



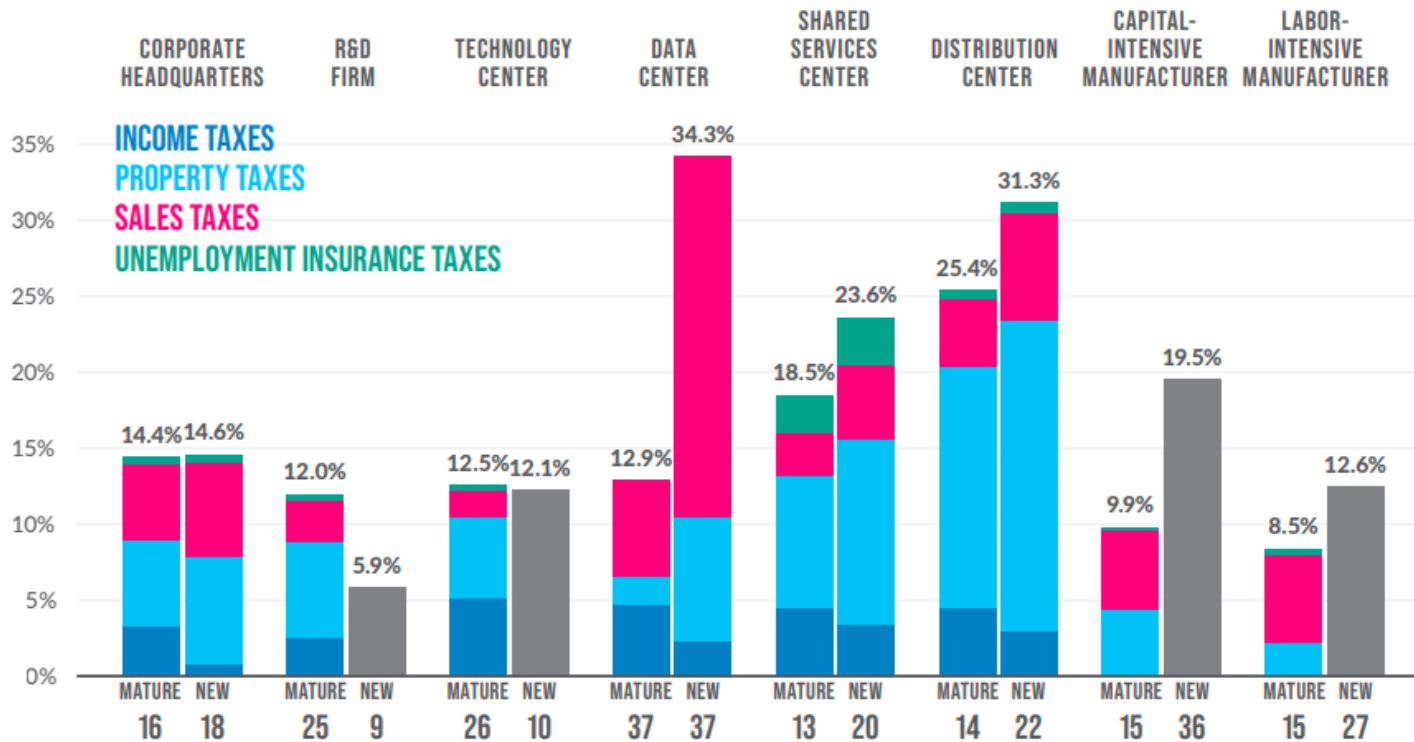
PRINCIPLED
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New Mexico Tax Competitiveness

Jared Walczak, Vice President of State Projects

New Mexico Legislative
Finance Committee Meeting
July 22, 2021

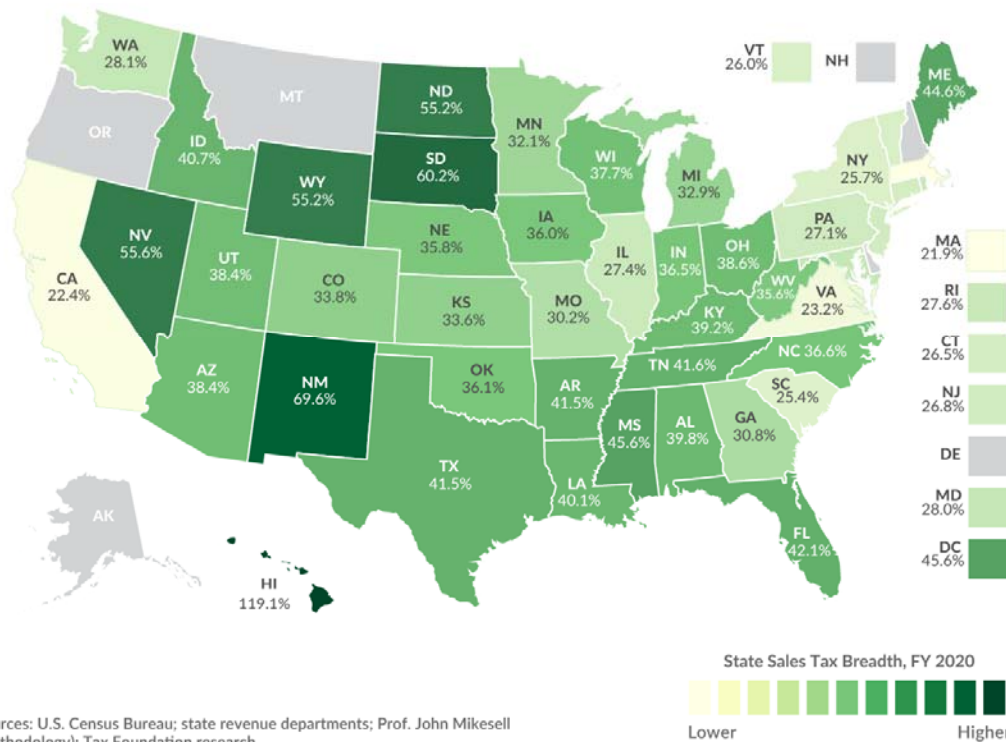
EFFECTIVE TAX RATES BY INDUSTRY



Gray bars indicate that tax type breakdowns are unavailable due to negative effective tax rates for one or more tax types.

GRT PITFALLS

State Sales Tax Breadth, FY 2020

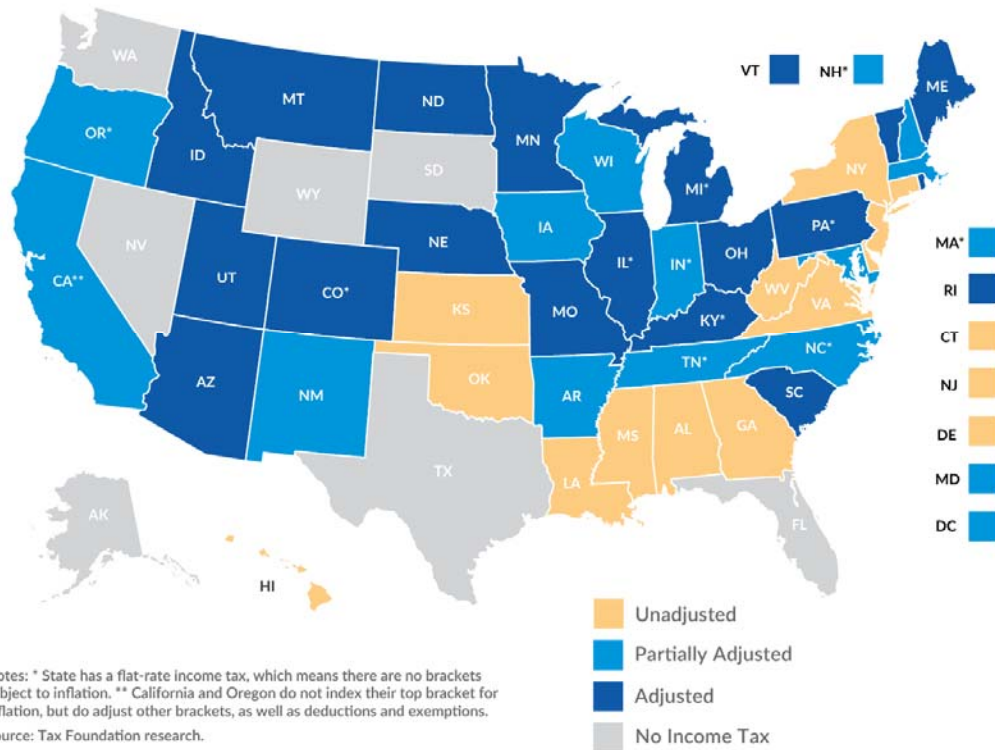


Sources: U.S. Census Bureau; state revenue departments; Prof. John Mikesell (methodology); Tax Foundation research.

- 44.5% GRT reliance (avg: 33.9%)
- 69.6% breadth (avg. 30.6%)
- Pyramiding of 33-50%
- Now destination sourced for goods and select services, but based on cost of performance for professional services
- Groceries excluded
- Manufacturing machinery and R&D equipment within GRT

PIT AND CIT

State Indexation of Major Features of the Individual Income Tax



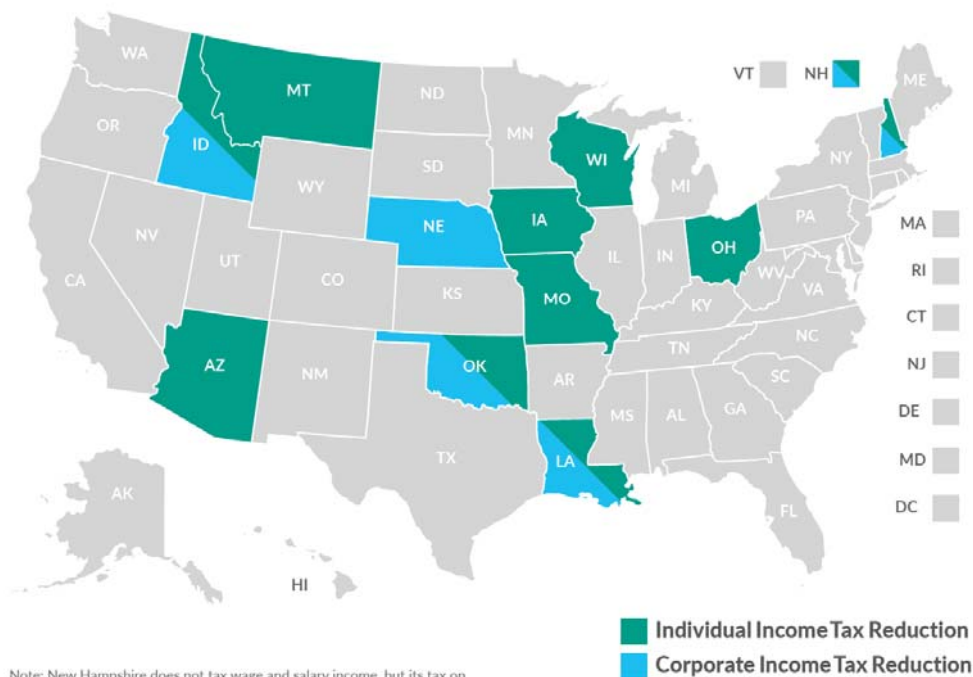
Notes: * State has a flat-rate income tax, which means there are no brackets subject to inflation. ** California and Oregon do not index their top bracket for inflation, but do adjust other brackets, as well as deductions and exemptions. Source: Tax Foundation research.

- Low reliance due to GRT
- Three factor CIT apportionment with SSF for mfg. and corp HQ
- Throwback rule with SSF-elected manufacturing exemption
- Costly jobs & investment credits
- No indexing on either PIT or CIT
- Worldwide combined reporting with waters' edge election
- Shifted to market sourcing

TAX COMPETITIVENESS

Eleven States Have Enacted Laws in 2021 to Reduce Income Tax Rates

States That Have Enacted Income Tax Rate Reductions in 2021 (as of July 14, 2021)

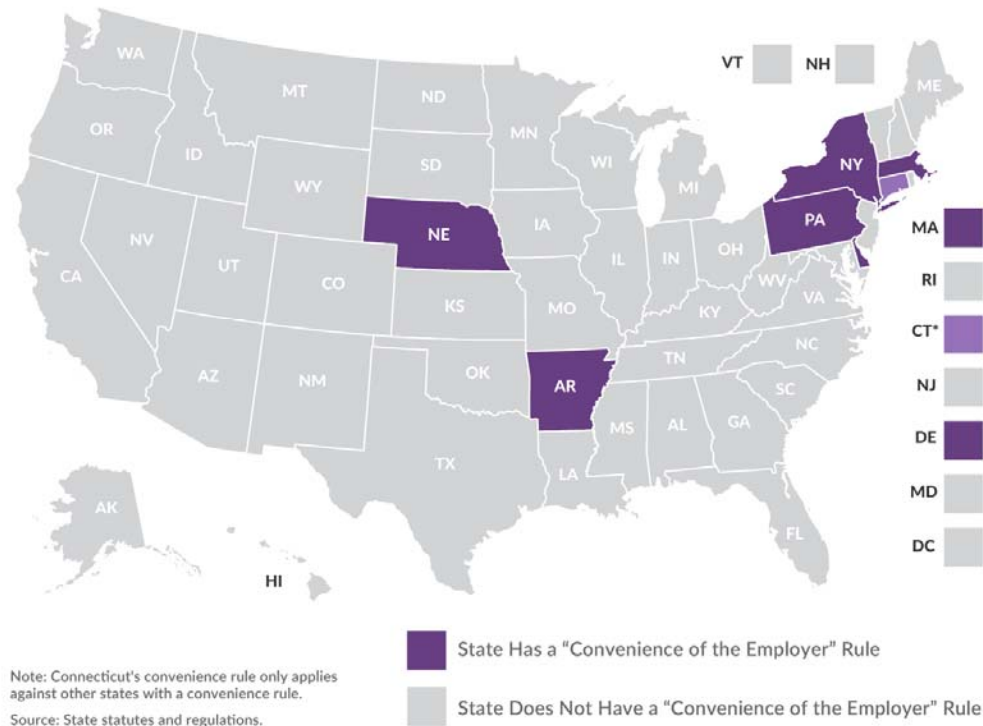


Note: New Hampshire does not tax wage and salary income, but its tax on individual interest and dividends income will phase out over time.
Source: Tax Foundation.

- Eleven states have cut their PIT (10), CIT (5), or both (4 overlap) thus far in 2021; rates in AR, CO, and IN also went down due to previous enactments
- NM one of only three states (with AZ and NY) to see higher rates this year, due to HB 6 (2019) revenue trigger
- Prop 208 in Arizona negated by tax cut legislation

REMOTE WORK

States With a "Convenience of the Employer" Rule



- Convenience rules elsewhere can lead to double taxation
- Withholding and duty days add complexity, can double-tax
- Service sourcing under GRT makes state less competitive
- Business nexus standards for CIT can undercut attracting flexible or remote workers