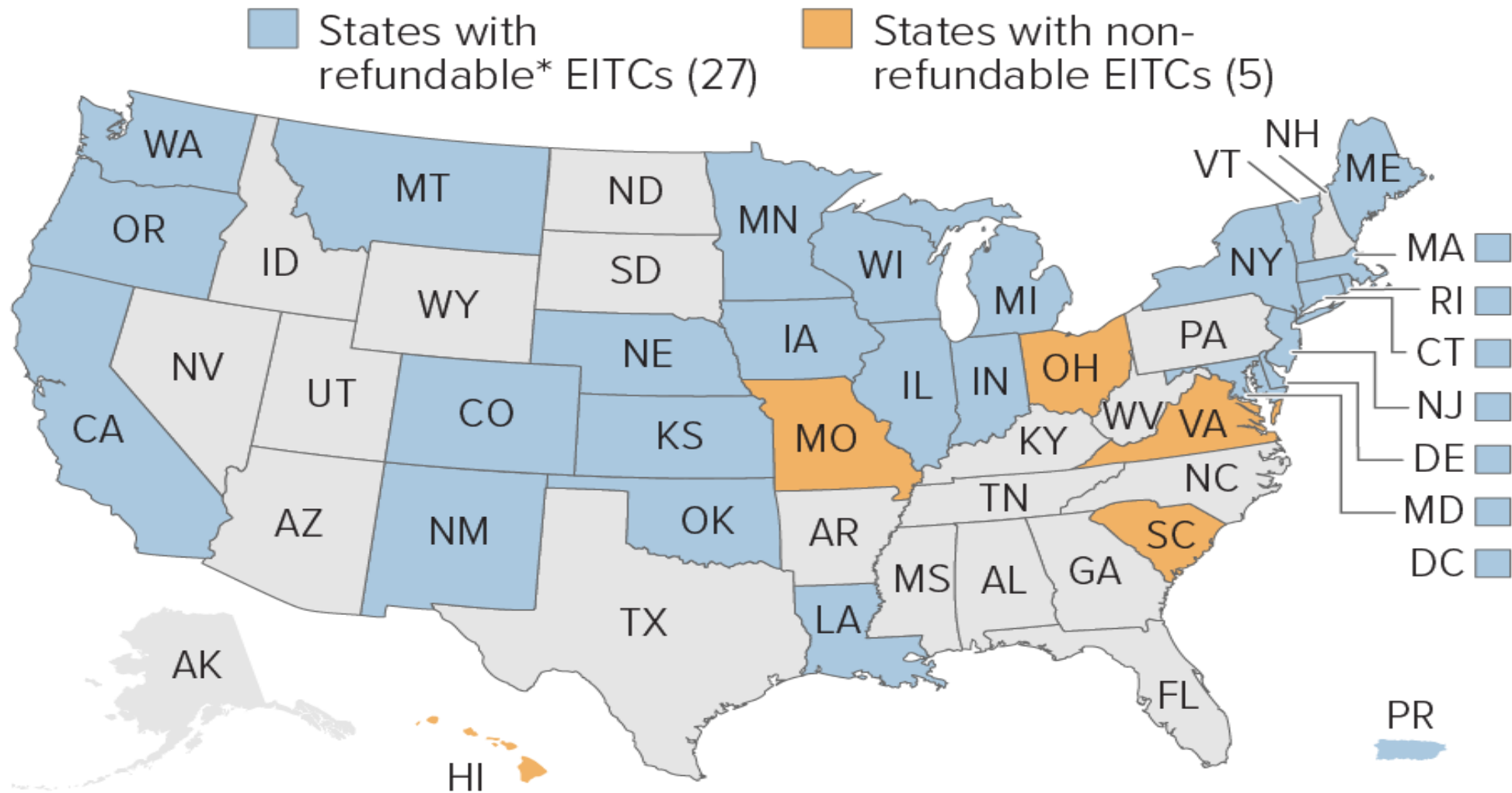
Source: Tax Foundation

- 10 Best Business Tax Climates
- 10 Worst Business Tax Climates

*Tax Foundation  
Business Tax Climate  
Index Rankings*



# 30 States Plus D.C. and Puerto Rico Have EITCs



\*Refundability means that the full value of an earned income tax credit (EITC) is available to all families, no matter how much they owe in taxes.

Source: CBPP analysis. Data are as of 2021

# From the Tax Policy Center Study on How Broad are State Tax Bases

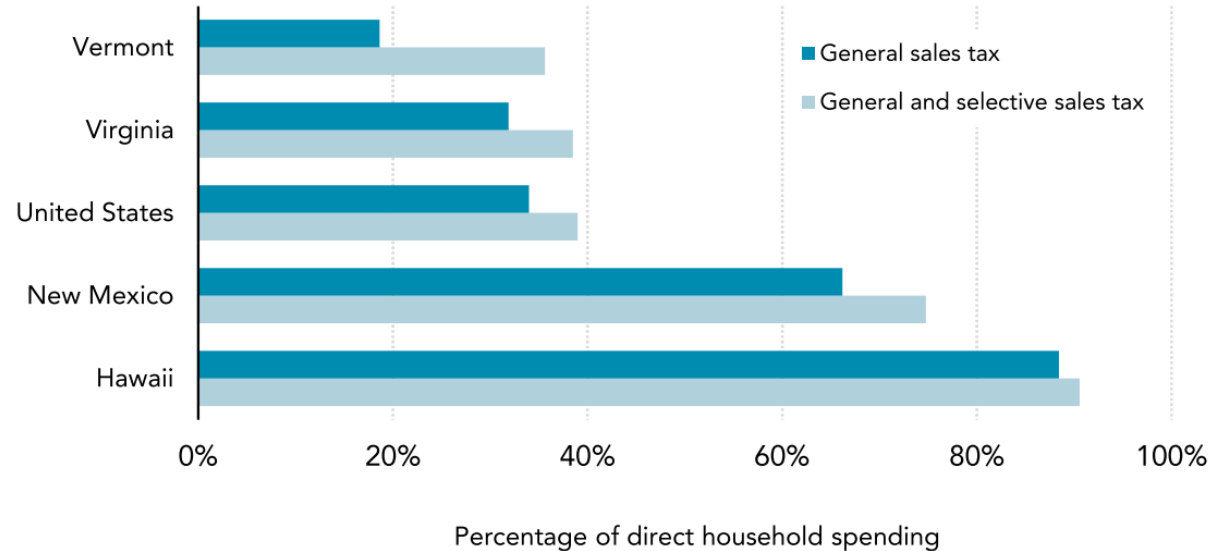
## SECTION 2: BREADTH OF SALES TAX BASE

### Most states include less than half of direct household spending in their sales tax base

- Using information about household spending patterns by state as well as state laws specifying the tax base for sales and excise taxes, we can determine the share of household direct spending that is taxable in each state.
- We measure direct household spending by subtracting expenditures by nonprofits and imputed expenditures from personal consumption expenditures.
- The share of the potential tax base covered by state general sales tax ranges from 19 percent in Vermont to 66 percent in New Mexico and 88 percent in Hawaii. If we include both general and selective sales tax, coverage rises to 36 percent in Vermont and to 75 percent in New Mexico and 91 percent in Hawaii.

FIGURE 4

### Sales Tax Base as a Percentage of Direct Household Spending for Selected States and the US, 2018



**Source:** Bureau of Economic Analysis, Regional Accounts Table SAEXP1; Bureau of Economic Analysis, National Income and Product Accounts Table 2.4.5U; and Bloomberg Sales and Excise Tax Navigators.

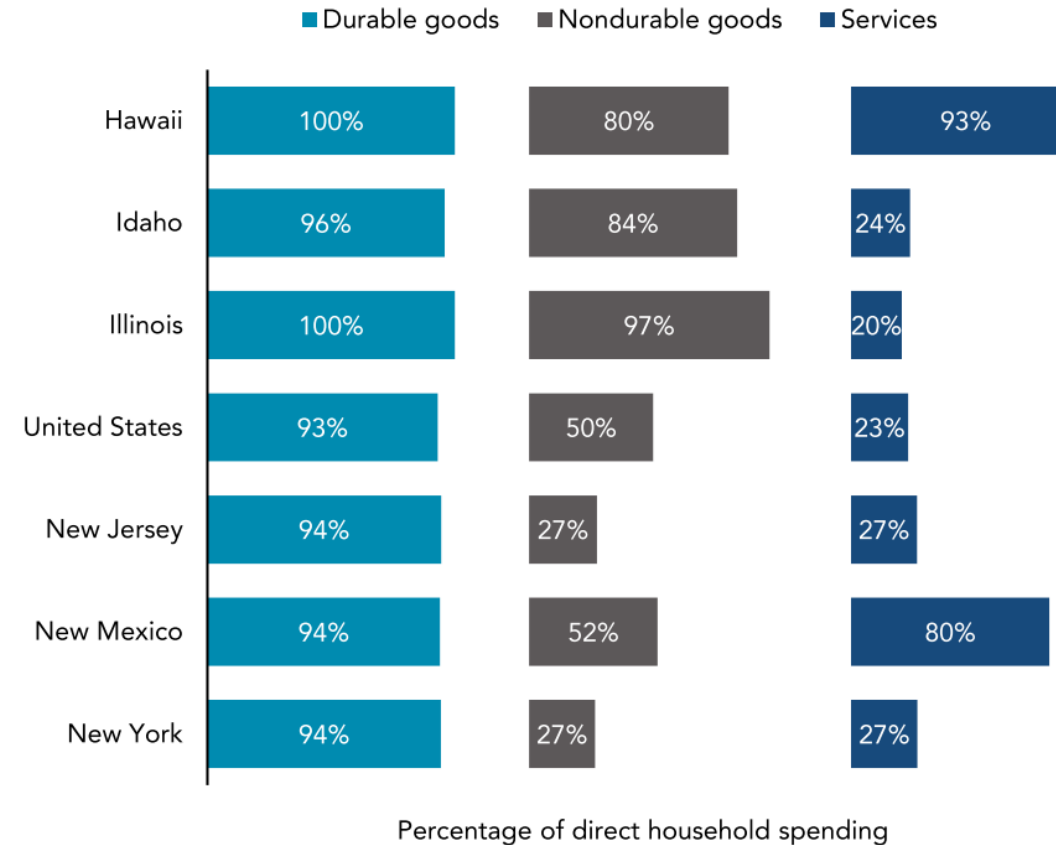
**Note:** Direct household spending is measured as personal consumption expenditures less final expenditures by nonprofits serving households and imputed items such as the rental equivalent of owned homes and financial services furnished without payment.

## Most states tax nearly all durable goods, but few tax a significant portion of services

- Almost all expenditures on durables are taxable in most states with a general sales tax. In some states, motor vehicle sales are exempt from general sales tax but are subject to a separate tax.
- Taxation of nondurable goods is far less uniform. Among states with a general sales tax, the percentage of nondurables subject to either the general sales tax or a separate tax ranges from 27 percent in New Jersey and New York to 84 percent in Idaho and 97 percent in Illinois. Three of the largest subcategories of non-durable goods—food at home, prescription drugs, and gasoline—are widely excluded from state general sales taxes, although all states levy a separate excise tax on gasoline.
- The percentage of service expenditures that is taxable ranges from 20 percent or less in many states to 80 percent in New Mexico and 93 percent in Hawaii.
- Alaska, Delaware, Montana, New Hampshire, and Oregon have no statewide general sales tax. However, all tax a small percentage of nondurable goods and (except for Alaska) some services through excise taxes.

FIGURE 5

## Tax Base Coverage by Expenditure Category, 2018





**Source:** Bureau of Economic Analysis, Regional Accounts Table SAEXP1; Bureau of Economic Analysis, National Income and Product Accounts Table 2.4.5U; and Bloomberg Sales and Excise Tax Navigators

**Note:** Direct household spending is measured as personal consumption expenditures less final expenditures by nonprofits serving households and imputed items such as the rental equivalent of owned homes and financial services furnished without payment.

# THANK YOU

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