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# Promoting Growth and Stability in a Tax Competitive Region

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# The *State Business Tax Climate Index*

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- A measure of how well states structure their tax systems.
- Enables policymakers, business leaders, and taxpayers to gauge how their states' tax systems compare.
- Provides a roadmap for improvement.

# New Mexico in Context

## Neighboring States

- #10 Utah
- #14 Texas
- #20 Colorado
- #23 Arizona
- #26 Oklahoma
- #28 New Mexico

## New Mexico

	Rank	Score
Overall Rank	28 (-6)	5.05
Corporate Taxes	12 (-1)	5.71
Individual Taxes	36 (-10)	4.53
Sales Taxes	41 (+0)	4.05
Property Taxes	2 (-1)	6.50
Unemp. Insur. Taxes	8 (+1)	5.62

## Top States

- #1 Wyoming
- #2 South Dakota
- #3 Alaska
- #4 Florida
- #5 Montana

## Bottom States

- #50 New Jersey
- #49 New York
- #48 District of Columbia
- #48 California
- #47 Connecticut

# Comparison of Five Major Tax Types

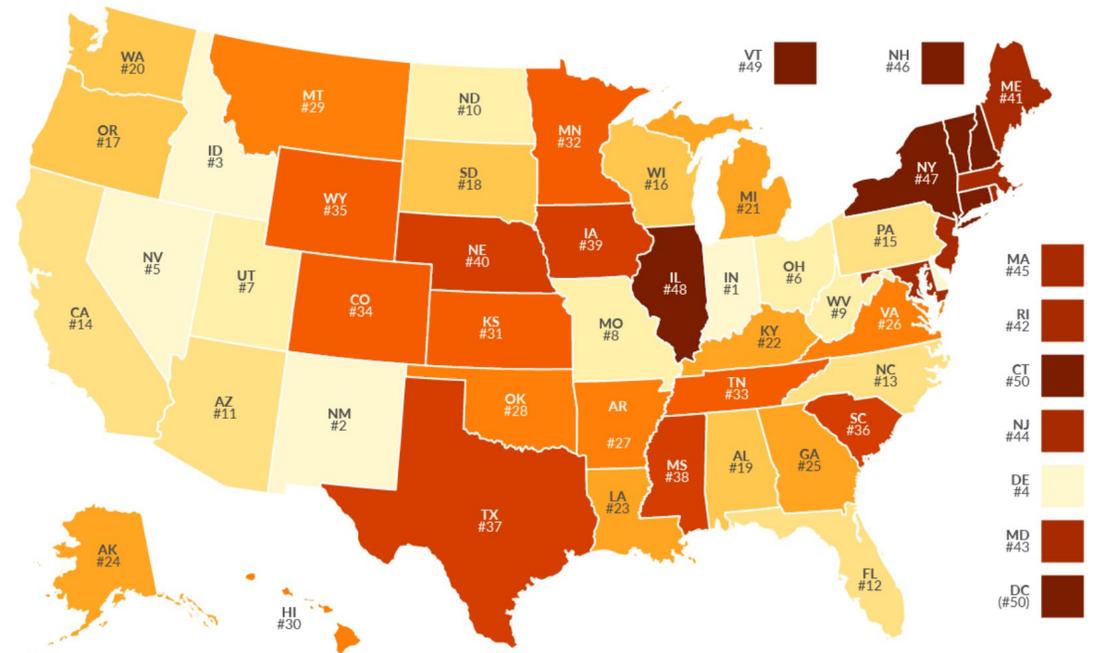
State	Overall Rank	Corporate Taxes	Individual Taxes	Sales Taxes	Property Taxes	Unemp Insur. Taxes
Arizona*	23	23	18	40	11	11
Colorado	20	6	14	38	34	41
<b>New Mexico</b>	<b>28</b>	<b>12</b>	<b>36</b>	<b>41</b>	<b>2</b>	<b>8</b>
Oklahoma	26	10	30	37	28	1
Texas	14	47	7	36	37	14
Utah	10	14	10	22	7	17

\*Arizona's conversion to a flat individual income tax rate is likely to occur by FY 24. Arizona would then rank 15 overall; its PIT would rank 9.

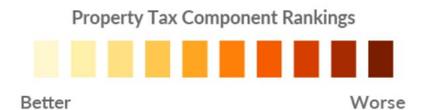
# Property Taxes

State	Property Taxes
New Mexico	2
Utah	7
Arizona	11
Oklahoma	28
Colorado	34
Texas	37

Property Tax Component Rankings, 2022 State Business Tax Climate Index



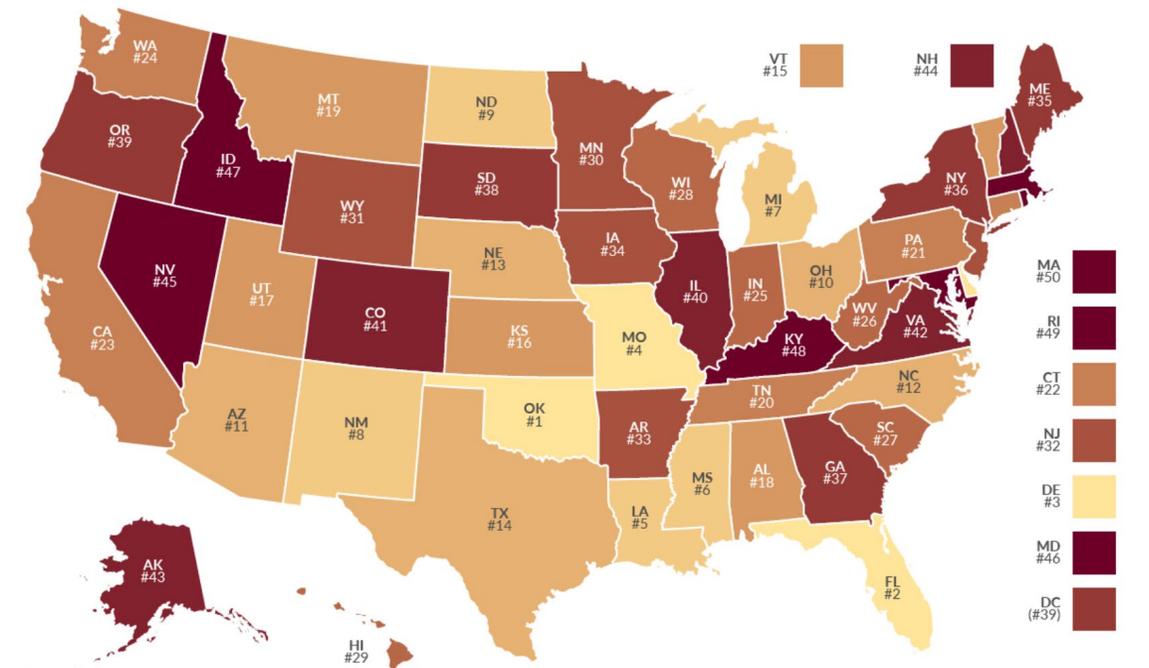
Note: A rank of 1 is best, 50 is worst. D.C.'s score and rank do not affect other states. The report shows tax systems as of July 1, 2021 (the beginning of Fiscal Year 2022). Source: Tax Foundation, 2022 State Business Tax Climate Index.



# Unemployment Insurance Taxes

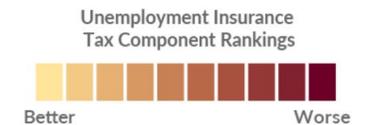
State	Unemp. Insur. Taxes
Oklahoma	1
New Mexico	8
Arizona	11
Texas	14
Utah	17
Colorado	41

Unemployment Insurance Tax Component Rankings, 2022 State Business Tax Climate Index



Note: A rank of 1 is best, 50 is worst. D.C.'s score and rank do not affect other states. The report shows tax systems as of July 1, 2021 (the beginning of Fiscal Year 2022).

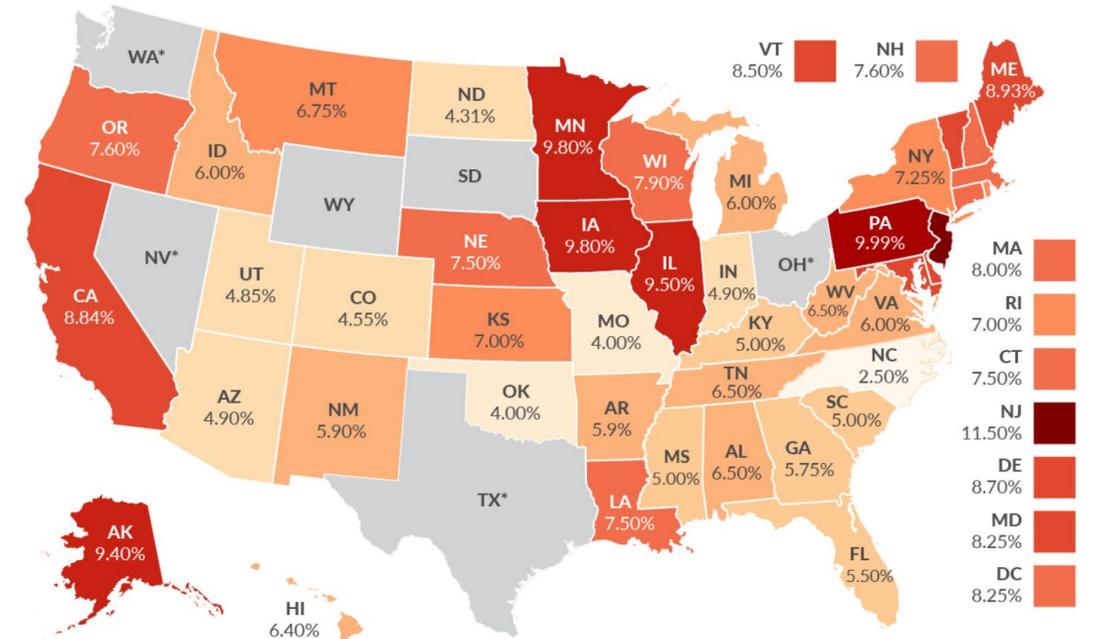
Source: Tax Foundation, 2022 State Business Tax Climate Index.



# Corporate Taxes

State	Corporate Taxes
Colorado	6
Oklahoma	10
New Mexico	12
Utah	14
Arizona	23
Texas	47

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



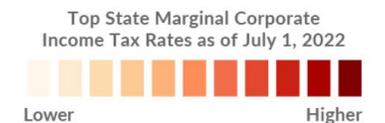
Note: In addition to regular income taxes, many states impose other taxes on corporations such as gross receipts taxes and franchise taxes. Some states also impose an alternative minimum tax and special rates on financial institutions.

\*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.



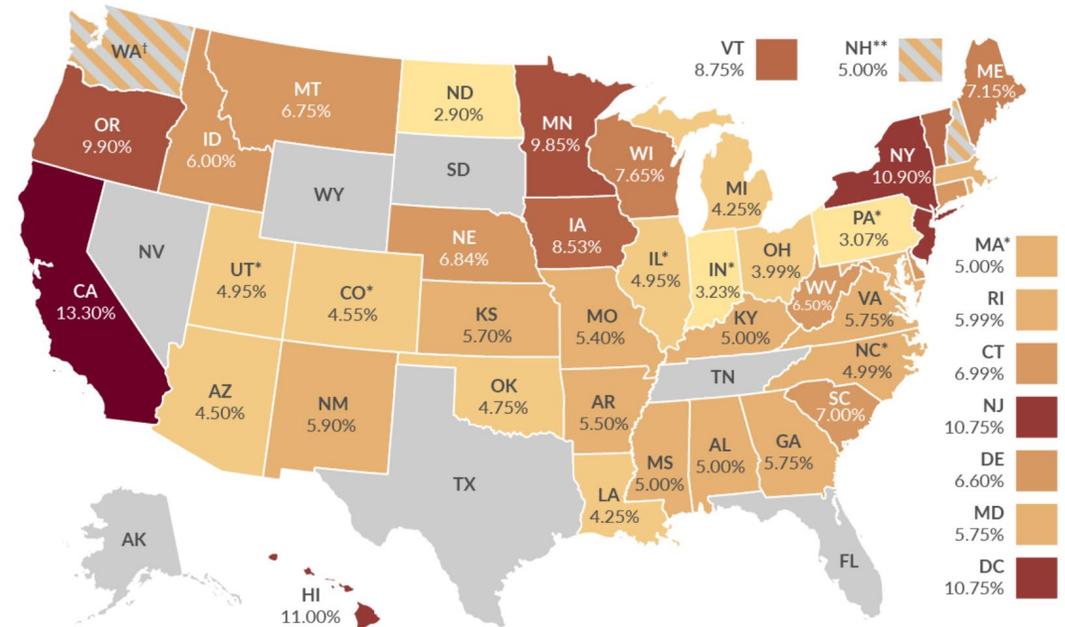
# Individual Taxes

State	Individual Taxes
Texas	7
Utah	10
Colorado*	14
Arizona**	18
Oklahoma	30
New Mexico	36

\*Colorado's Initiative 31 would reduce the flat PIT and CIT from 4.55% to 4.40%, if approved in November.

\*\*Arizona's PIT is currently 2.98% on income over \$27,272. It is on track to reach a flat 2.5% and to rank 9 by FY24.

Top Marginal State Individual Income Tax Rates (as of January 1, 2022)



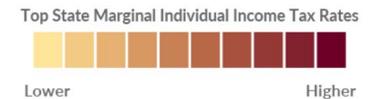
Note: Map shows top marginal rates: the maximum statutory rate in each state. This map does not show effective marginal tax rates, which would include the effects of phase-outs of various tax preferences. Local income taxes are not included. Missouri's top marginal rate will be reduced to 5.3% if certain revenue triggers are met.

(\*) State has a flat income tax.

(\*\*) State only taxes interest and dividends income.

(†) State only taxes capital gains income.

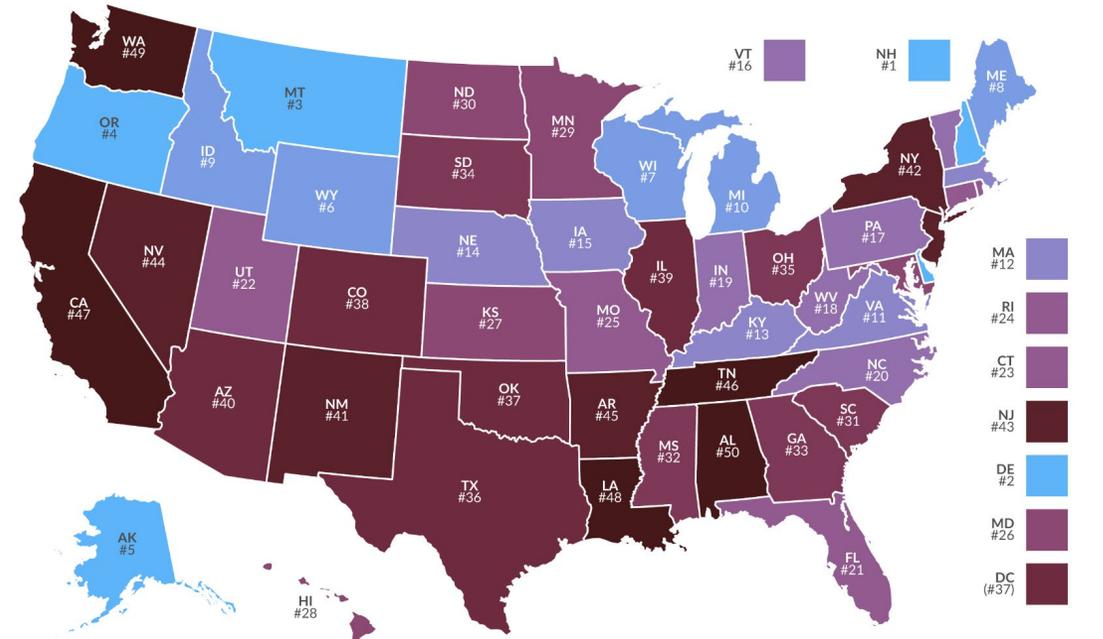
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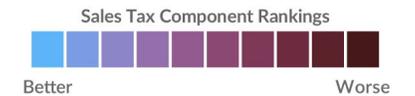
# Sales Taxes

State	Sales Taxes
Utah	22
Texas	36
Oklahoma	37
Colorado	38
Arizona	40
New Mexico	41

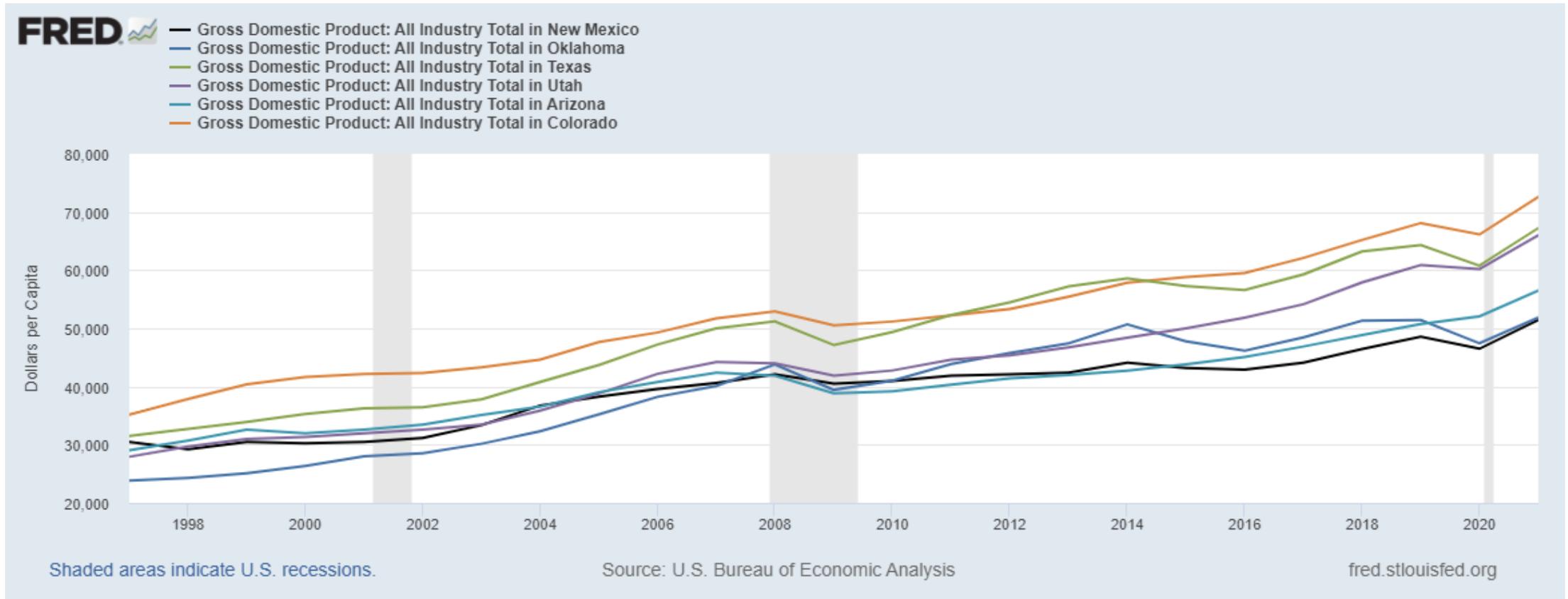
Sales Tax Component Rankings, 2022 State Business Tax Climate Index



Note: A rank of 1 is best, 50 is worst. D.C.'s score and rank do not affect other states. The report shows tax systems as of July 1, 2021 (the beginning of Fiscal Year 2022). Source: Tax Foundation, 2022 State Business Tax Climate Index.



# Gross State Product





# Key Tenets of a Well-Designed Sales Tax

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- Broad base: applicable to all final consumer sales
- Low Rate
- Exemptions: business inputs / business to business transactions

# Shortfalls of the Current GRT Structure

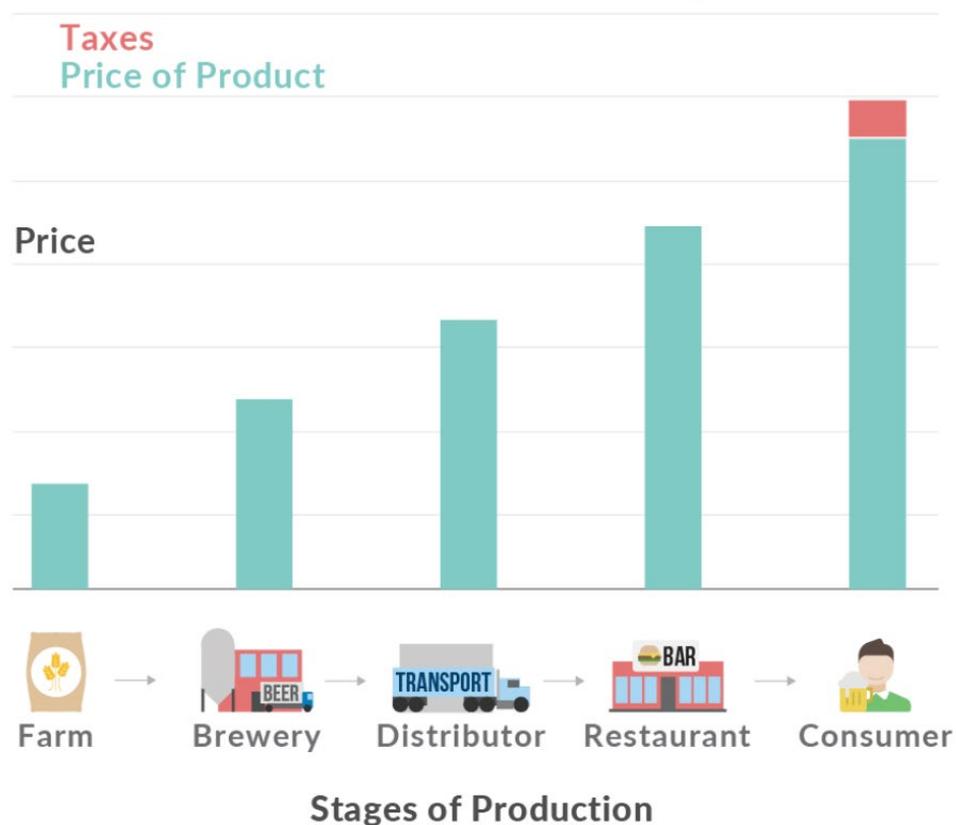
- Overly broad base
  - Estimated 60% of GRT revenue from business inputs
  - 20 percentage points higher than US average
- Results in tax pyramiding
- Lack of transparency: what is actual cost of good or service?

# Tax Pyramiding

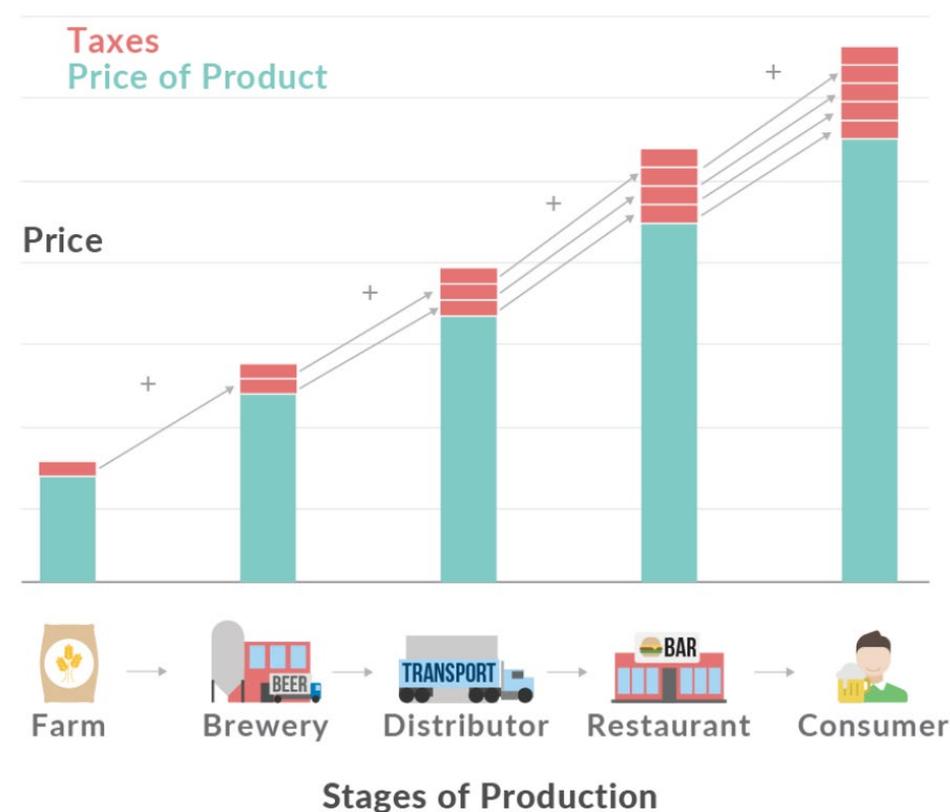
- Occurs when the same final good or service is taxed multiple times along the production process.
- Yields vastly different effective tax rates depending on the length of the supply chain
- Disproportionately harms low-margin firms.
- Disincentivizes relocation to NM; often requires a deal or credit.

# Effects of Tax Pyramiding Under GRT

## Ideal Sales Tax on Final Consumption



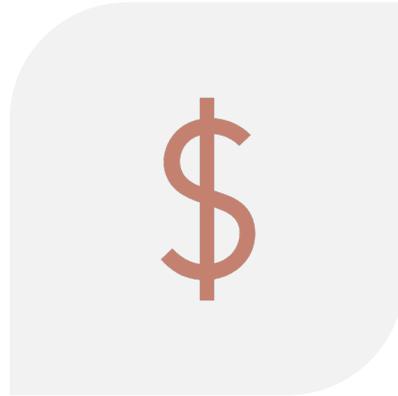
## Gross Receipts Tax



# Incidence of the GRT



WHO BEARS THE GRT DEPENDS ON PRICE SENSITIVITY AND SUBSTITUTES.



CONSUMERS DON'T NECESSARILY BEAR THE FULL COST.



PRODUCERS BEAR THE BALANCE, WHICH DECREASES COMPETITIVENESS.

# Corporate Income Tax

- The Throwback Rule
  - Designed to reclaim “nowhere income,” from a state that has no legal authority to tax it and give it back to a state with jurisdiction over the taxpayer.
  - Sales of tangible personal property are figuratively “thrown back” across state lines and incorporated into the numerator of the origin state’s sales factor.

# Economic Effects of the Throwback Rule

- Disadvantages businesses that sell out of state
- Can lead to double taxation and frequently impose tax burdens high enough to make the state unattractive for businesses.
- Studies suggest that over time, tax avoidance strategies eliminate most or all revenue gains

# The Individual Income Tax

- NM has the highest top marginal rate in the region: 5.9%
- NM surrounded by states with flat rates or moving to flat rate.
- Affects individuals and small businesses.
- Top rate affects 25% of all small business owners, but they are responsible for 94% of all small business income in NM.
  - Small business climate significantly altered by migration of top earners.

# The Individual Income Tax

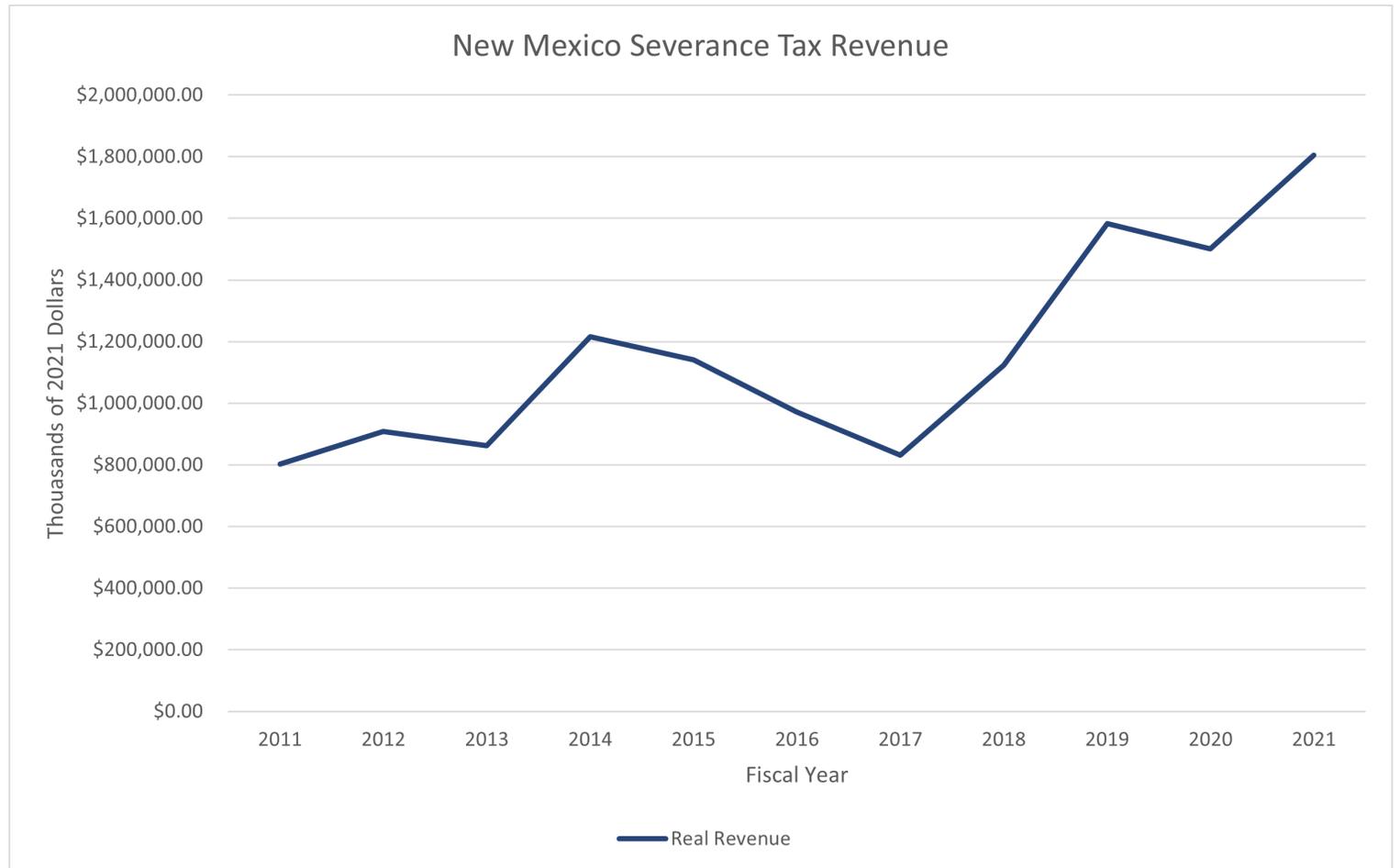
- New Mexico last in region for share of taxpayers with AGI of \$200,000 or greater.
- GRT increases the cost of doing business in NM relative to neighboring states.
- Uncompetitive PIT compounds the challenge of profitability and disincentivizes entrepreneurship.

State	Percent of PIT Returns w/ AGI >\$200,000
CO	7.0
TX	5.5
AZ	4.7
UT	4.7
OK	3.6
NM	3.3

# Oil and Gas Tax Revenue

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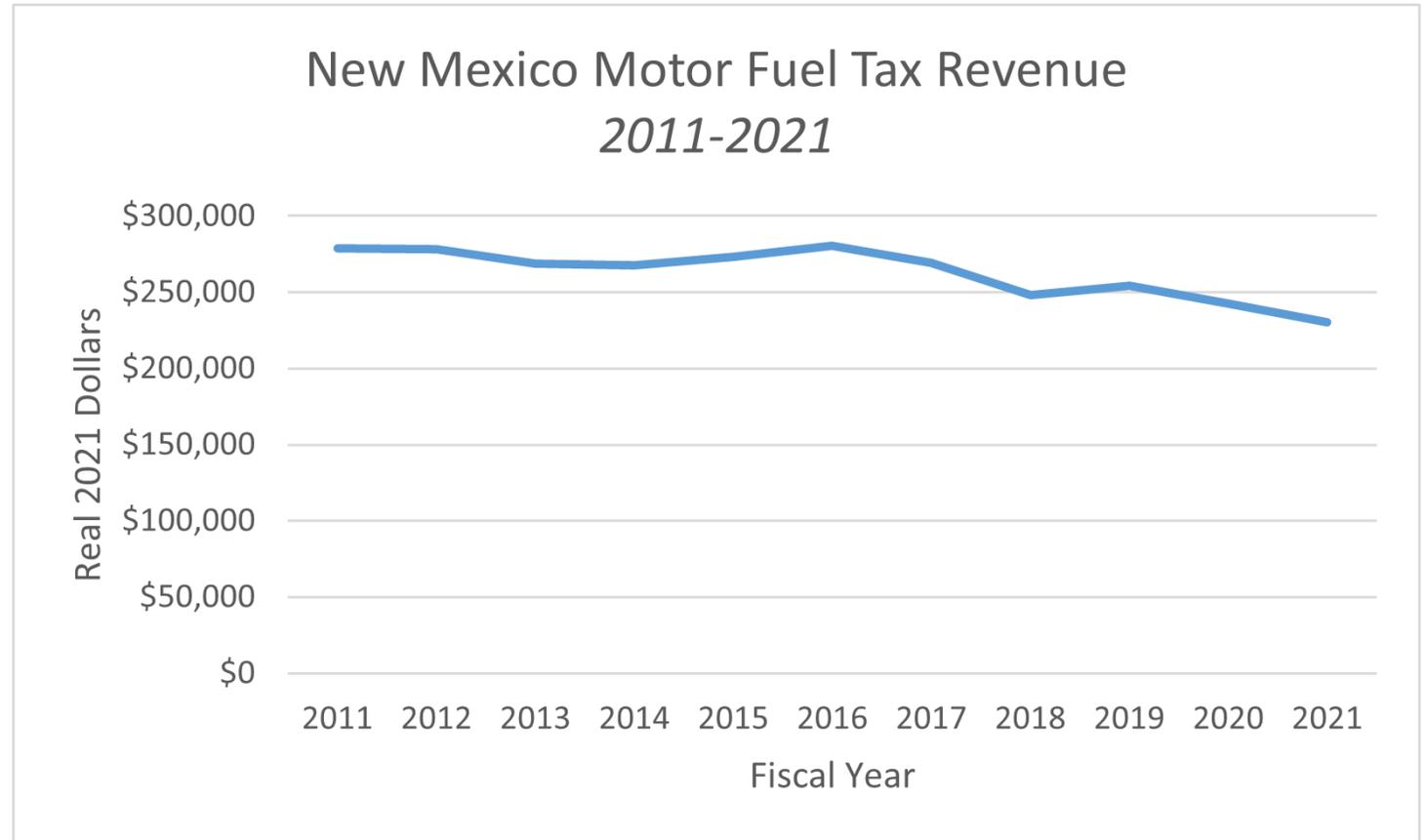
Relationship to market prices and quantity demanded creates revenue volatility.



# Revenue Stabilization Considerations

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- Index motor fuel taxes to inflation
  - Gasoline tax revenue avg nominal growth rate of 0.4% since 2007
- Losing purchasing power each year



# Revenue Stabilization Considerations

- Increase gasoline tax rate
  - 17.7% of highway funding comes from Gen Fund
  - As of Jan 1, 2022, state gas tax was 18.88¢/gal
    - 3rd lowest in nation
  - Diesel 22.88¢/gal
    - 10th lowest in nation

# Revenue Stabilization Considerations

- Property Tax
  - Most stable form of tax
  - Real property does not move, hard to avoid tax
  - Capital highly mobile: tax easily shifted elsewhere

State	Collections per Capita (Ranking)
Texas	\$2,098 (11)
Colorado	\$1,816 (15)
Utah	\$1,153 (34)
Arizona	\$1,150 (35)
<b>New Mexico</b>	<b>\$884 (45)</b>
Oklahoma	\$826 (48)

# Revenue Stabilization Considerations

- Use years of strong severance tax revenue to reshape tax environment.
  - Right-size sales tax base
    - Exempt business to business transactions from GRT
  - Reduce size of tax incentives and credits
    - Film credit
  - Bring PIT, CIT rates closer in line with neighbors
  - Make full expensing of capital investment permanent
    - Oklahoma first in nation

# Revenue Stabilization Considerations

- Responsible ways to move to tax competitiveness:
  - Revenue triggers—budget stabilization plus inflation
  - Long term approach
    - Build on 2022 GRT reforms
- Examples:
  - Arizona
  - Indiana
  - North Carolina