

New Mexico Legislature Revenue
Stabilization Committee

COMPARING NEW MEXICO'S TAX STRUCTURE TO OTHER STATES

JULY 15, 2021



TAX POLICY PRINCIPLES

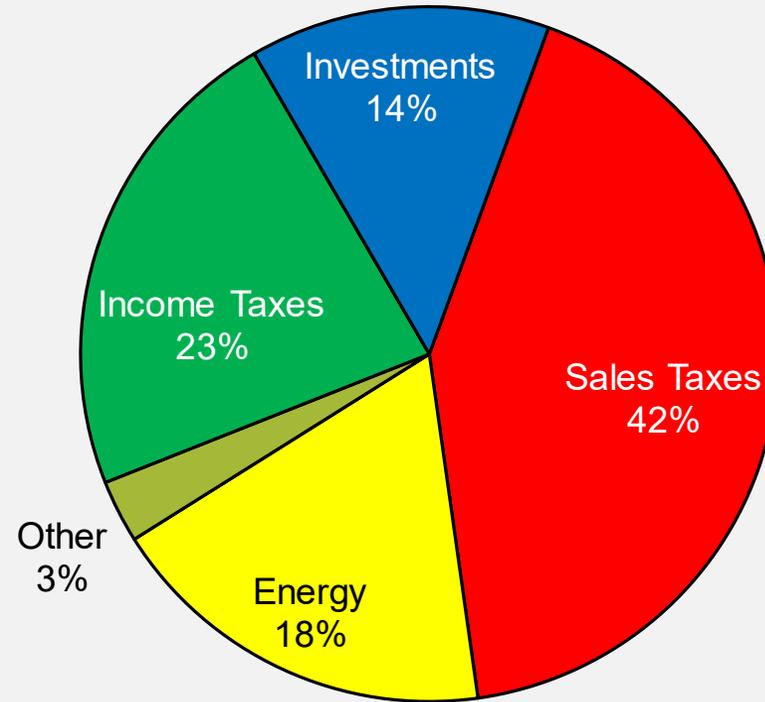
N.M. Tax Research Institute is a non-profit, non-partisan member-supported organization dedicated to advancing the following principles of good tax policy in New Mexico:

- ***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



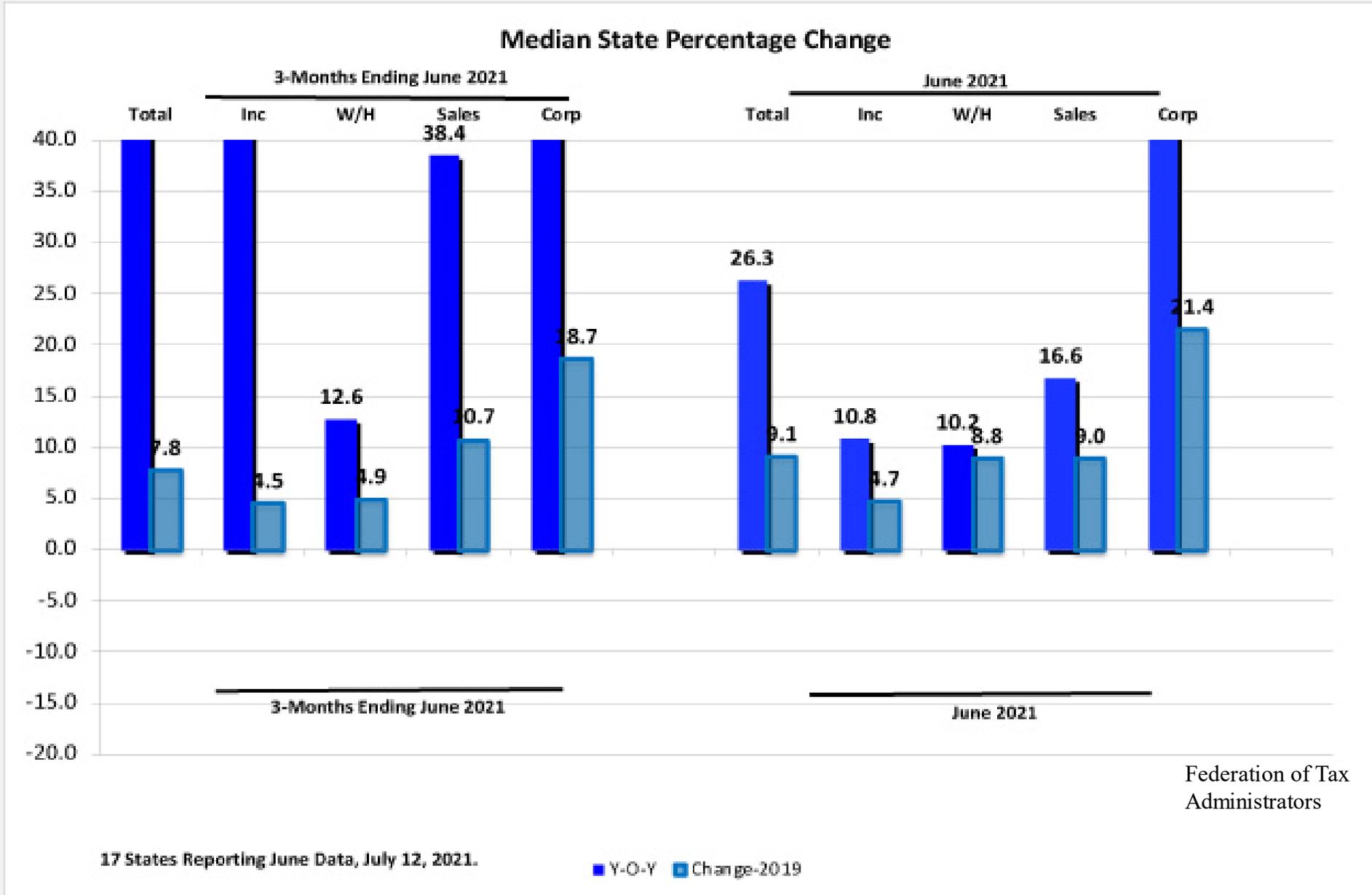
NEW MEXICO FISCAL SITUATION

General Fund 2022 Revenue: \$7.818B



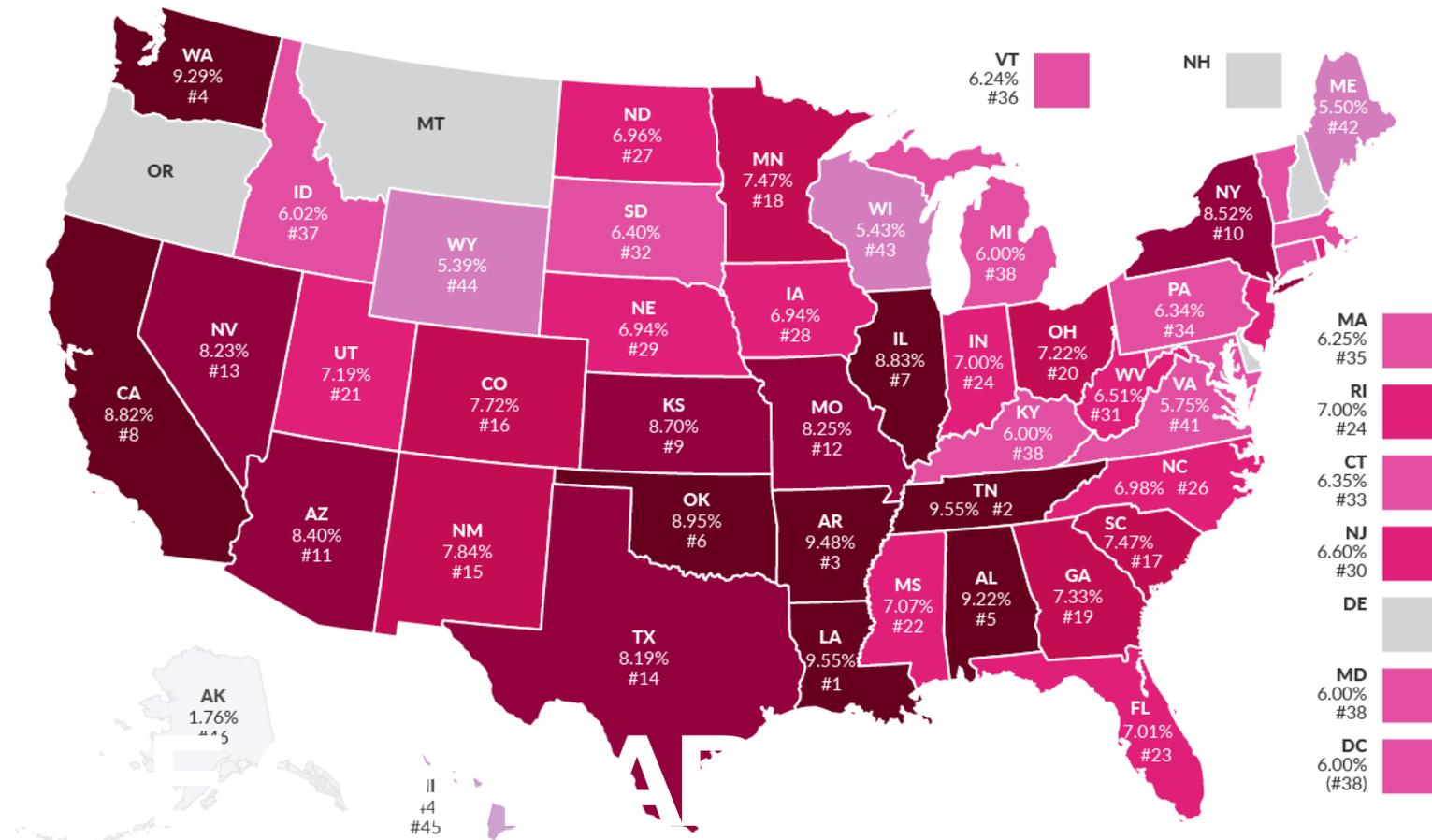
Source: February 2021
Consensus Revenue Estimate

ALL STATE FISCAL STATUS



How High are Sales Taxes in Your State?

Combined State & Average Local Sales Tax Rates, July 2021



Combined State and Average Local Rates

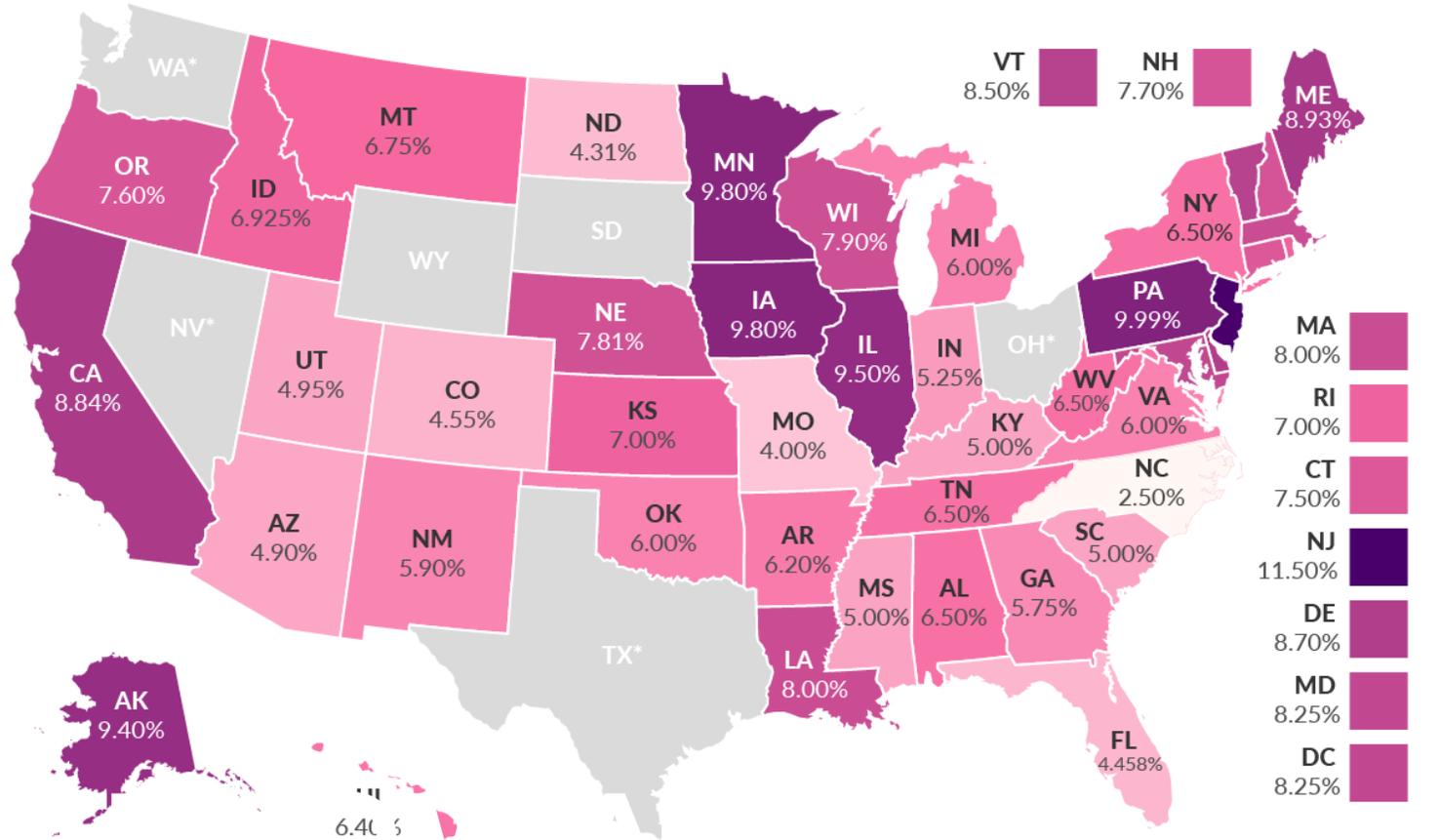
City, county and municipal rates vary. These rates are compiled by population to compare average local tax rate. The sales taxes in Hawaii, New Mexico and South Dakota have broad bases that include many business-to-business services. D.C.'s rank does not affect states' ranks, but the figure in parentheses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

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



How High are Corporate Income Tax Rates in Your State?

Top Marginal Corporate Income Tax Rates as of January 1, 2021

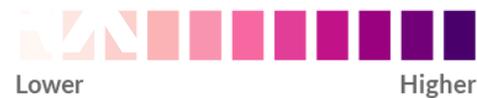


Note: Nevada, Idaho, Texas, and Washington do not have a corporate income tax, but do have gross receipts taxes with rates not strictly comparable to corporate income tax rates. Delaware, Tennessee, and Oregon have gross receipts taxes in addition to corporate income taxes, as do several states in Pennsylvania,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

Illinois' rate includes two separate corporate income taxes, one at 7% rate and one at 1% rate. Illinois' rate will change to 4.9% on July 1, 2021. In New Jersey, the rates increased to apply to a corporation's entire 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. In addition to regular income taxes, many states impose other taxes on corporations such as gross receipts taxes and capital stock taxes. Some states also impose an alternative minimum tax and special rates on financial institutions.

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

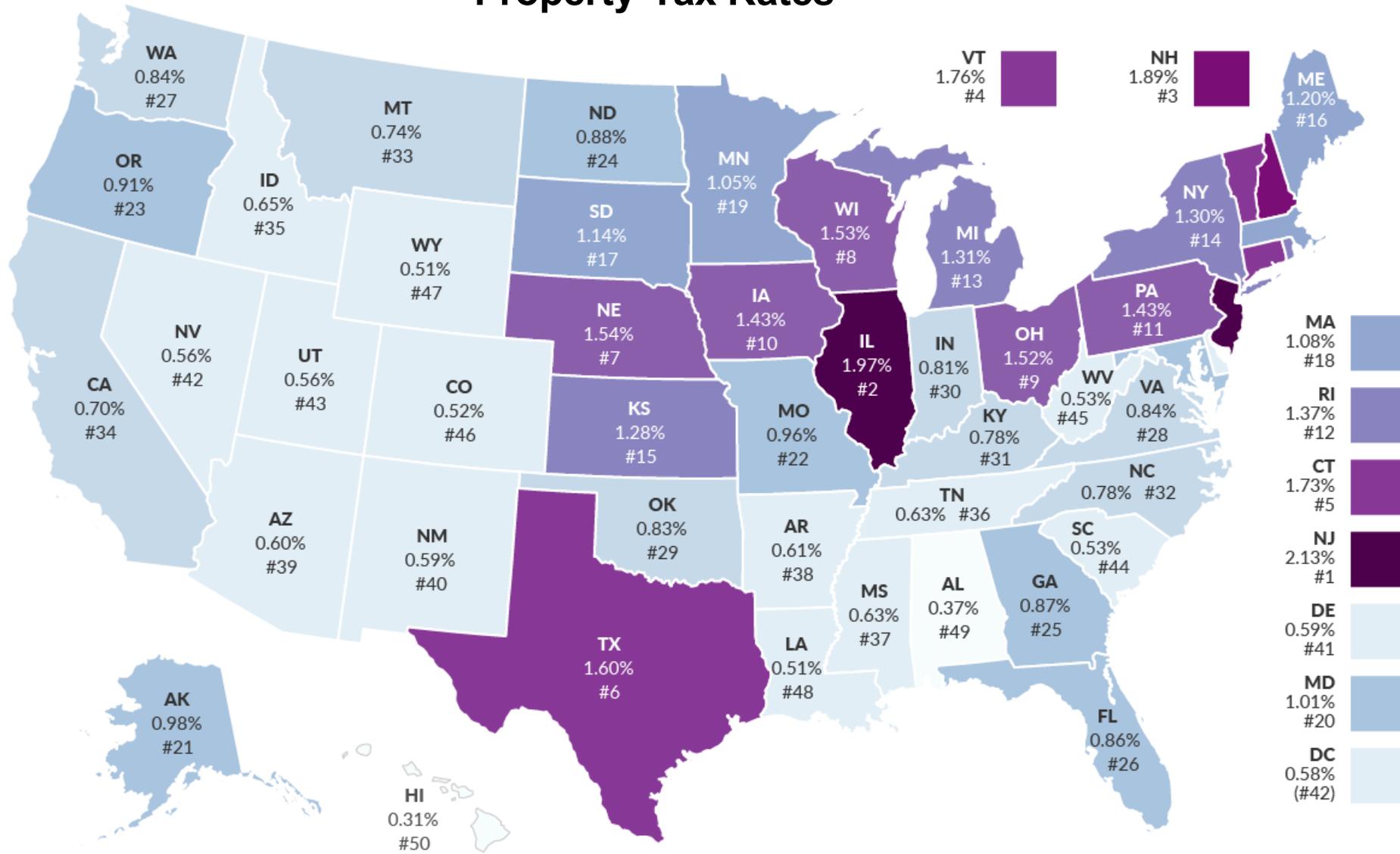
Top State Marginal Corporate Income Tax Rates as of January 1, 2021



Corporate Income Tax - Top Marginal Tax Rates

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Property Tax Rates



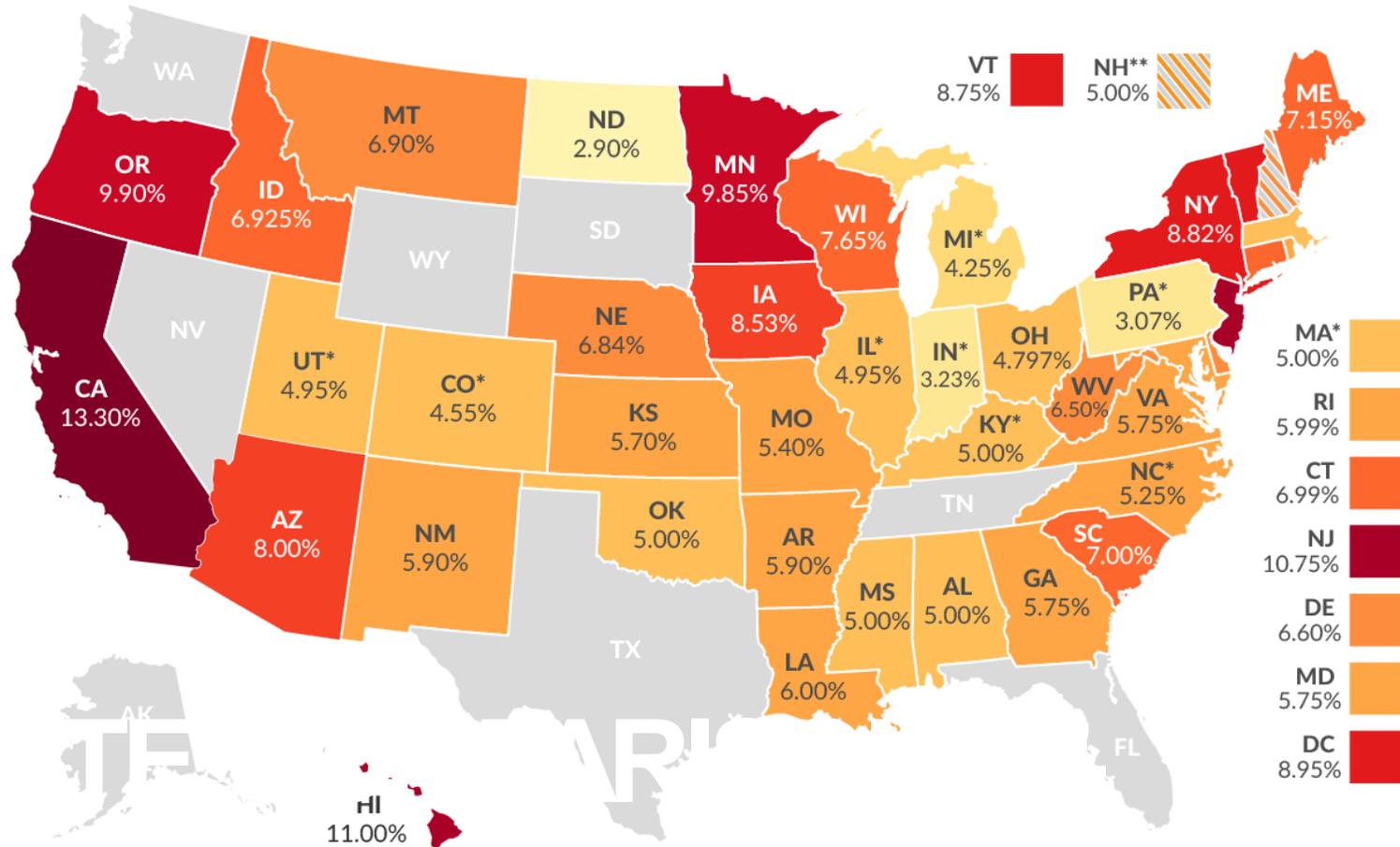
Total Property Taxes Paid as a Percentage of Owner-Occupied Housing Value



Note: The figures in this table are mean effective property tax rates on owner-occupied housing (total real taxes paid/total home value). As a result, the data exclude property taxes paid by businesses, renters, and others. D.C.'s rank does not affect states' ranks, but

How High Are Individual Income Tax Rates in Your State?

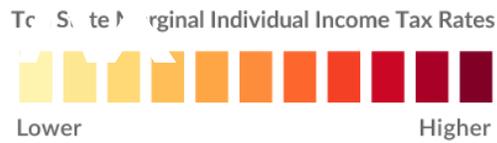
Top State Marginal Individual Income Tax Rates, 2021



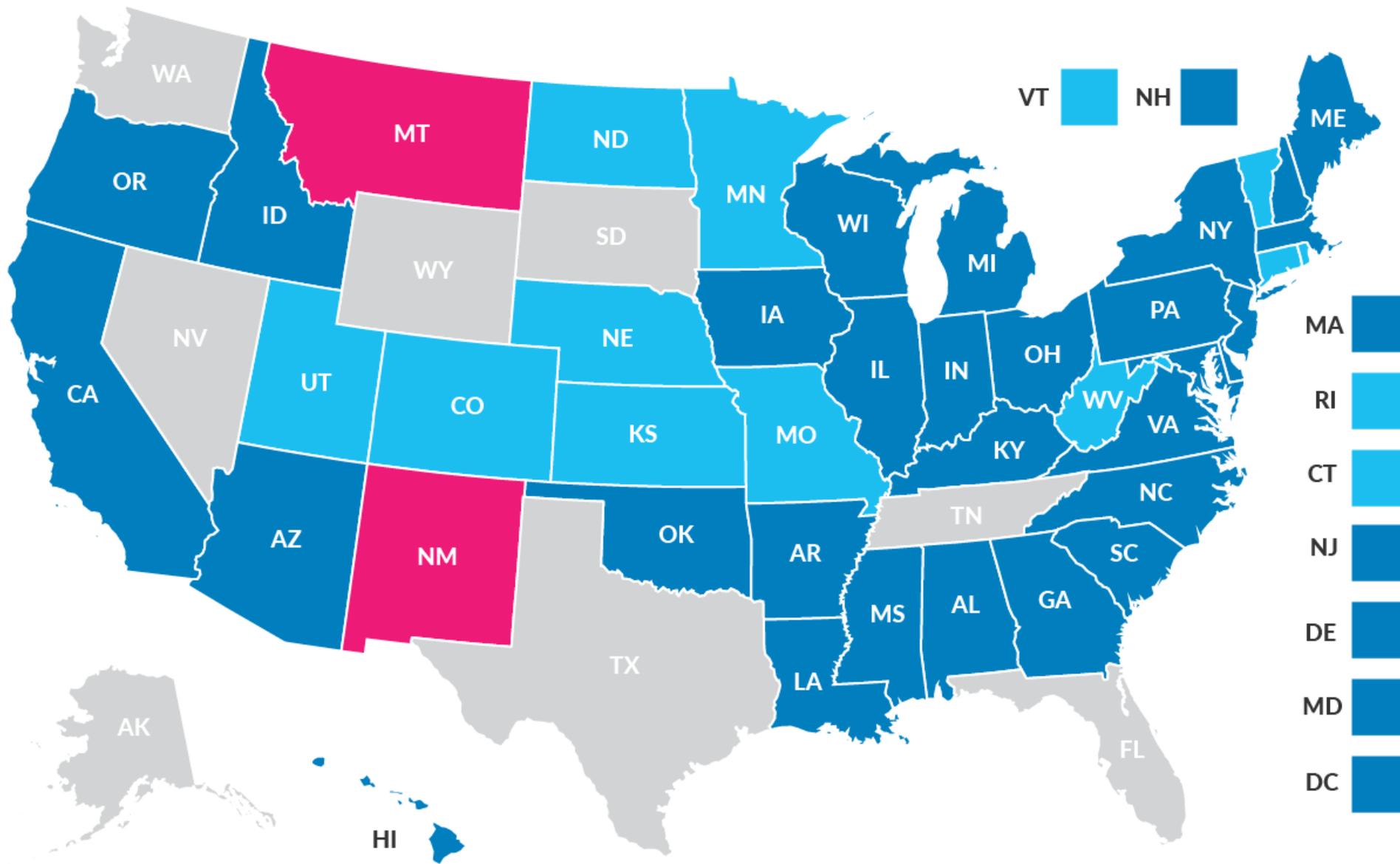
This map shows the top marginal rate (the maximum) a taxpayer in each state would pay on the last dollar of taxable income. It does not show effective marginal tax rates, which would include the effects of the use of various tax preferences. Local income taxes are not included.

(*) State has a flat income tax.
 (**) State only taxes interest and dividends income.

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



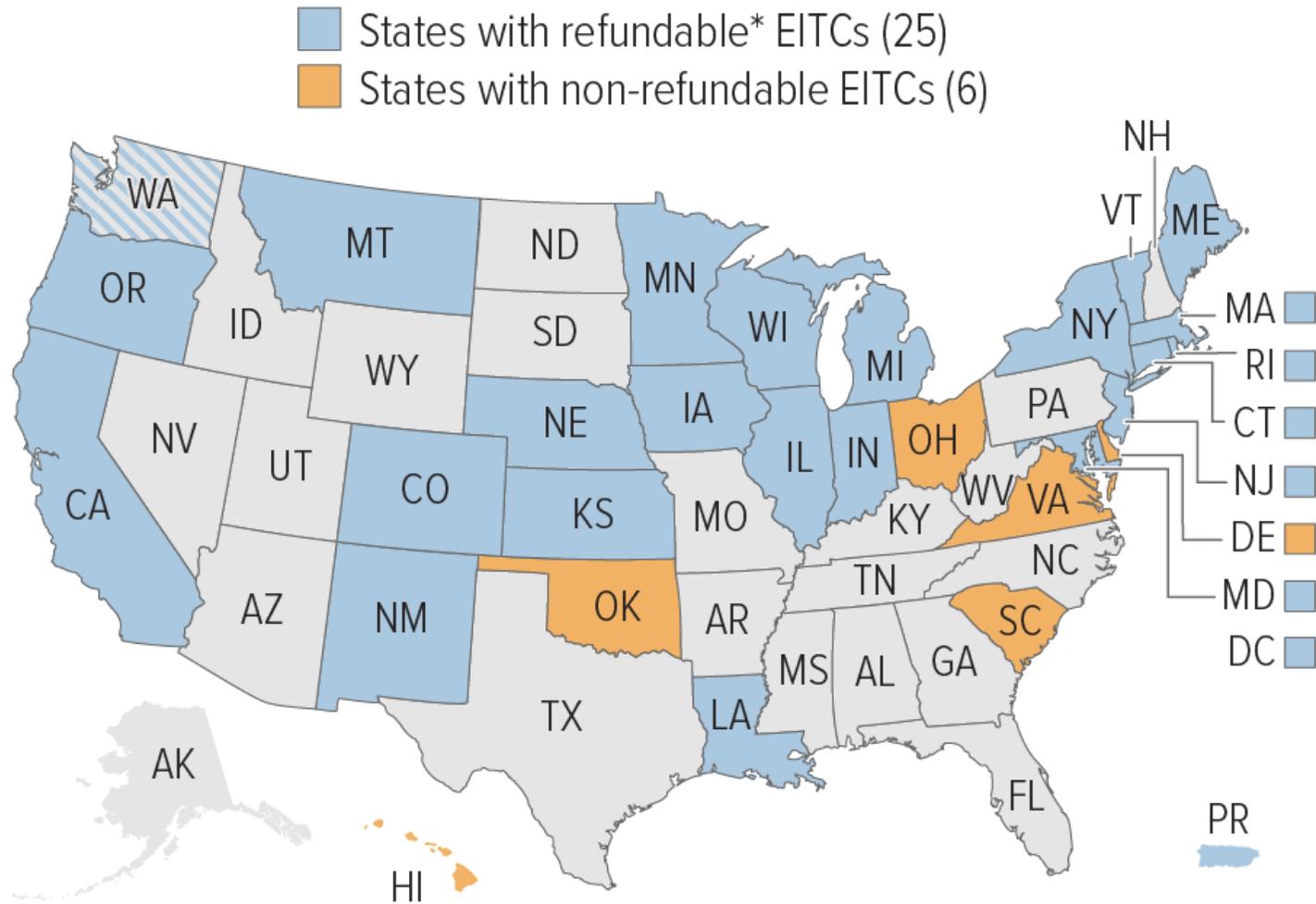
Personal Income Tax - Top Marginal Tax Rates



*Income Tax –
Social
Security*

- State does not include Social Security benefits in its income tax calculation
- State gives exemptions based on factors like age or income level
- State taxes Social Security with modification
- State has no income tax

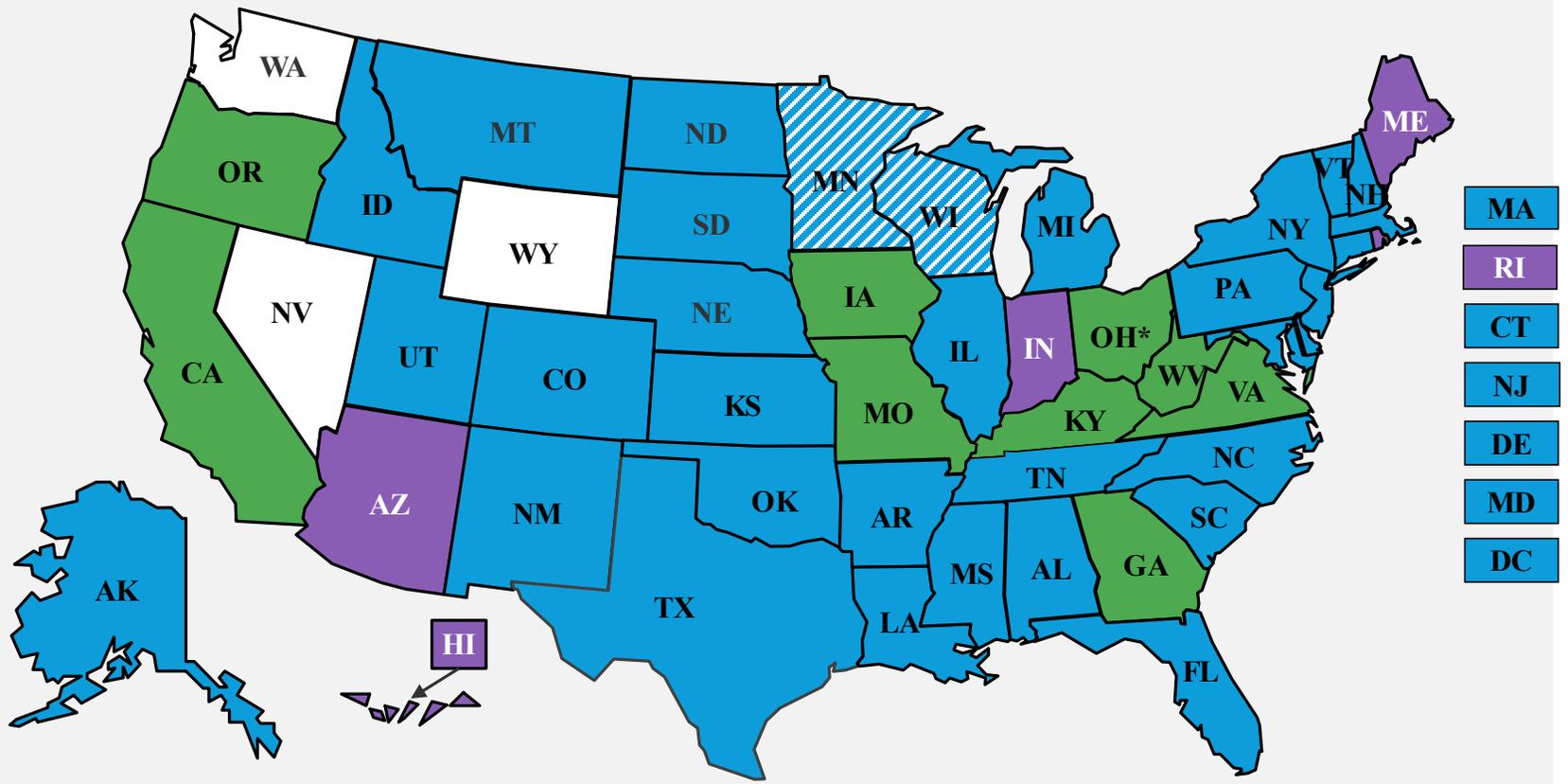
29 States Plus D.C. and Puerto Rico Have EITCs



*Refundable earned income tax credits (EITCs) give working households the full value of the credit they earn even if it exceeds their income tax liability.

Note: Washington's EITC has never been implemented, but would likely be worth 10 percent of the federal credit or \$50, whichever is greater.

Source: CBPP analysis. Data are as of 2020.



- States that have enacted legislation
- States that have enacted legislation, but need improvement to more closely follow MTC Model
- States that potentially need legislation
- States with 2020 pending legislation

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

TABLE 2

Increases in State Earned Income Tax Credits under
the American Rescue Plan Act of 2021 (2019 Income Levels)

	Thousands of households benefiting	Average benefit	Share of benefit to households with AGI < 10k	State cost (\$ millions)
Colorado	227	72	38	16
Connecticut	146	162	40	24
Delaware	16	97	0	2
District of Columbia	45	785	28	36
Hawaii	28	114	1	3
Illinois	547	128	41	70
Iowa	123	107	41	13
Kansas	117	116	41	14
Louisiana	188	40	43	8
Maine	73	181	39	13
Maryland	253	207	34	52
Massachusetts	292	213	41	62
Michigan	434	47	41	20
Minnesota	82	164	56	13
Montana	42	26	39	1
Nebraska	76	74	38	6
New Jersey	374	278	39	104
New Mexico	104	122	40	13
New York	978	203	43	199
Ohio	NA	NA	NA	NA
Oklahoma	68	33	3	2
Oregon	187	68	40	13
Rhode Island	52	108	39	6
South Carolina	37	63	0	2
Vermont	33	247	40	8
Virginia	104	122	0	13
Overall	4,648	153	39	712

Source: Tax Policy Center State Income Tax Model.

Notes: Estimates are for 2019, which is the latest available year for the Tax Policy Center's State Income Tax Model. NA = not applicable; fewer than 500 households would be affected in Ohio.

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

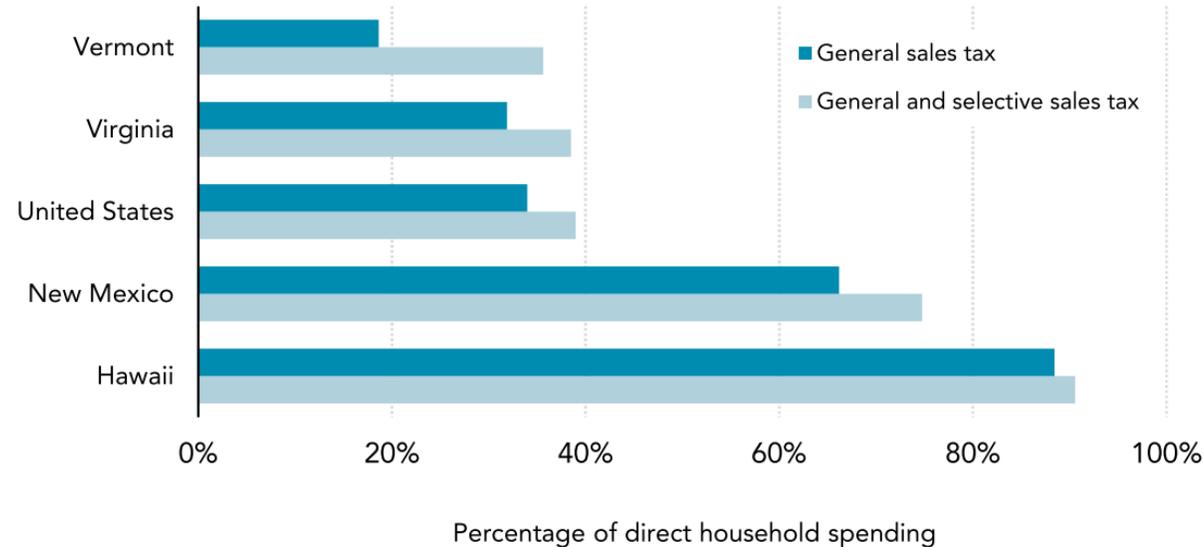
SECTION 2: BREADTH OF SALES TAX BASE

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.

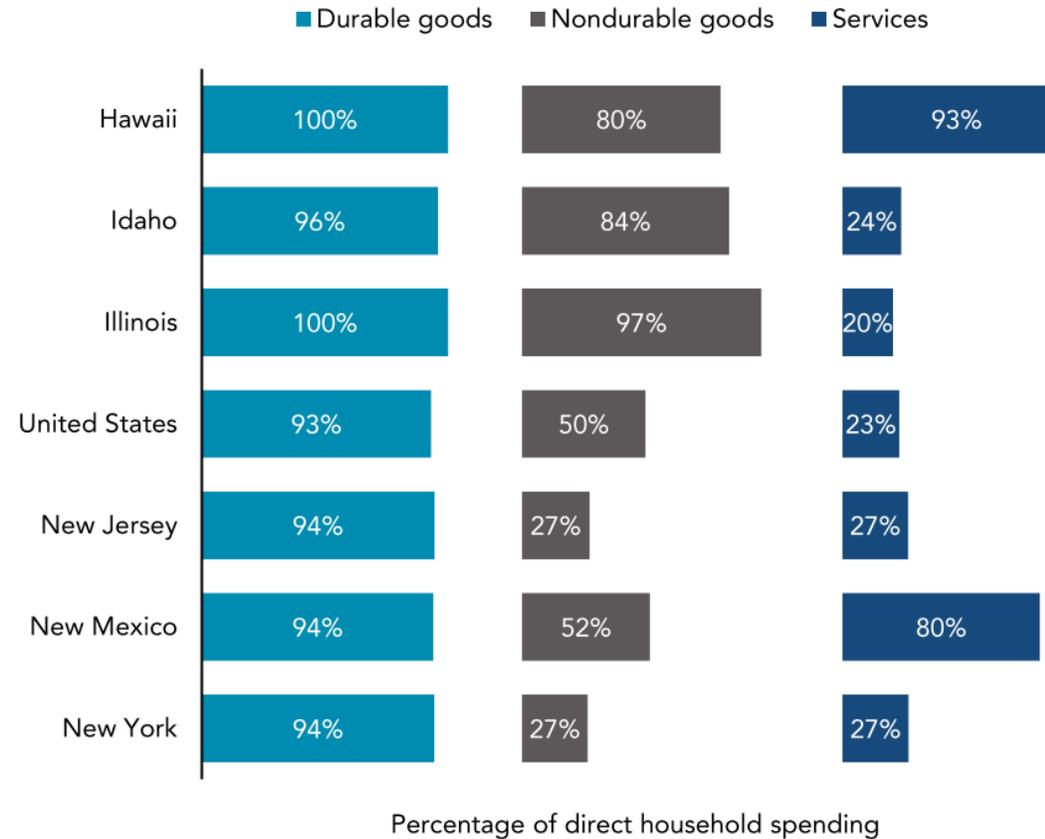
Note: Direct household spending is measured as personal consumption expenditures less final expenditures by nonprofits serving households and imputed items such as the rental equivalent of owned homes and financial services furnished without payment.

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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