



NEW MEXICO
LEGISLATIVE
FINANCE
COMMITTEE

Personal and Corporate Income Taxes: Data Overview and Comparison with Other States

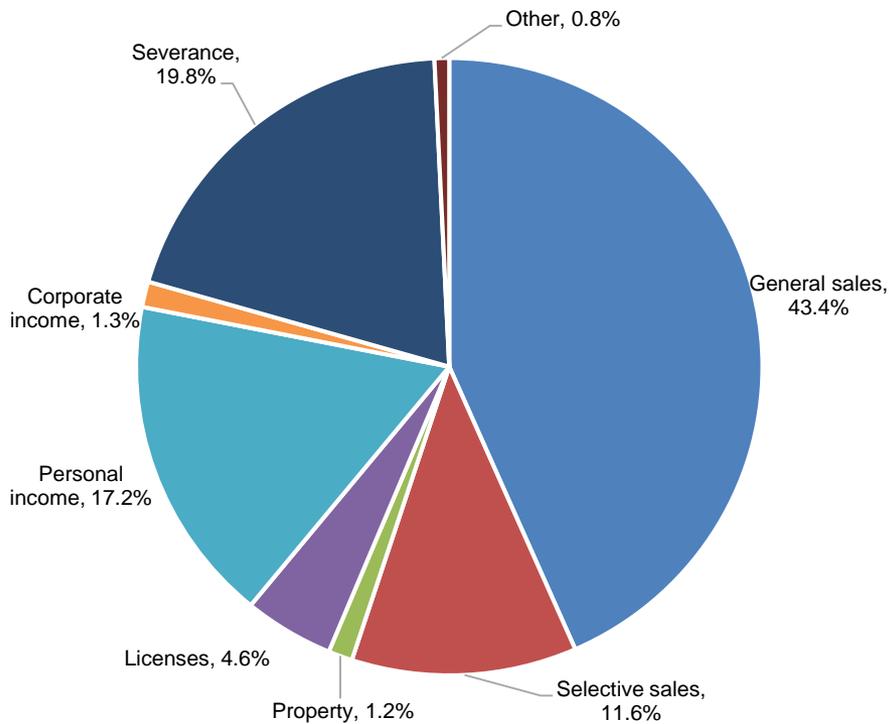
Presentation to the Revenue Stabilization & Tax
Policy Committee

Jennifer Faubion, Economist, LFC

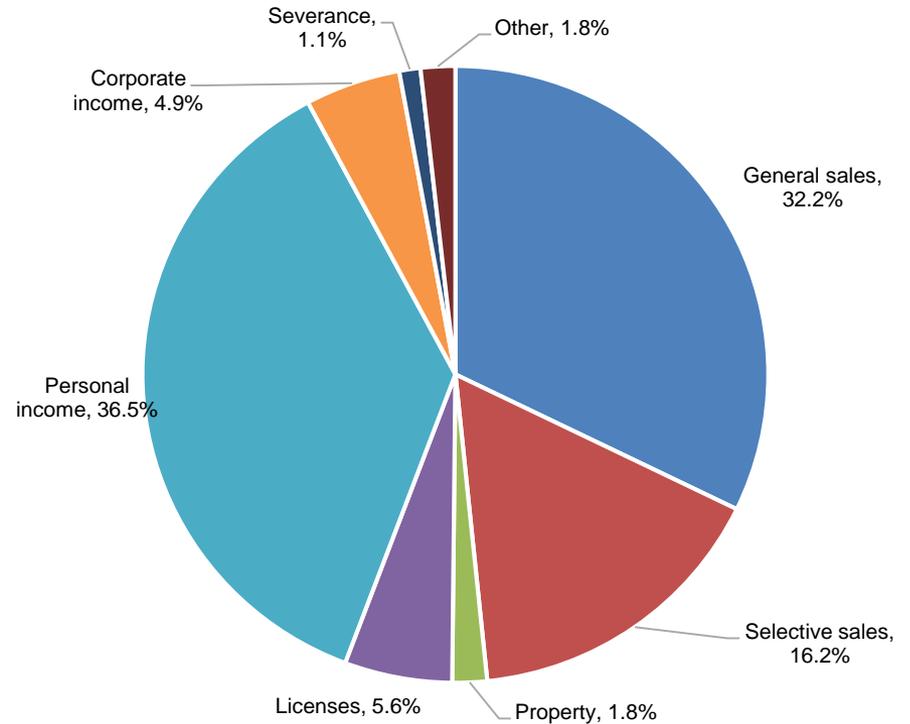
July 6, 2022

Income taxes account for an average 18.5 percent of New Mexico state revenue, well below the national average of 41.4 percent.

Average Revenue Makeup for New Mexico for FY 2020



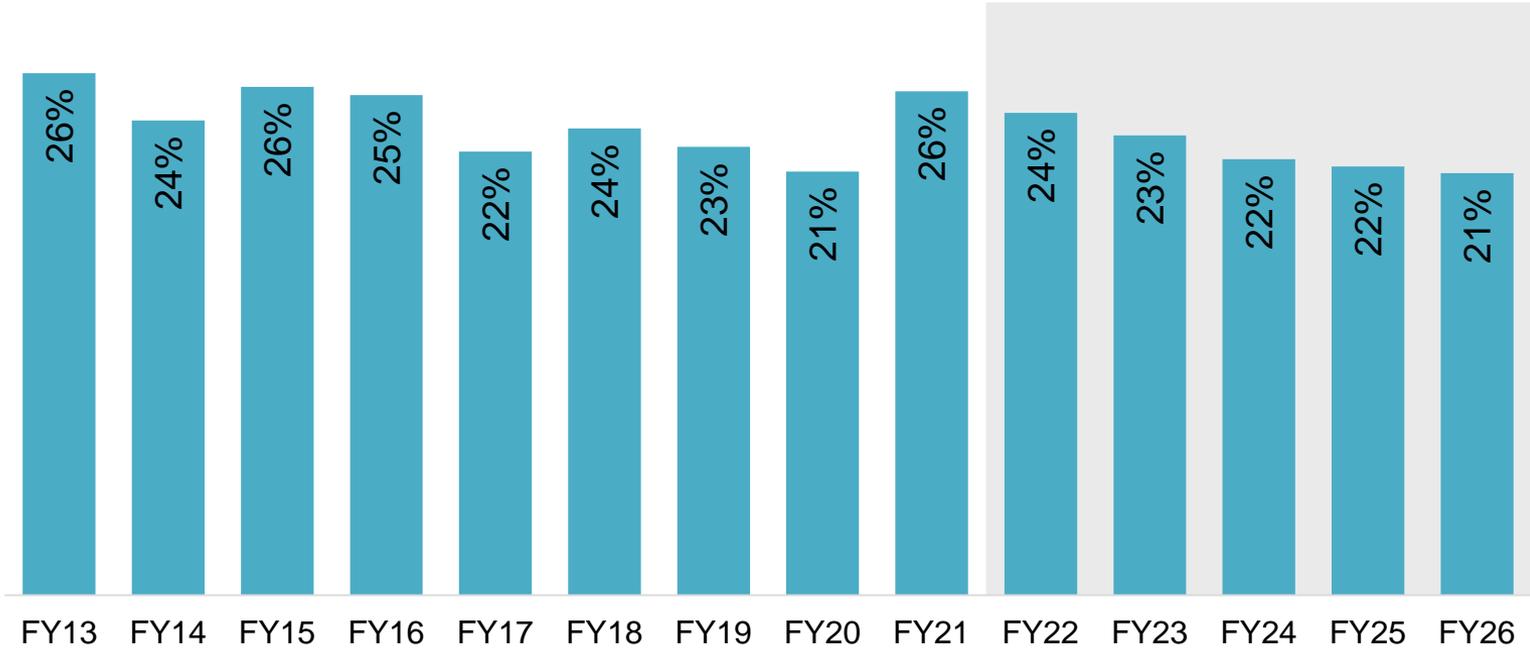
Average Revenue Makeup for all 50 States for FY2020



Source: U.S. Census Bureau

Income tax's share of recurring revenue has fallen over time.

Income Taxes as Share of Recurring Revenue



Source: CREG Revenue Estimates and LFC Files

Legislation during the 2022 sessions reduced recurring and nonrecurring income tax revenues by \$93.4 million and \$667.2 billion in FY23.

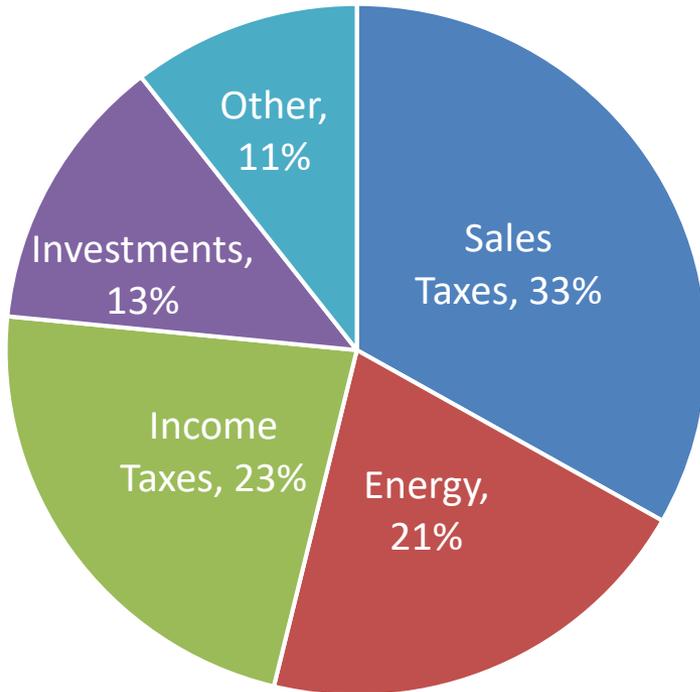
General Fund Impacts:

	FY22		FY23		FY24		FY25	
	Recurring	Non-Recurring	Recurring	Non-Recurring	Recurring	Non-Recurring	Recurring	Non-Recurring
2022 Third Special Session								
HB 2 Tax Rebates		\$ (338.7)		\$ (338.7)				
2022 Regular Session								
HB 163 Tax Changes								
Child Credit					\$ (74.0)		\$ (74.7)	
Military Pension Exemption			\$ (7.4)		\$ (13.5)		\$ (17.8)	
Social Security Exemption			\$ (84.1)		\$ (89.4)		\$ (94.4)	
New Solar Market Tax Credit			\$ (1.9)		\$ (1.8)		\$ (2.3)	
Nurses Credit				\$ (9.4)				
2021 Rebate				\$ (312.0)				
SBTC Date Change				\$ (7.2)				
Total PIT/CIT		\$ (338.7)	\$ (93.4)	\$ (667.2)	\$ (178.7)		\$ (189.2)	

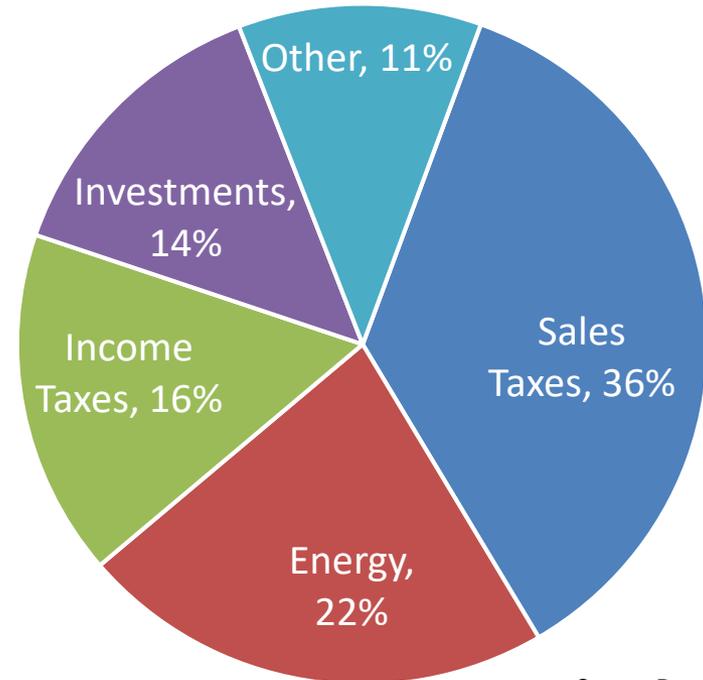
Source: LFC Analysis

Adjusting for 2022 legislation, income taxes account for an estimated 16 percent of total revenue in FY23.

Estimated FY23 General Fund Revenue Sources, pre-legislation



Estimated FY23 General Fund Revenue Sources, post-legislation



Source: December 2021
Consensus Revenue Estimate
Post-Legislation

Since 2019, legislation reduced income tax revenues by an estimated \$957.4 million in FY23.

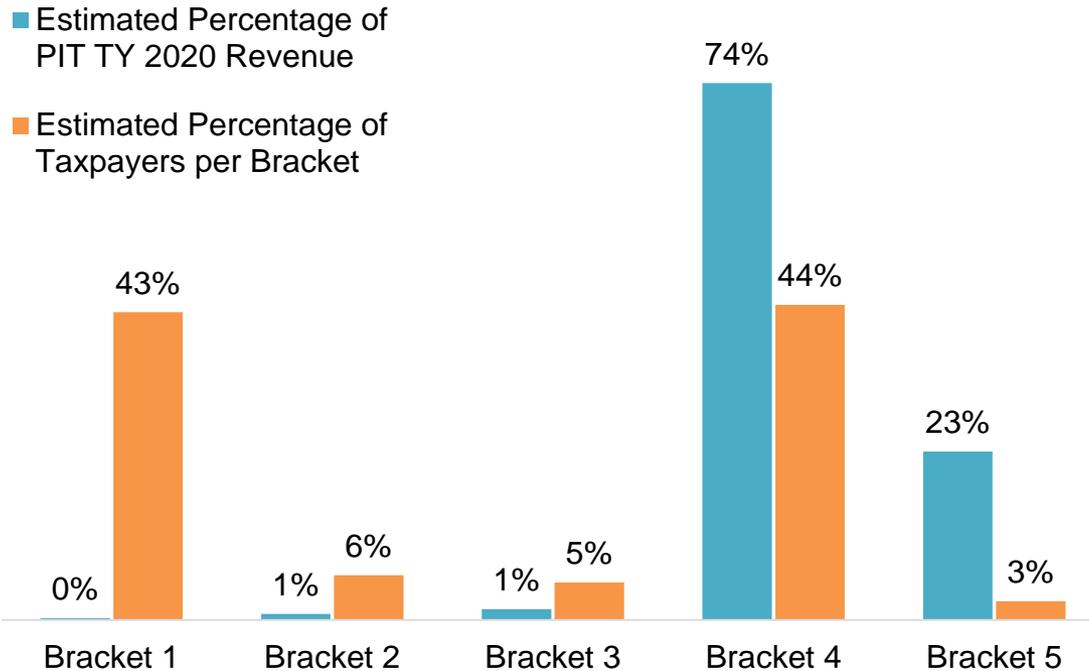
Tax Changes Over \$1 Million: Legislative Sessions 2019-2022									
(in millions of dollars)									
	FY22		FY23		FY24		FY25		
	Recurring	Non-Recurring	Recurring	Non-Recurring	Recurring	Non-Recurring	Recurring	Non-Recurring	
Personal and Corporate Income Tax	2022 Third Special Session								
	HB 2 Tax Rebates		\$ (338.7)		\$ (338.7)				
	2022 Regular Session								
	HB 163 Tax Changes								
	Child Credit					\$ (74.0)		\$ (74.7)	
	Military Pension Exemption			\$ (7.4)		\$ (13.5)		\$ (17.8)	
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	New Solar Market Tax Credit			\$ (1.9)		\$ (1.8)		\$ (2.3)	
	Nurses Credit				\$ (9.4)				
	2021 Rebate				\$ (312.0)				
	SBTC Date Change				\$ (7.2)				
	2021 Regular Session								
	HB 15 Sustainable Building Tax Credit	\$ (2.2)		\$ (2.2)		\$ (2.2)		\$ (2.2)	
	HB 255 Alcohol Deliveries								
	Leasing Liquor Licence Deduction	\$ (1.5)		\$ (1.5)		\$ (1.5)		\$ (1.5)	
	HB 291 Tax Changes								
	Low Income Comprehensive Tax Rebate	\$ (48.8)		\$ (49.9)		\$ (50.9)		\$ (52.0)	
	Working Families Tax Credit	\$ (24.9)		\$ (22.6)		\$ (49.2)		\$ (49.2)	
	2020 Regular Session								
	HB 146 Expand Biomas Income Tax Credit	\$ (0.9)		\$ (1.8)		\$ (1.8)		\$ (1.8)	
	SB 29 Solar Market Development Income Tax Credit	\$ (5.0)		\$ (5.0)		\$ (5.0)		\$ (5.0)	
	2019 Regular Session								
	SB 2 Film Tax Credit Changes	\$ (98.6)		\$ (95.9)		\$ (95.9)		\$ (95.9)	
HB6 Tax Changes									
New PIT Brackets	\$ 40.0		\$ 41.0		\$ 41.0		\$ 41.0		
Increase WFTC to 17%	\$ (39.0)		\$ (41.0)		\$ (41.0)		\$ (41.0)		
Dependent Deduction	\$ (28.0)		\$ (28.0)		\$ (28.0)		\$ (28.0)		
Change PIT Deduction for Capital Gains	\$ 10.0		\$ 10.0		\$ 10.0		\$ 10.0		
TOTAL PIT/CIT	\$ (198.8)	\$ (338.7)	\$ (290.2)	\$ (667.2)	\$ (403.1)	\$ -	\$ (414.7)	\$ -	

Since 2021, the Legislature has given nearly \$1.1 billion back to residents through rebates.

Rebate	Estimated Cost (in millions)
2021: SB 1	\$109.4
2022: HB 163	\$312
2022 SS: HB 2	\$677.4
Total	\$1,098.8

The bottom 54 percent of earners pay an estimated 2 percent of total PIT revenues. The top 3 percent of taxpayers pay 23 percent of revenues.

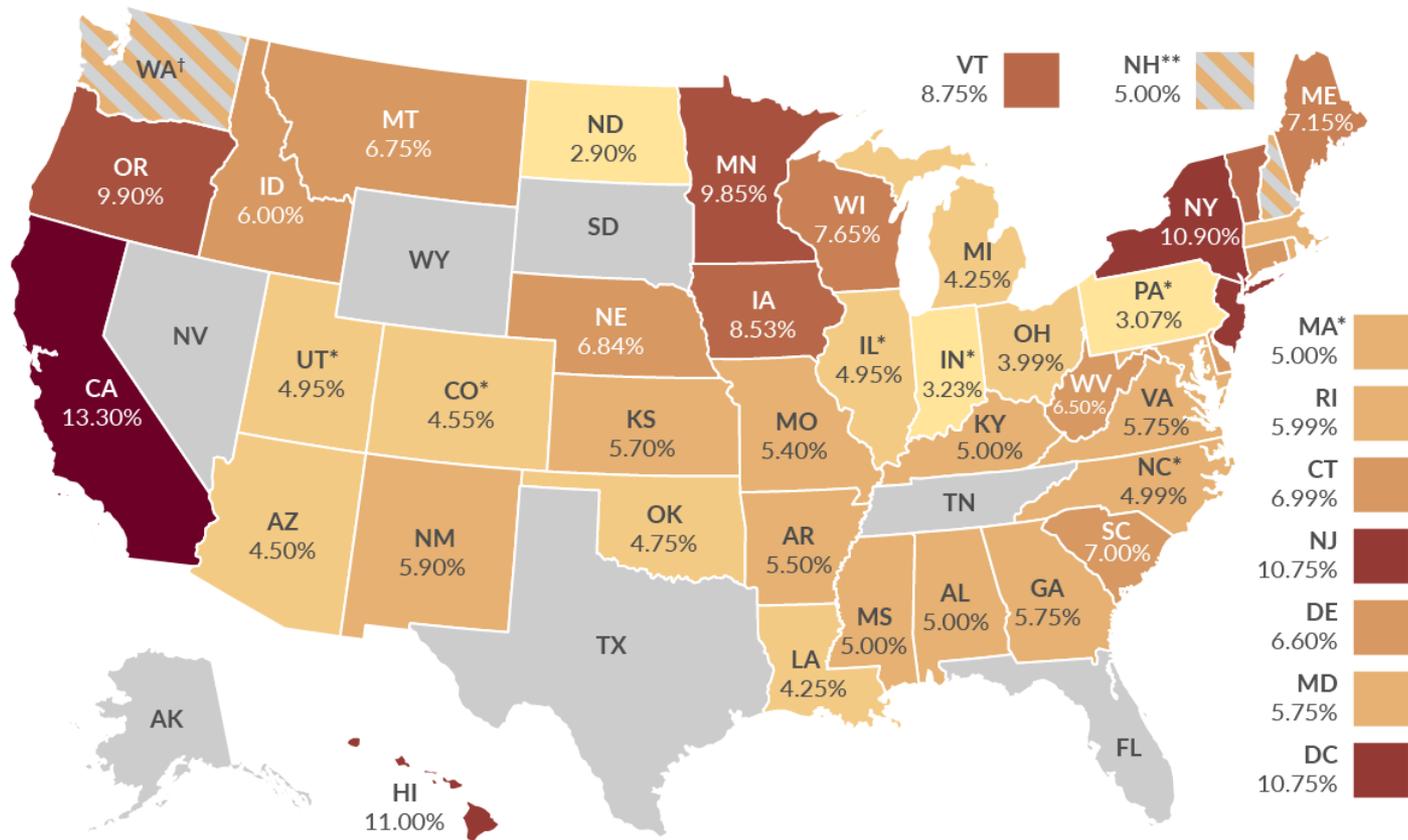
PIT Taxpayers and Percentage of Revenue by Bracket



For Single Filers:		
Bracket #	If the taxable income is:	The tax is:
1	Not over \$5,500	1.7%
2	Over \$5,500	3.2% + \$93.50
3	Over \$11,000	4.7% + \$269.50
4	Over \$16,000	4.9% + \$504.50
5	Over \$210,000	5.9% + \$10,010.50

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.

Top State Marginal Individual Income Tax Rates

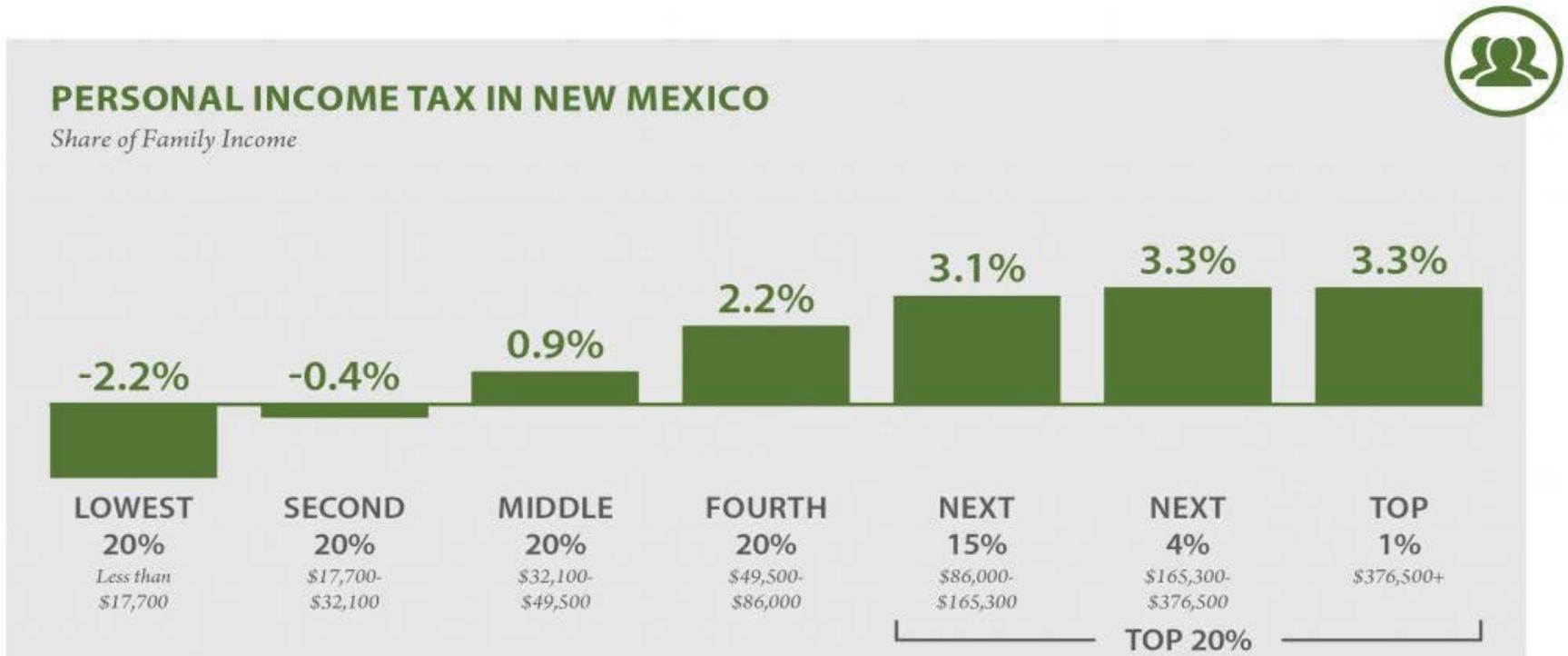


Lower

Higher

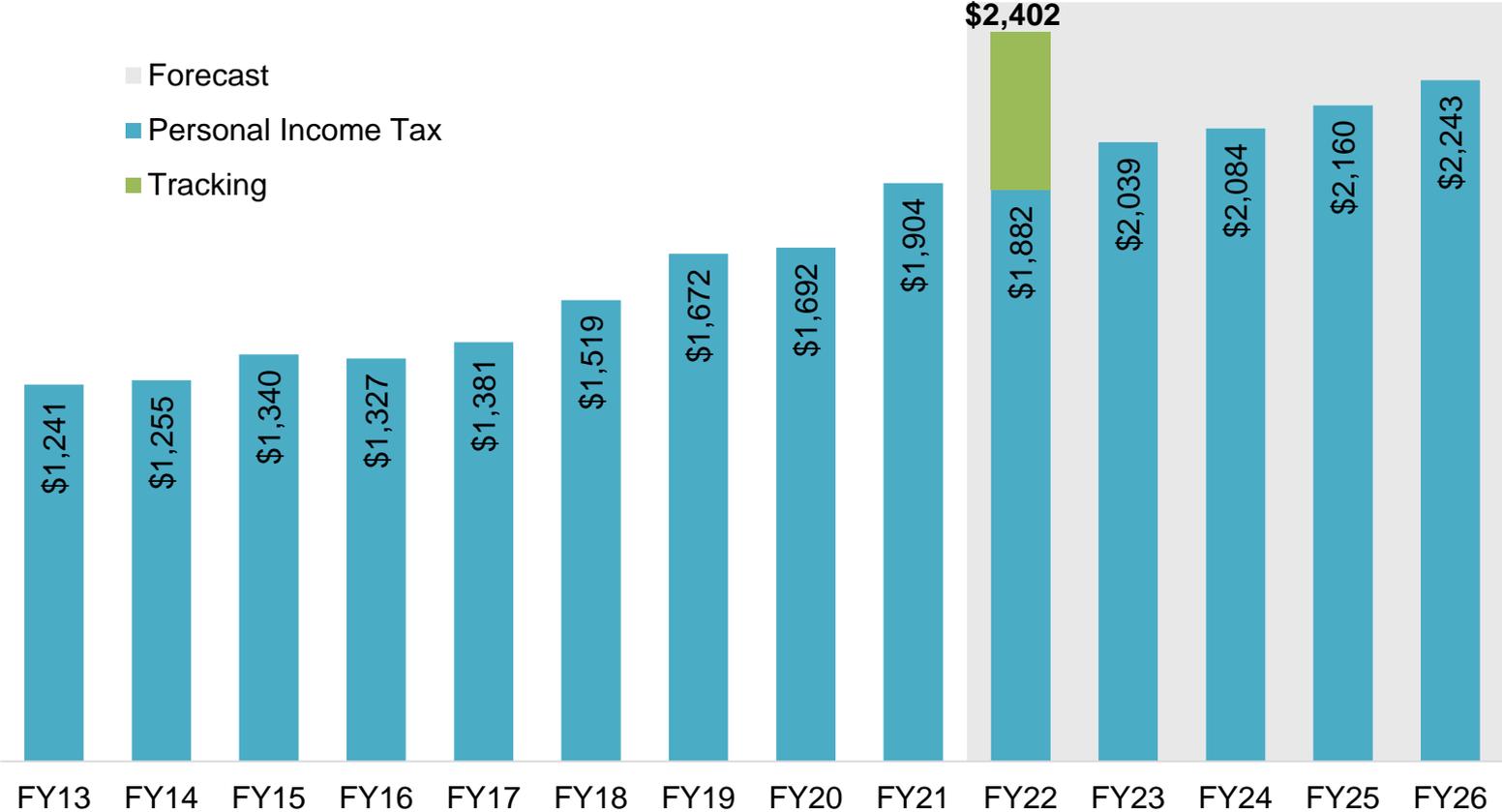
New Mexico's income tax is progressive, especially at lower incomes.

As incomes rise, the percent of income paid to taxes increases.



New Mexico's personal income tax is growing well beyond expectations...

PIT Forecast and Tracking
(in millions)



Source: LFC Analysis

... or explanation.

THE WALL STREET JOURNAL.

CBO

officials and other economists who monitor tax collections say tax revenue became disconnected from other economic data in ways they still don't fully understand.

“There’s a part that is unexplained that we need more time to figure out,” CBO director Phillip Swagel said. “It’s a mystery. It’s a maybe happy mystery, to have strong revenues.”

| POLICY

Unexplained tax revenue growth vexes budget scorekeepers

CBO’s latest economic forecast is a head-scratcher

ANALYSIS — The term “unexplained” doesn’t appear too often in official government documents, unless they are dealing with possible paranormal events, like UFOs. Yet the reference is sprinkled throughout the Congressional Budget Office’s latest budget and economic outlook to describe the recent strength in federal tax receipts that’s blown away prior estimates.

Individual income tax collections for the fiscal year ending Sept. 30 are projected to land at their highest level as a share of the U.S. economy since the advent of the income tax in 1913. Overall

New Mexico's corporate income tax contributes relatively little to state revenues, partially due to large film tax credits.

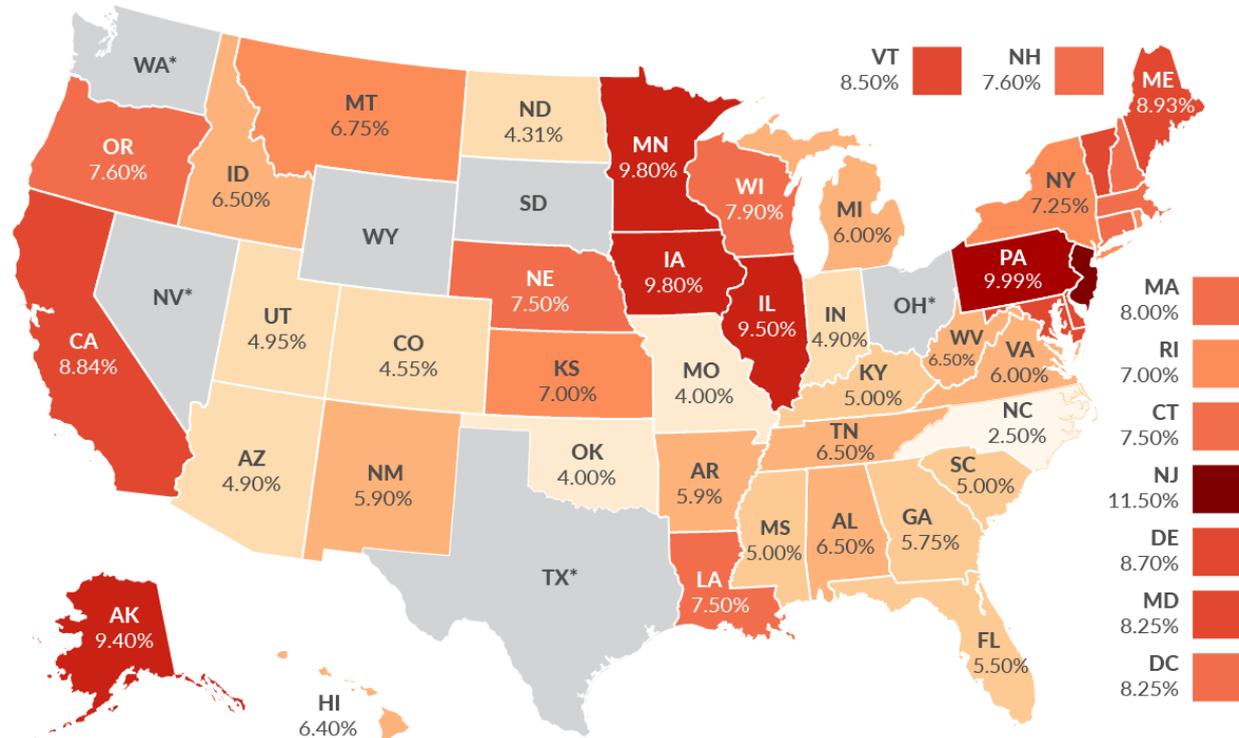
CIT and Film Tax Credit Forecast
(in millions)



Source: CREG Revenue Estimates and LFC Files

How High are Corporate Income Tax Rates in Your State?

Top State Marginal Corporate Income Tax Rates as of January 1, 2022



Note: In addition to regular income taxes, many states impose other taxes on corporations such as gross receipts taxes and franchise taxes. Some states also impose an alternative minimum tax and special rates on financial institutions.

*Nevada, Ohio, Texas, and Washington do not have a corporate income tax but do have a gross receipts tax with rates not strictly comparable to corporate income tax rates. Delaware and Oregon have gross receipts taxes in addition to corporate income taxes, as do several states like Pennsylvania, Virginia, and West Virginia, which permit gross receipts taxes at the local (but not state) level.

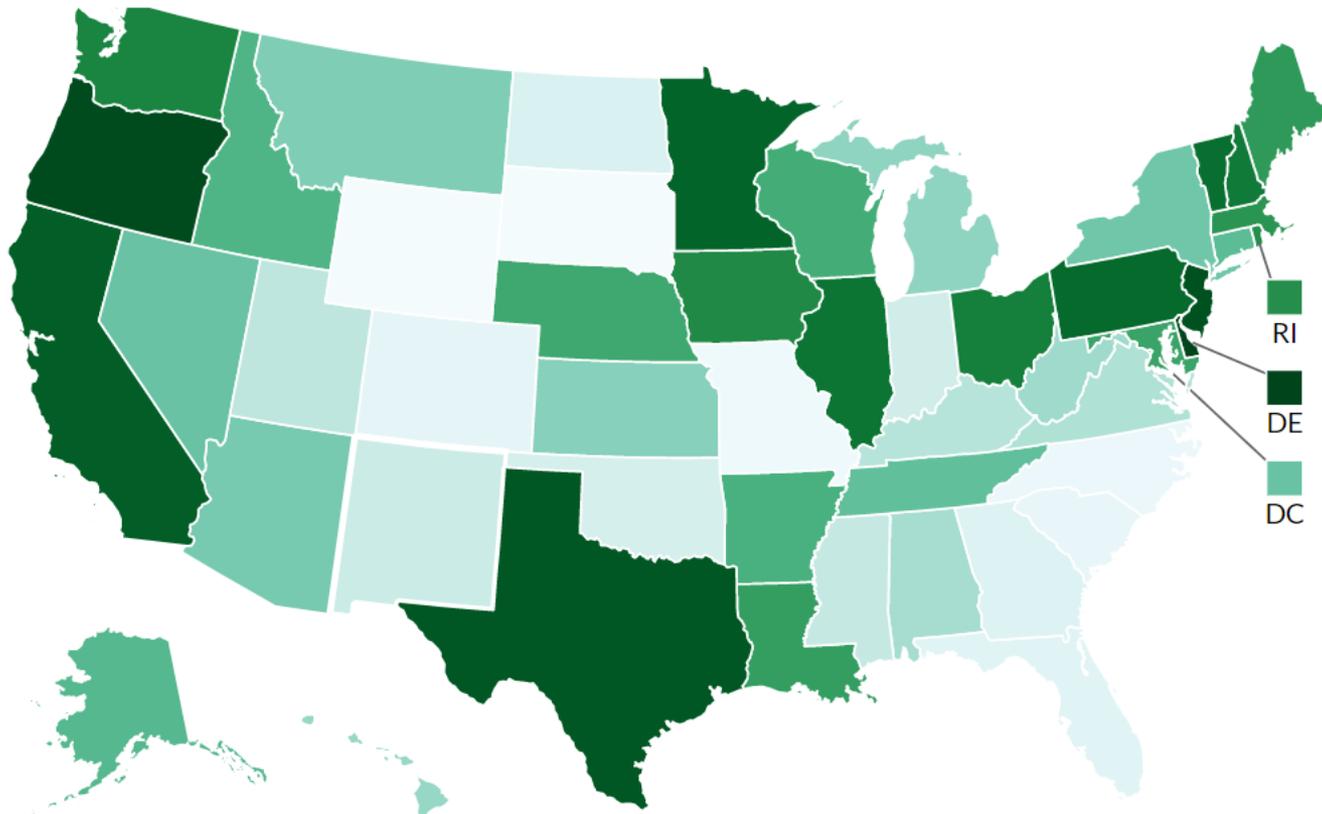
Connecticut charges a 10% surtax on a business's tax liability if it has gross proceeds of \$100 million or more, or if it files as part of a combined unitary group. This surtax was recently extended and is scheduled to expire on January 1, 2023.

Illinois' rate includes two separate corporate income taxes, one at a 7% rate and one at a 2.5% rate. In New Jersey, the rates indicated apply to a corporation's entire net income rather than just income over the threshold. A temporary and retroactive surcharge is in effect from 2020 to 2023, bringing the rate to 11.5% for businesses with income over \$1 million.

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

Top State Marginal Corporate Income Tax Rates as of January 1, 2022





New Mexico	
Tax Type	Rank
Overall Rank	28
Corporate Taxes	12
Individual Taxes	36
Sales Taxes	41
Property Taxes	2
Unemp. Insur. Taxes	8

