



*Revised New Mexico Business Tax
Competitiveness Study*

Presented to the Revenue Stabilization and Tax Policy
Committee

Farmington, NM

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NMTRI Principles of Good Tax Policy

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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

Revised Study Commissioned

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November, 2013 – NMTR engaged Ernst & Young LLP to “refresh” previous study to account for:

- **Tax law/rate changes in NM and other states**
 - **Assuming fully-phased in law changes in all states**
 - **Assuming 1/4% GRT increase in muni/county rates to allow for the increased rate authority provided in HB 641**
 - **Hypothetical firm assumptions remain constant**
- **Broad range of government and business support**

Recall How This Started: New Mexico Loses Opportunity

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- **Solar manufacturer chooses Mesa, AZ**
 - Gets “deal” in Arizona
 - Company cites some tax concerns
 - ✦ Absence of single sales factor option (corporate income tax)
 - ✦ GRT on electricity
 - Targets costliest input
 - Consumes as much power as Santa Fe
 - Mayor Berry wants to address “problem”
 - Advisors suggest credible study of tax competitiveness
 - ✦ Recall 1997 KPMG Barents Group Study by EDD, Silver City
 - ✦ But, time consuming and expensive

New Study Published

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- Council on State Taxation (“COST”) commissioned Ernst & Young’s Quantitative Economic and Statistics group to perform 50 state study:
 - Looks at \$100M investment in:
 - ✦ C-corporation
 - ✦ Largest City (property tax)
 - ✦ Statewide Average (sales tax)
 - ✦ Five sectors
 - Durable Goods Manufacturing
 - Non-durable Goods Manufacturing
 - Office and call center facilities
 - Research and Development facilities
 - Headquarters facilities

New Study Published

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**Study looked at effective tax rate/after tax
ROI over 30 year investment**

AND NEW MEXICO RANKED...

New Study Published

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51!

* Study included District of Columbia

Study Has Flaws and Limitations

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- **Study did not include incentives**
 - i.e. states that don't tax manufacturing equipment "got credit", while our Investment Credit did not count
 - IRB's not in model, nor JTIP , HWJTC, TJTC, etc
- **Used simple corporate income assumptions**
 - Combined filing not modeled
 - NM filing options not considered/evaluated
- **Modeling GRT difficult**
 - Mistakes likely
- **Reminder: taxes are certainly not only determinative factor in site selection and overall cost**

Enhanced Study Commissioned

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NMTRI engaged E&Y to:

- Include incentives in tax calculations for eight states
 - AZ, CA, CO, NV, OK, OR, TX, UT
- Add rural location (Deming)
- Add industries
 - Computer & electronic mfg, electrical equip, aerospace products and parts, management scientific, and technical consulting, and food processing
- Ask additional policy questions
 - Effect of rate changes, deductions, etc.

In addition, NM detail validated by NMTRI/TRD/DFA

Results Without Incentives

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Essentially the Same as in Initial E&Y Study

- New Mexico presented the Highest effective tax rate on investment in ALL sectors
- Distinguishing Issues:
 - Broad taxation of business inputs at relatively high rates
 - Corporate Income Tax
 - ✦ High rates (above national average/highest in region except CA)
 - ✦ No favorable apportionment

Results Without Incentives

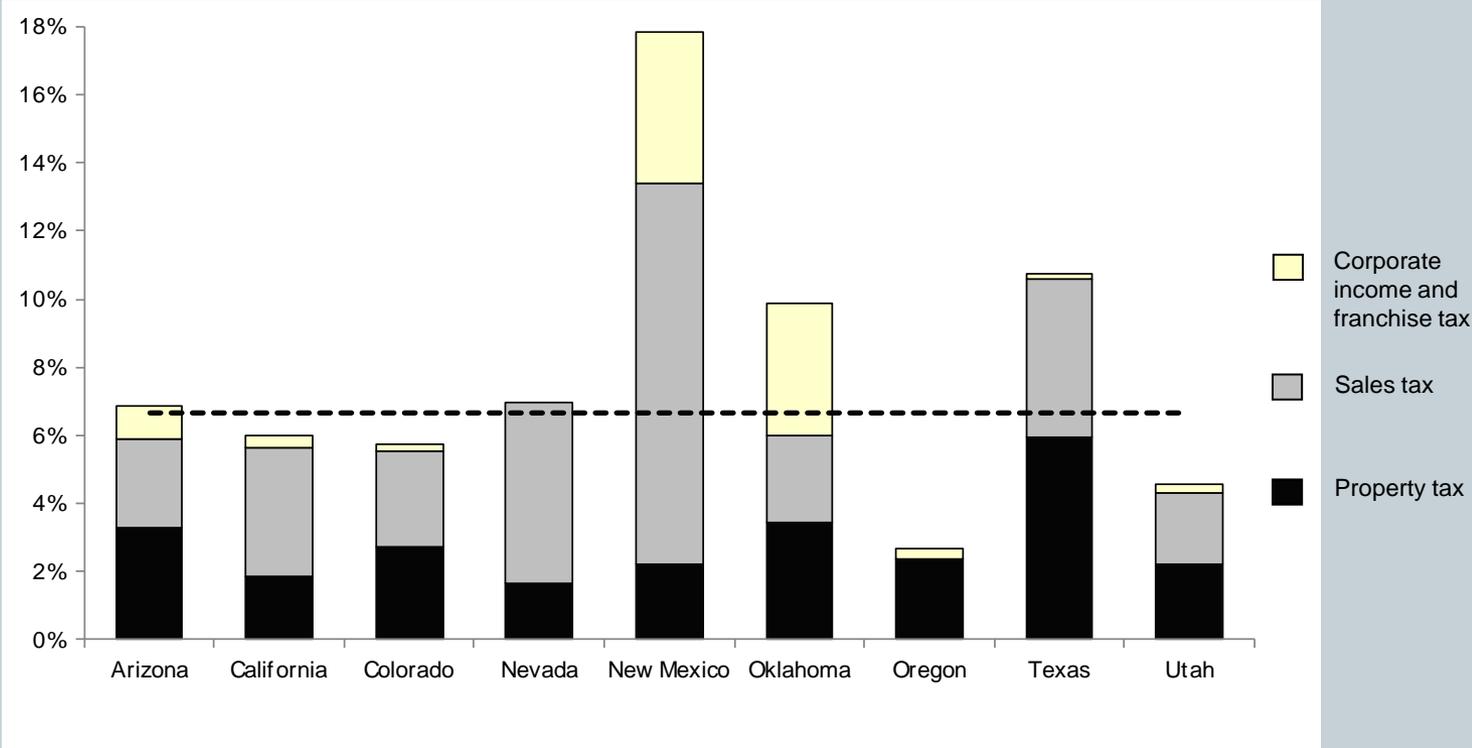
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Effective Tax Rate Ranking Before Incentives

Industry	NM's Effective Rate
Headquarters	1 st Highest
Research and Development	1 st Highest
Renewable Energy Equipment Manufacturing	1 st Highest
Business Support Services	1 st Highest
Food Products Manufacturing	1 st Highest
Computer & Electronics Manufacturing	1 st Highest
Electrical Equipment Manufacturing	1 st Highest
Aerospace Products and Parts Manufacturing	1 st Highest
Management, Scientific and Tech. Consulting Services	1 st Highest

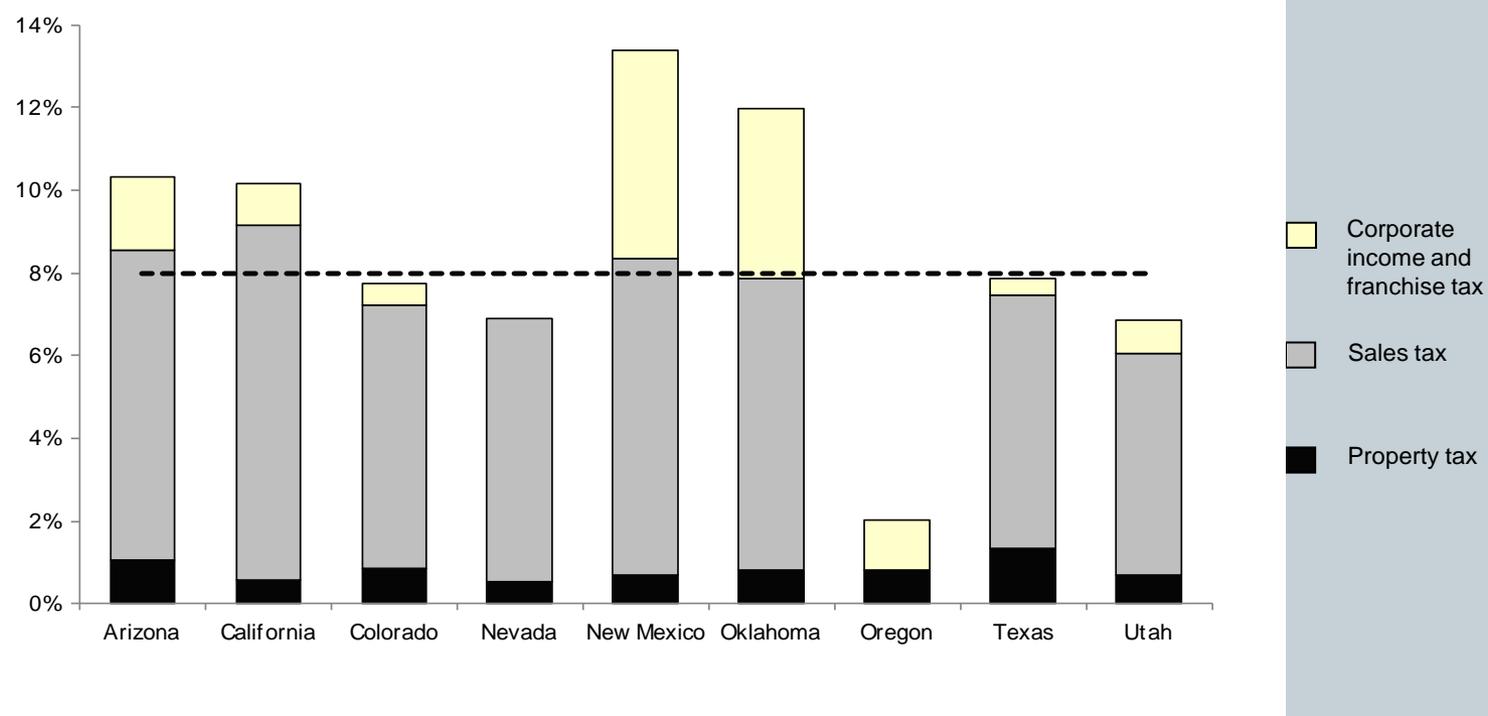
Results Without Incentives

Average Effective Tax Rates for Manufacturing Industries



Results Without Incentives

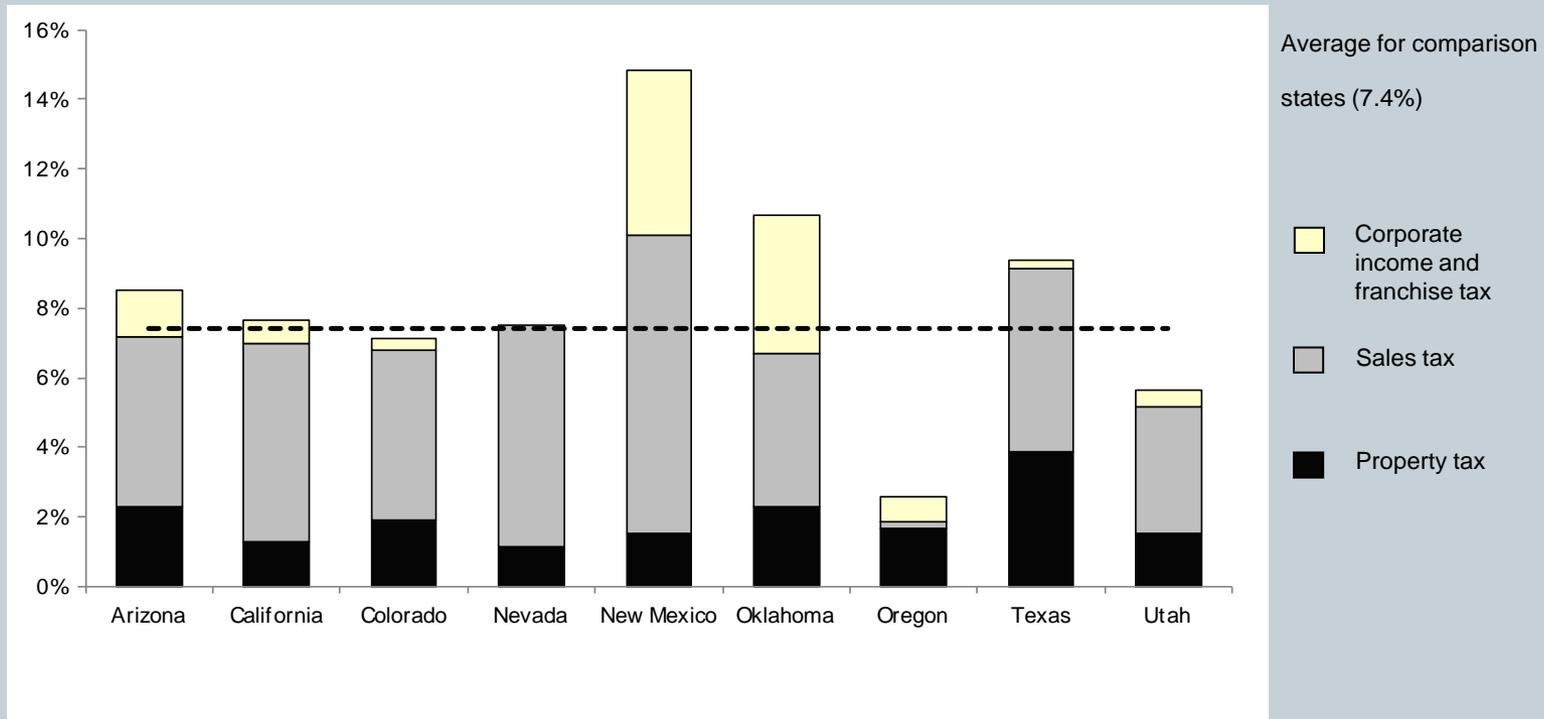
Average Effective Tax Rates for Services



Results Without Incentives

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Overall Average Effective Tax Rates for All Included Industries



Results With Incentives

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Effective Tax Rate Ranking After Incentives

Industry	NM's Effective Rate
Headquarters	1 st Highest
Research and Development	9 th Highest (Lowest)
Renewable Energy Equipment Manufacturing	1 st Highest
Business Support Services	8 th Highest
Food Products Manufacturing	1 st Highest
Computer & Electronics Manufacturing	3 rd Highest
Electrical Equipment Manufacturing	1 st Highest
Aerospace Products and Parts Manufacturing	9 th Highest (Lowest)
Management, Scientific and Tech. Consulting Services	9 th Highest (Lowest)

Results With Incentives

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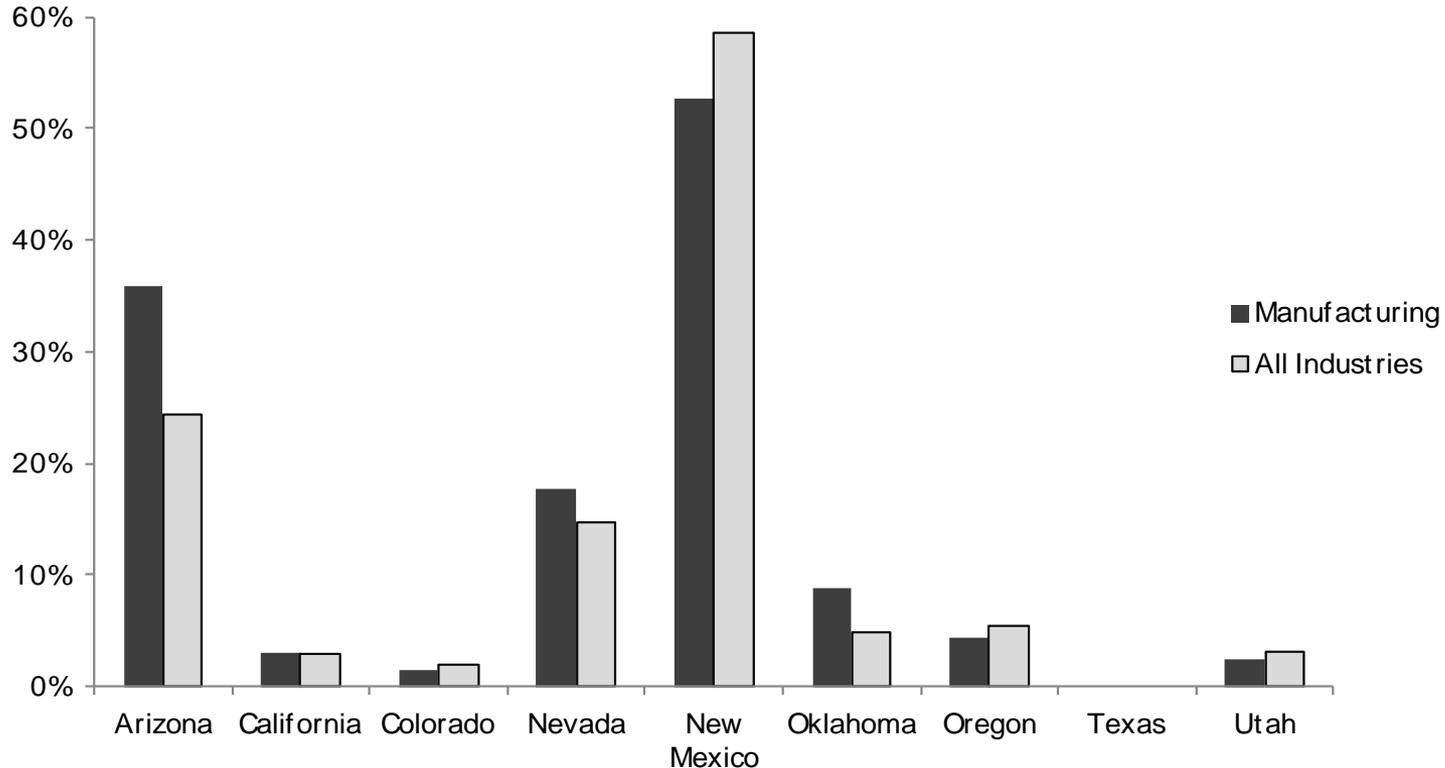
Average Effective State and Local Business Tax Rates, After Credits by Investment Type

State	Services		Manufacturing		All Industries	
	ETR	Rank	ETR	Rank	ETR	Rank
Arizona	9.0%	3	4.4%	8	6.5%	5
California	9.8%	2	5.8%	4	7.6%	3
Colorado	7.5%	5	5.7%	6	6.5%	4
Nevada	6.3%	7	5.7%	5	6.0%	7
New Mexico	3.4%	8	8.1%	3	6.0%	6
Oklahoma	12.0%	1	9.0%	2	10.3%	1
Oregon	1.9%	9	2.6%	9	2.2%	9
Texas	7.9%	4	10.8%	1	9.5%	2
Utah	6.5%	6	4.4%	7	5.3%	8
<i>Other States' Average ETR</i>	7.6%		6.1%		6.7%	

Results With Incentives

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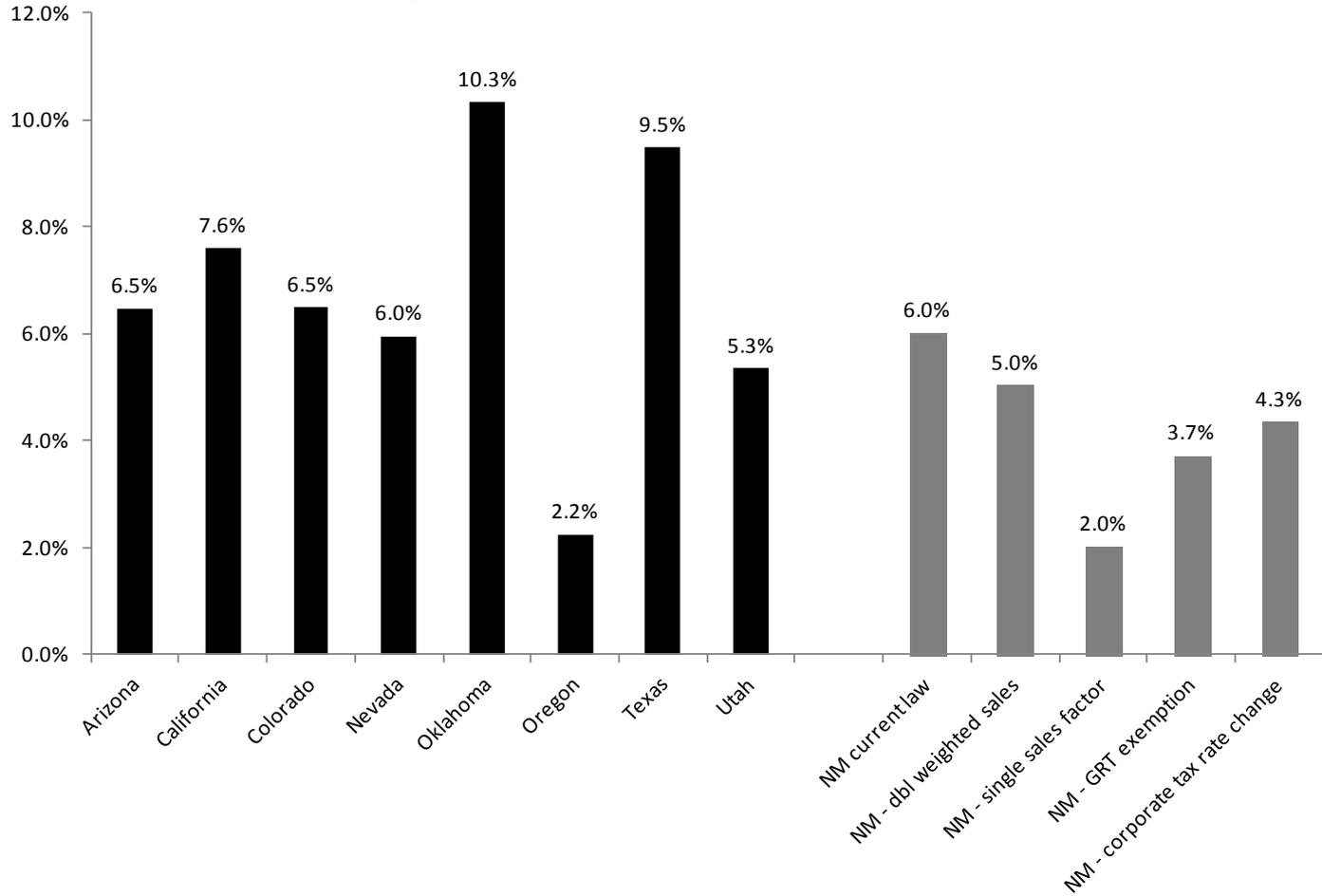
Potential Reduction in Total State and Local Effective Tax Rate from Statutory Credits, (Percentage Reduction in Pre-Credit Overall Effective Tax Rate)



E&Y Conclusions

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Comparison of After-Tax Effective Tax Rate for Comparison States and New Mexico under Selected Policy Options



NMTRI Conclusions

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New Mexico is uncompetitive without incentives.

With Incentives, New Mexico is more or less competitive depending on industry/facts

- New Mexico is more reliant on incentives to manage effective tax rate
- If facts and law don't provide for incentive eligibility, a NM business faces high ETR's

Numerous options, targeted or broad based, can reduce the ETR, however other trade-offs, costs, and policy issues arise

And Then the 2012 Session Happened...

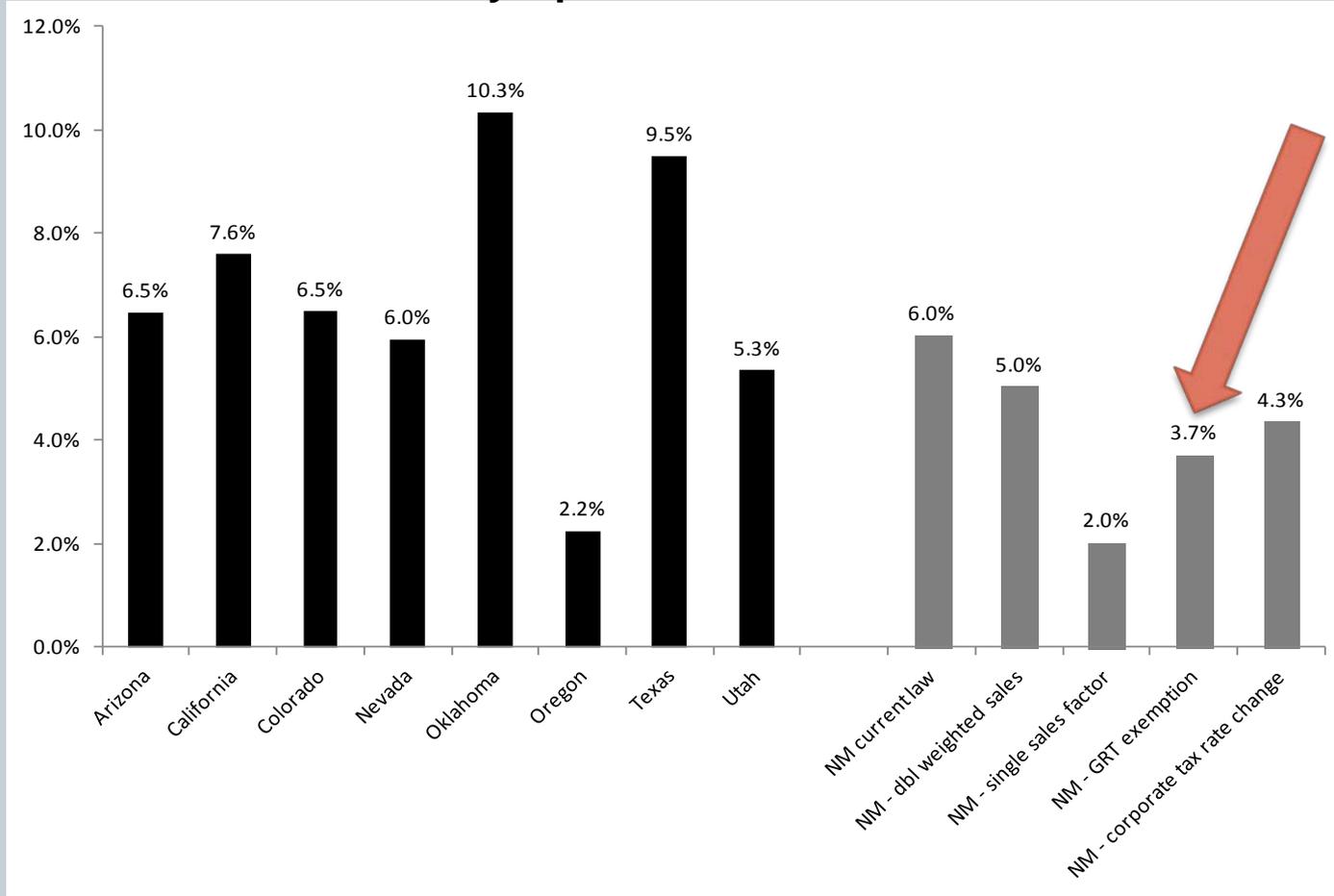
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- **HB 184CS – Doyle – Construction Service for Gross Receipts**
 - CS includes provisions from Rep James' HB 256
 - Expands current manufacturing inputs GRT deduction to include “consumables”
 - ✦ i.e. electricity, natural gas, industrial gases, cleaning solvents, etc.
 - ✦ Phased-in over 5 years in 20% increments
 - ✦ Manufacturing definition in GRTA quite broad
 - Expands current construction services deduction to include project related non-construction services
 - ✦ i.e. architectural, engineering, security, sanitation
 - Creates new deduction for leasing equipment associated with construction projects
 - ✦ i.e. generators, saws, scaffolding, backhoes, etc.
- **Addresses “pyramiding” and represents a significant change in NM law/policy**

Remember this? We Did the 4th one...

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Comparison of After-Tax Effective Tax Rate for Comparison States and New Mexico under Selected Policy Options



Results With Incentives

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Effective Tax Rate Ranking After Incentives with HB 184

Industry	NM's Effective Rate Before HB 184	NM's Effective Rate After 184
Headquarters	1 st Highest	1 st Highest
Research and Development	9 th Highest (Lowest)	9 th Highest (Lowest)
Renewable Energy Equipment Manufacturing	1st Highest	8th Highest
Business Support Services	8 th Highest	8 th Highest
Food Products Manufacturing	1 st Highest	1 st Highest
Computer & Electronics Manufacturing	3rd Highest	8th Highest
Electrical Equipment Manufacturing	1st Highest	3rd Highest
Aerospace Products and Parts Manufacturing	9 th Highest (Lowest)	9 th Highest (Lowest)
Management, Scientific and Tech. Consulting Services	9 th Highest (Lowest)	9 th Highest (Lowest)

And Then the 2013 Session Happened...

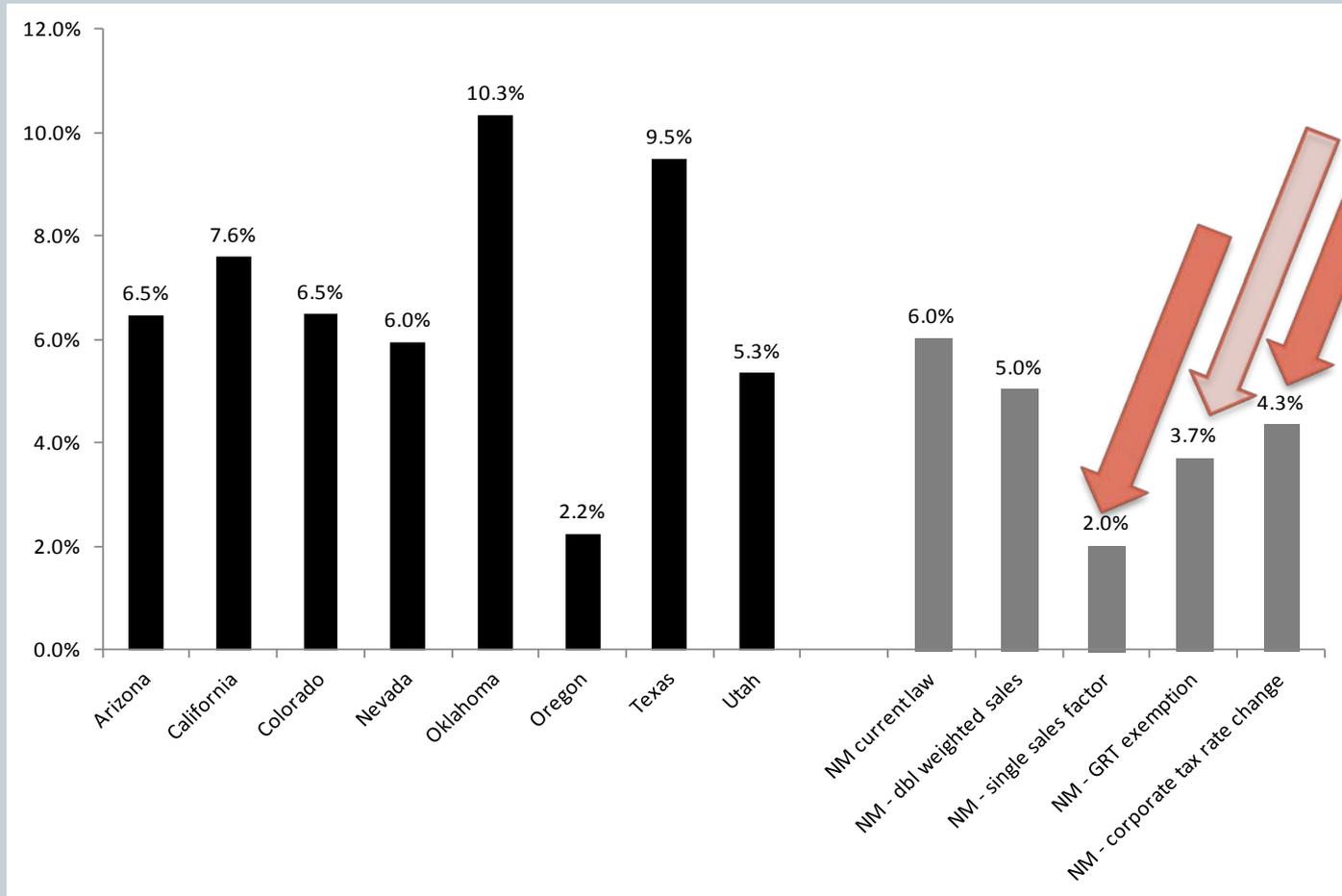
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- **House Bill 641 Signed 4/4 (“Tax Package”)**
 - ✦ **Corporate Tax Relief/Reform**
 - Rate Reduction (7.6-5.9% over 5 years)
 - Mfg Single Weighted Sales Factor (5 year phase-in)
 - “Big Box” Mandatory Unitary Combined Filing
 - ✦ **Narrowing of Mfg GRT deduction**
 - now excludes consumables used in power generation, natural resource processing, and food preparation
 - ✦ **Hold Harmless Repeal (2+15 yr phase-in, rate authority)**
 - ✦ **HWJTC Fix**
 - Closed “loopholes”, raised thresholds
 - ✦ **“Breaking Bad” Film Credit Expansion**

Remember this? We did the 3rd and last one...

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Comparison of After-Tax Effective Tax Rate for Comparison States and New Mexico under Selected Policy Options



Revised Study Commissioned

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 - **Hypothetical firm assumptions remain constant**

Revised Study Commissioned - Results

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Change in effective tax rates 2011 to 2013, before credits, Average for manufacturers and services

States	Manufacturers			Services		
	2011	2013	Percent Change	2011	2013	Percent Change
Arizona	6.9%	5.8%	-15.1%	10.3%	8.3%	-19.3%
California	6.0%	5.8%	-3.5%	10.2%	9.7%	-4.2%
Colorado	5.8%	6.2%	7.1%	7.7%	8.2%	5.9%
Nevada	6.9%	6.8%	-2.0%	6.9%	6.7%	-2.3%
New Mexico	17.9%	9.5%	-46.9%	13.4%	12.6%	-6.3%
Oklahoma	9.9%	10.0%	1.5%	12.0%	12.4%	3.2%
Oregon	3.5%	3.6%	3.1%	2.3%	2.3%	1.7%
Texas	10.8%	10.9%	1.4%	7.9%	8.1%	2.7%
Utah	6.6%	6.8%	3.0%	6.9%	7.0%	2.8%
<i>Average without NM</i>	7.0%	7.0%	-0.7%	8.0%	7.9%	-2.0%

Revised Study Commissioned - Results

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Change in effective tax rates 2011 to 2013, after credits, Average for manufacturers and services

States	Manufacturers			Services		
	2011	2013	Percent Change	2011	2013	Percent Change
Arizona	4.4%	4.2%	-4.2%	9.0%	8.0%	-11.8%
California	5.8%	5.6%	-3.6%	9.8%	9.4%	-4.3%
Colorado	5.7%	6.1%	7.2%	7.5%	8.0%	6.0%
Nevada	5.7%	5.6%	-1.8%	6.3%	6.1%	-2.1%
New Mexico	8.1%	3.3%	-59.5%	3.4%	6.1%	81.0%
Oklahoma	9.0%	9.2%	1.7%	12.0%	12.4%	3.2%
Oregon	3.4%	3.5%	3.2%	2.1%	2.2%	1.8%
Texas	10.8%	10.8%	0.6%	7.9%	7.9%	0.0%
Utah	5.5%	5.7%	3.9%	6.5%	6.7%	2.9%
<i>Average without NM</i>	6.3%	6.3%	0.9%	7.6%	7.6%	-0.9%

Revised Study Commissioned - Results

Change in effective tax rates comparative rankings from the 2011 to 2013 studies, after credits

Industry	NM's Effective Tax Rate (ETR) 2009 rates/2011 study after incentives	NM Effective Tax Rate (ETR) 2013 rates
Headquarters	1 st Highest	2 nd Highest
Research and Development	9 th Highest (Lowest)	9 th Highest (Lowest)
Renewable Energy Equipment Manufacturing	1 st Highest	8 th Highest(2 nd lowest)
Business Support Services	8 th Highest	3 rd Highest
Food Products Manufacturing	1 st Highest	4 th highest
Computer & Electronics Manufacturing	3 rd Highest	9 th Highest (Lowest)
Electrical Equipment Manufacturing	1 st Highest	7 th Highest/3 rd Lowest
Aerospace Products and Parts Manufacturing	9 th Highest (Lowest)	9 th Highest (Lowest)
Management, Scientific and Tech. Consulting Services	9 th Highest (Lowest)	8 th Highest(2 nd Lowest)

Thank You

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