

**Bill Analysis and Fiscal Impact Report
Taxation and Revenue Department**

February 4, 2026

Bill:

SB-151 -Rev

Sponsor:

Senators Peter Wirth and Heather Berghmans and Representative Cristina Parajón

Short Title:

Corporate Income Tax Changes

Description:

This bill decouples from certain corporate income tax provisions of federal H.R.1 (One Big Beautiful Bill Act or OBBBA), which was enacted in July 2025. This bill decouples from the federal act by amending the definition of “base income” for New Mexico corporate income tax (CIT) purposes. The bill removes the Internal Revenue Code (IRC) § 951A income from controlled foreign corporations (CFC) exemption from New Mexico’s tax base by conforming to the federal tax code’s inclusion of income from controlled foreign corporations – having the effect of adding this income back into New Mexico’s taxable income base.

The bill also decouples from IRC §§ 168(k), 168(n), and 163(j)(2). Sections 168(k) and 168(n) of the IRC contain new federal bonus depreciation and interest expense deductions. The bill decouples from these sections by adding back to New Mexico base income the amount of the deductions exceeding the deduction amounts allowed by IRC §§ 168(a) through (j). The bill also decouples from IRC § 163(j)(2), the business interest expense limitations, by adding back the additional interest deduction taken for federal tax purposes.

The bill includes specific provisions governing the apportionment of CFC income. It clarifies that, for income apportionment purposes, CFC income that is included in New Mexico income is reflected in the numerator and denominator of the taxpayer’s apportionment factor.

Effective Date, Applicability, and Contingency Language:

Not specified or 90 days following adjournment (May 20, 2026). Applicability – The provisions of this act apply to taxable years beginning on or after January 1, 2027.

Taxation and Revenue Department Analyst:

Chen Xie and Lucinda Sydow

Estimated Revenue Impact*

FY26	FY27	FY28	FY29	FY30	Recurring or Non-Recurring	Fund(s) Affected
--	\$40,000	\$80,000	\$70,000	\$60,000	R	Section 1 - IRC §168(k) - General Fund
--	\$5,000	\$10,000	\$10,000	\$10,000	R	Section 1 - IRC §168(n) - General Fund
--	\$5,000	\$10,000	\$10,000	\$10,000	R	Section 1 - IRC §163(j)(8) - General Fund

--	\$5,750 – \$10,750	\$11,500 - \$21,500	\$11,500 - \$21,500	\$11,500 - \$21,500	R	Section 2 – IRC §951A (NCTI) – General Fund
--	\$55,750 - \$60,750	\$111,500 - \$ 121,500	\$101,500 - \$111,500	\$91,500 - \$101,500	R	Total General Fund

* In thousands of dollars. Parentheses () indicate a revenue loss. ** Recurring (R) or Non-Recurring (NR).

Methodology for Estimated Revenue Impact:

To estimate the fiscal impact of decoupling from IRC Sections §§168(k), 168(n) and 163(j)(8), Tax & Rev presumes that the bill may be amended to clarify that these federal deductions are added back into CIT “base income”.

Tax & Rev began with the impact of the Consensus Revenue Estimating Groups (CREG) December 2025 CIT forecast for H.R.1. Included in the CREG’s December 2025 CIT forecast is the decrease in revenue from the impact of H.R.1 from IRC §168(k), §168(n) and also IRC §174, the deduction for domestic research and development (R & D) for an average annual revenue loss of \$130 million. Also included in CREG’s forecast is the loss of revenue from the increased cap for state and local taxes, known as the SALT cap, averaging \$63 million a year. This bill does not impact the R & D deduction under IRC §174, nor the increase in the SALT cap. Tax & Rev estimated the revenue increase from decoupling from IRC §168(k) and §168(n) by proportioning the CREG’s impact of IRC §§168(k), 168(n) and 174 against an analysis by the Tax Foundation which estimates the fiscal impact to New Mexico from IRC §§168(k), 168(n), 174 and 179¹. According to the Tax Foundation’s analysis, 57% of the estimated reduction in New Mexico CIT revenue is from §168(k) and 6% of the estimated drop is from §168(n). Tax & Rev applied those percentages to the CREG’s H.R. 1 impact by fiscal year to arrive at the respective impacts detailed in the revenue impact table. For decoupling from §163(j)(8), Tax & Rev assumed the same impact as §168(n). The fiscal impact for FY2027 captures a half year of taxpayers adjusting estimated payments for the first two quarters of tax year 2027.

To estimate the fiscal impact of including Net Controlled Foreign Corporations Tested Income (NCTI)² in Internal Revenue Code (IRC) §§ 951A and the §250 deductions into New Mexico’s base income, the Taxation and Revenue Department (Tax & Rev) extracted data for tax years 2020 through 2023 based taxpayer records on Global Intangible Low-Taxed Income (GILTI), which was renamed NCTI, the Internal Revenue Service’s name for this category of foreign income. Tax & Rev averaged the lowest two tax years of NCTI income apportioned to New Mexico and multiplied those amounts by the corporate income tax rate of 5.9% to produce a lower-bound estimate. For the upper bound, Tax & Rev averaged the two highest annual values over the same period and multiplied the value times the corporate tax rate of 5.9%.

Policy Issues:

For states that conform to the federal tax code, the scale of the impacts from H.R.1 varies based on whether the state’s starting point for corporate income tax purposes is federal adjusted gross income or federal taxable income. New Mexico’s starting point for corporate income tax is federal taxable income. The changes made by H.R. 1 impact federal taxable income, and therefore, New Mexico’s corporate income tax starting point. While the federal government enacted these changes to the tax base based on other changes and for other purposes, often for states the impact is a severe reduction in the state’s taxable base. Thus, New Mexico would join other states like California, Illinois, and Michigan in decoupling from IRC § 168(n) and 168(k), as the revenue impact at the state level is too great to sustain.

¹ <https://taxfoundation.org/research/all/state/big-beautiful-bill-state-tax-impact/>

² Formally referred to as Global Intangible Low-Tax Income or GILTI

Like many states, this bill does not propose decoupling from the IRC §174 R& D deduction, as this first-year expensing of R&D expenditures has been a staple of the federal tax code since 1954. The Tax Cuts & Jobs Act (TCJA) shifted the traditional one-year expensing to a 5-year expensing amortization. H.R.1 returns the provision to the historical standard. For R&D expenses and development, 100% expensing in the first year is crucial to sustain current and long-term investments and growth planning. The overall impact of this proposal to broaden New Mexico’s corporate income tax base reducing reliance on narrower, more cyclical components of the base and may improve the stability of year-to-year collections.

New Mexico’s corporate income tax structure is built on a conformity framework in which federal taxable income functions as the primary starting point of state CIT base income and state policy choices are implemented through a limited set of additions, subtractions, and apportionment rules. Federal conformity eases many state administrative aspects of income tax programs and, for taxpayers, enables more seamless completion of federal and state income tax returns, leading to improved compliance. While New Mexico may choose to decouple from the federal tax base by bringing some federal tax expenditures back into the New Mexico’s base income, it may increase complexity in compliance for taxpayers and administration the state administration.

Technical Issues:

[Section 1] The fiscal impact estimate assumes that New Mexico CIT is decoupling from IRC §168(k), §168(n) and §163(j)(8) so that these federal deductions are added back into CIT “base income.” The bill may be amended to make that more explicit.

Other Issues:

None.

Administrative & Compliance Impact:

Tax & Rev will update forms, instructions, publications, and implement required modifications to GenTax, the system of record for taxes, to be incorporated into the annual tax year implementation. Staff training will be needed.

This bill will have a moderate impact on Tax & Rev’s Information Technology Division (ITD), approximately 660 hours or about one and a half months and \$45,679 of staff workload costs.

Estimated Additional Operating Budget Impact*

FY26	FY27	FY28	3 Year Total Cost	Recurring or Non-Recurring	Fund(s) or Agency Affected
--	--	\$45.6	\$45.6	NR	ITD – Staff workload

* In thousands of dollars. Parentheses () indicate a cost saving. ** Recurring (R) or Non-Recurring (NR).