

Discussion of TRD Analyses of Corporate Income Tax

Tax Structure, Analysis of Taxpayers,
and Investigation of Sensitivities to
Alternative Tax Policy Initiatives



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REVENUE STABILIZATION AND TAX POLICY COMMITTEE
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New Mexico Net Taxable Corporate Income

NM Taxable Income is derived from Federal Taxable Income

- Net Operating Loss (NOL) carry-forward under NM law differs from Federal law
- NM does not tax interest from US Debt Obligations or foreign dividends

NM Net Taxable Income (NTI) = Federal Taxable Income (before NOLs and Special Deductions) + Muni Bond Interest – NM NOLs – Special Deductions – Interest from US Obligations – Foreign Dividends

NOTE: NM Taxable Income is the Total Taxable Corporate Income from all business activities worldwide



NM Corporate Income Tax

Computed NM

$$\begin{aligned} \text{Business Income Tax (BIT)} &= 4.8\% \times \text{NTI}_{\text{Less than } \$500\text{K}} \\ &+ 6.4\% \times \text{NTI}_{\$500\text{K to } \$1\text{M}} \\ &+ 7.6\% \times \text{NTI}_{\text{Greater than or equal to } \$1\text{M}} \end{aligned}$$

- Tax is computed as if all income (NM Net Taxable Income (NTI)) is earned in NM, based on three tax brackets
- The computed tax would be the tax paid by a corporation on all business income (world-wide) according to NM tax brackets and rates



Computed Tax Apportioned to New Mexico

NM Corporate Income Tax (CIT) = BIT * *NM Percentage*

- *NM Percentage* = (Property Factor + Sales Factor + Payroll Factor) / 3
 - » Property Factor (%) = NM Property / Total Corp. Property
 - » Sales Factor (%) = NM Sales / Total Corp. Sales
 - » Payroll Factor (%) = NM Payroll / Total Corp. Payroll

- The three factors (Property, Sales and Payroll) are evenly weighted to allocate and apportion calculated tax liability to NM CIT*

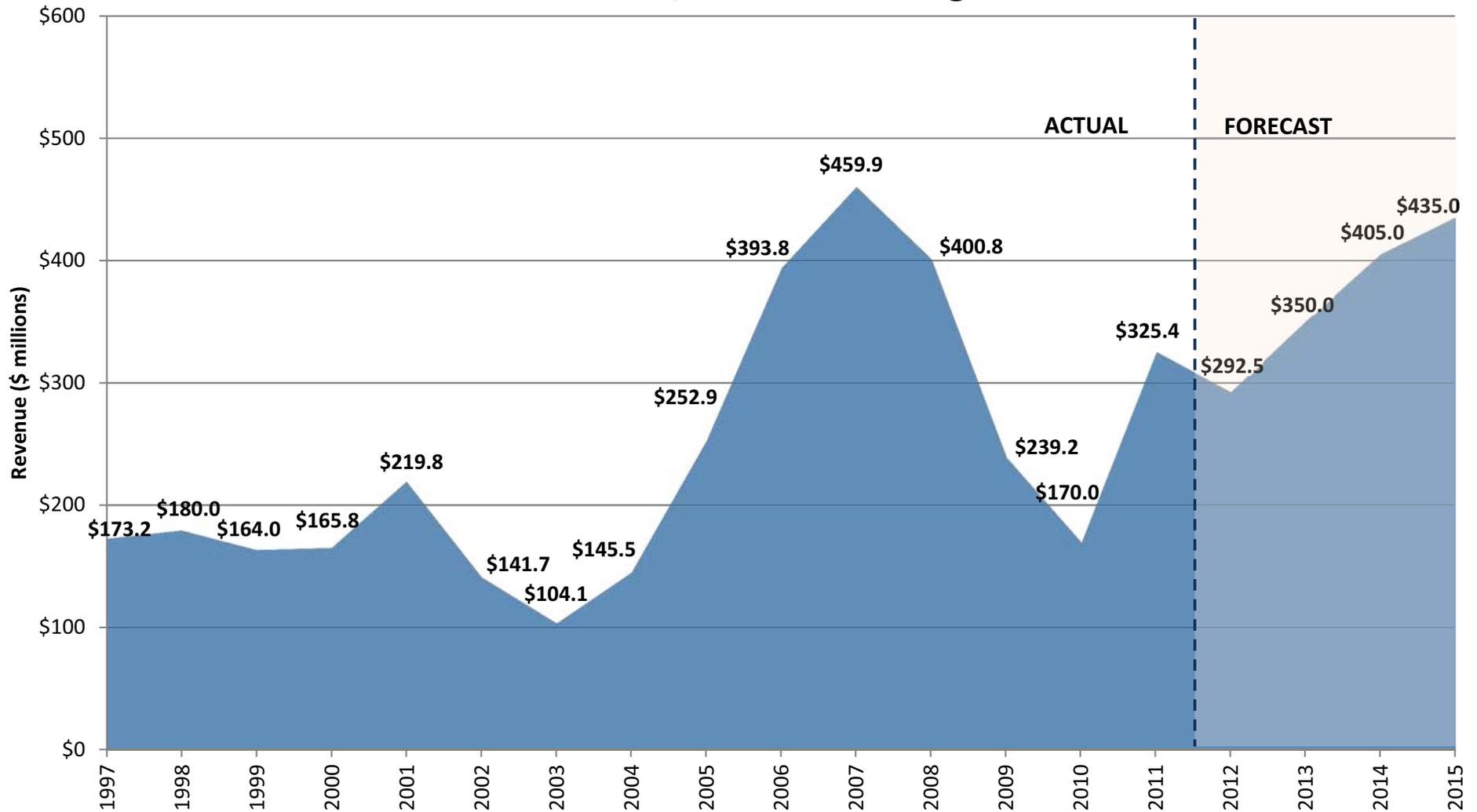
Note - Certain Taxpayers whose principal activity is manufacturing may use a four-factor formula, with double weighting of the Sales Factor

* Pursuant to Uniform Division of Income for Tax Purposes Act (UDITPA) [Section 7-4-1NMSA 1978]



New Mexico Corporate Income Tax*

FY1997 - FY2012 w/ Forecast through 2015

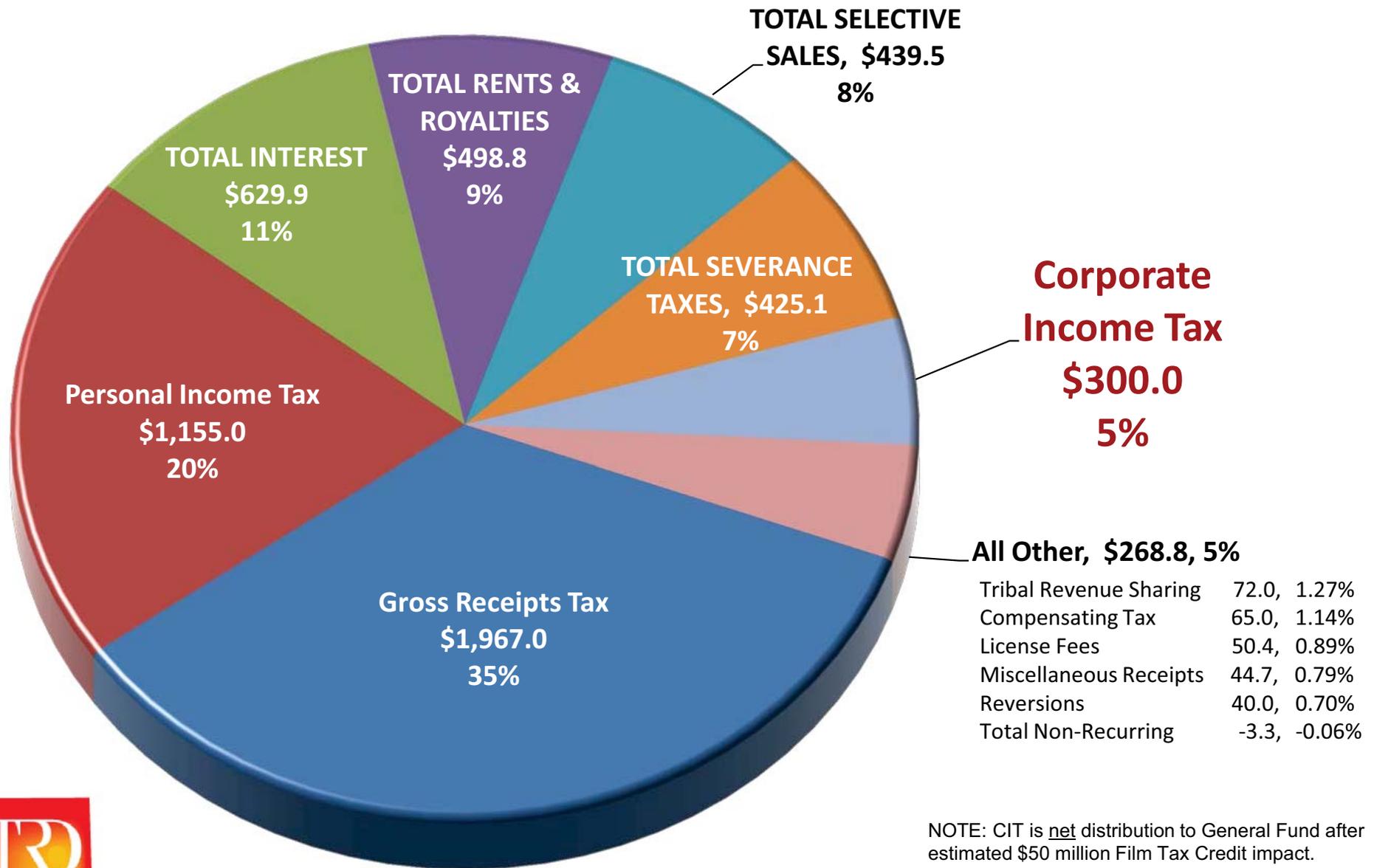


* Note: CIT data presented is gross tax receipts, and does not reflect tax credit impacts (e.g., Film Tax Credit) to General Fund distributions. FY 2012 data is preliminary estimated tax receipts.



FY13 General Fund Forecast Revenue by Source

(\$ Millions)



NOTE: CIT is net distribution to General Fund after estimated \$50 million Film Tax Credit impact.



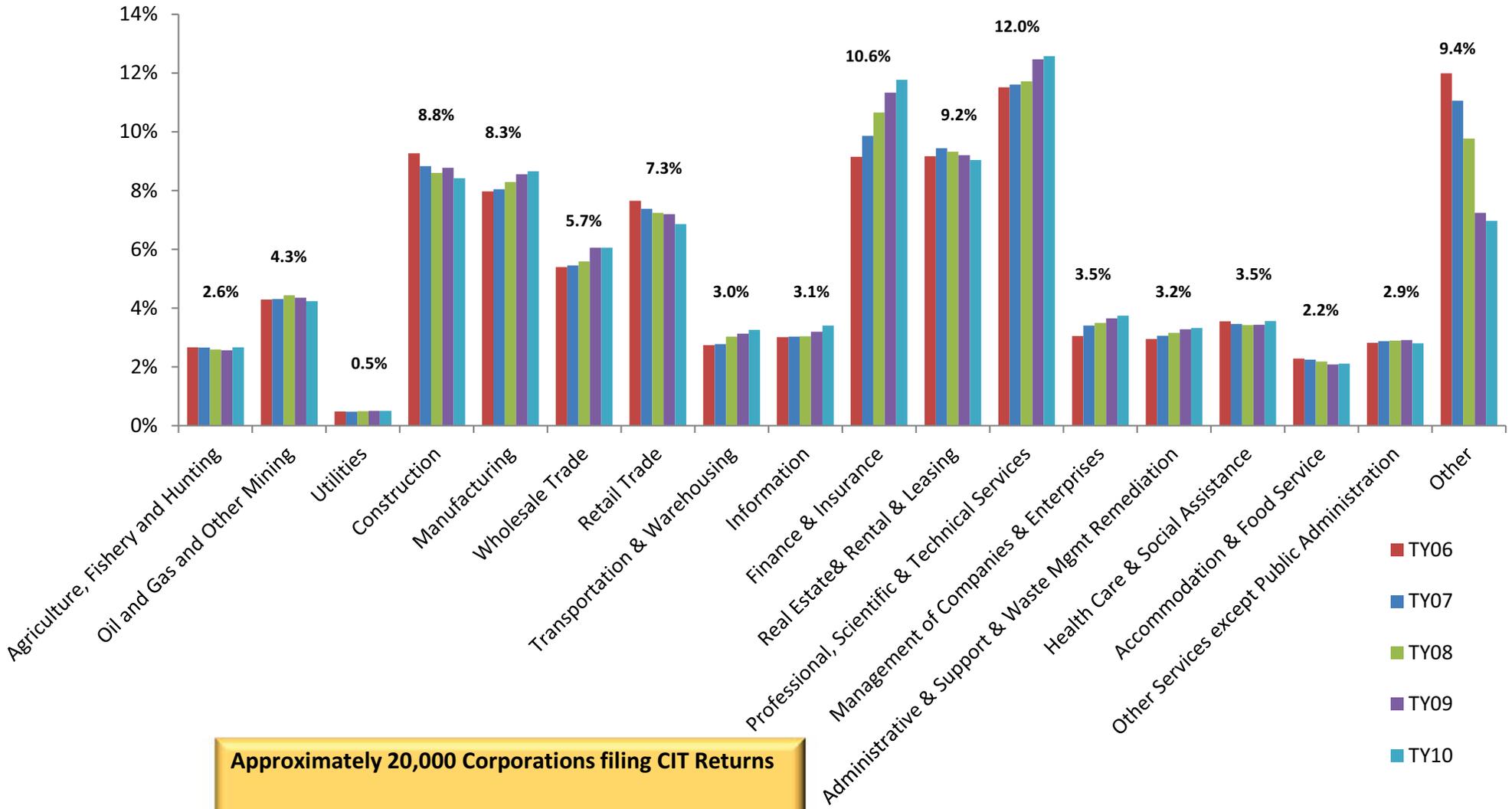
NM Corporate Income Tax

*Characterizing the Corporate Tax
Landscape in New Mexico*



Corporations Filing NM CIT Returns, By Industry Sector

(% is Five-Year Average Percentage of NM Corporations Reporting CIT, by Sector)



Approximately 20,000 Corporations filing CIT Returns

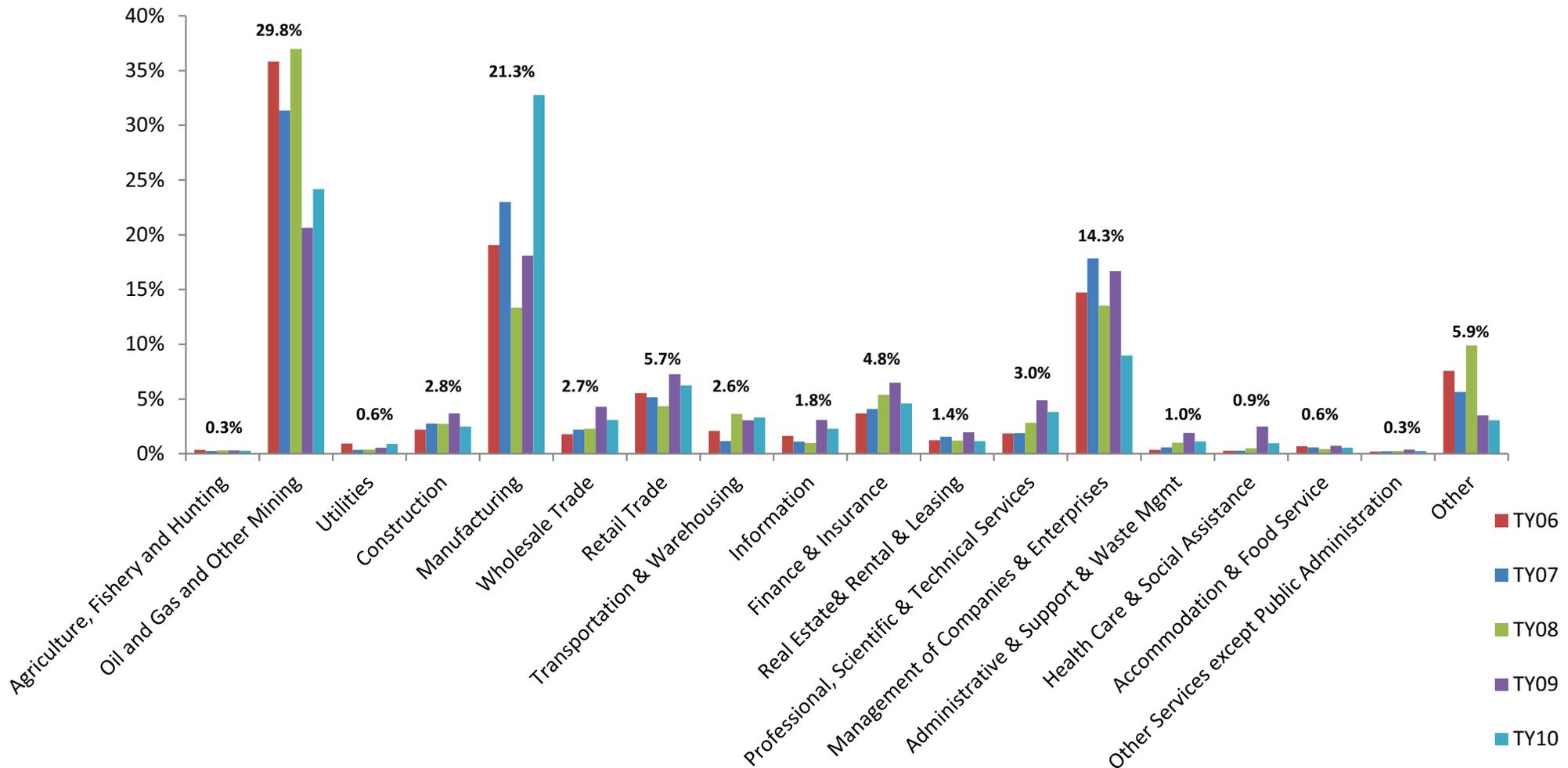
“Growth Sectors” include:

- Manufacturing
- Wholesale Trade
- Finance & Insurance
- Prof., Science & Tech Services



New Mexico Corporate Income Tax Receipts, By Sector

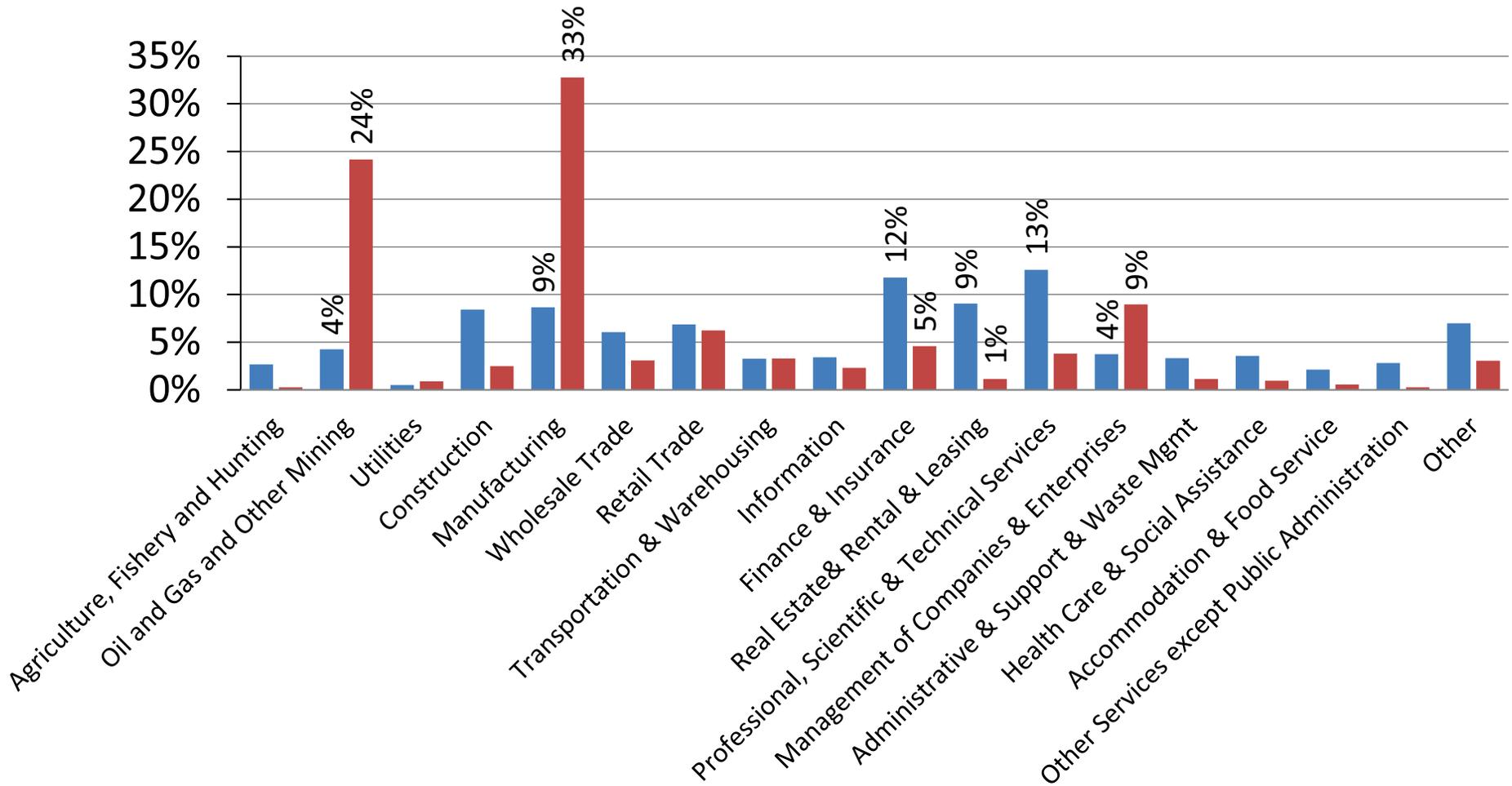
(% is Five-Year Average Percentage of NM CIT Revenues, by Sector)



- Corporations engaged in Oil and Gas, Manufacturing and Management Entities are the dominant corporate taxpayers in New Mexico.
- The Oil and Gas industry's share of total CIT paid has decreased, while the Manufacturing sector's share has increased significantly from TY06-TY10.



Percentage of Firms vs. Percentage of Tax Liability 2010 Tax Year



■ % of Corporations ■ % of CIT Paid



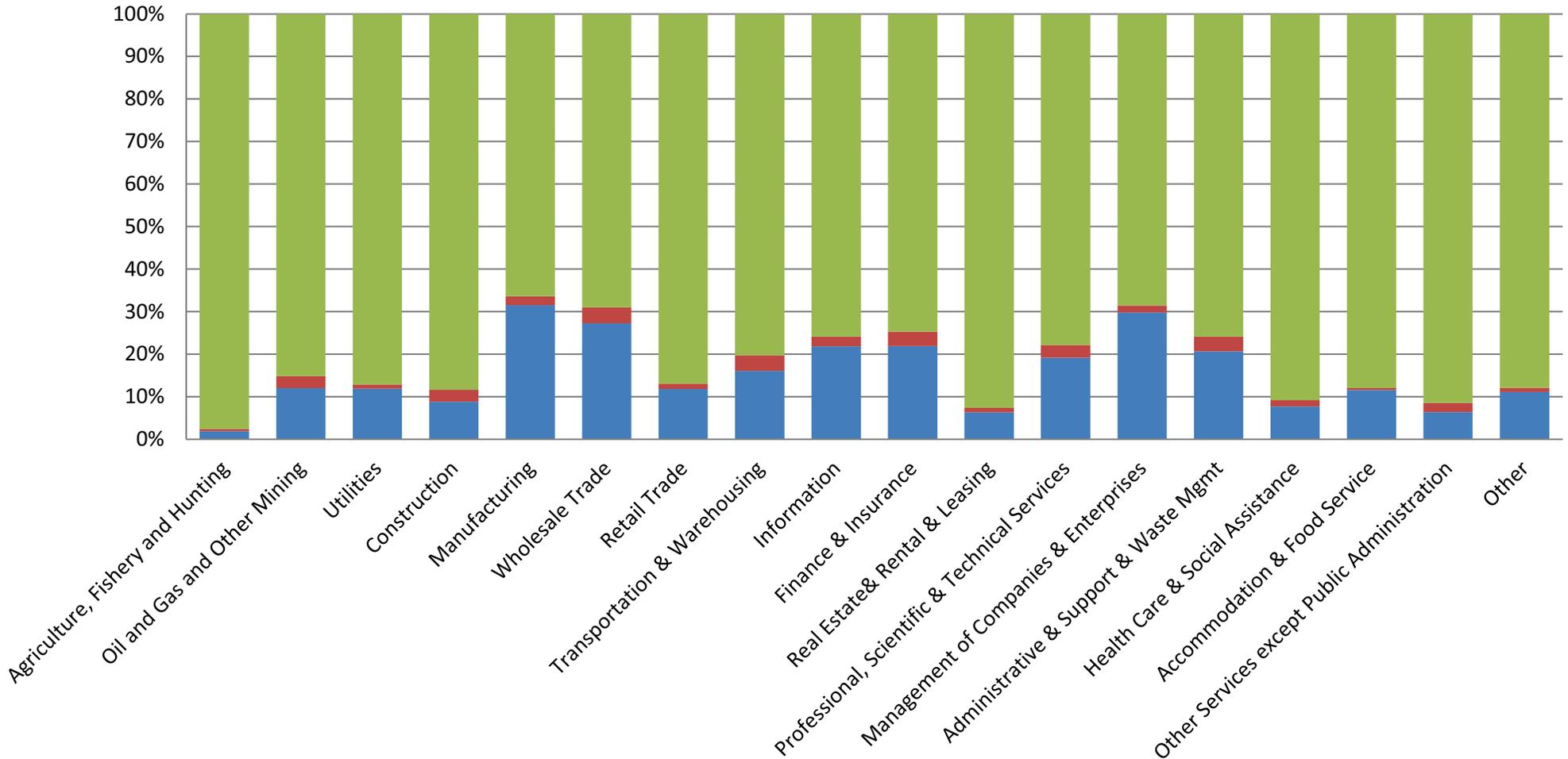
Corporations in Each Income Bracket by Sector

2010 Tax Year Data for All Corporations

2 digit Industry NAICS code	Industry Name	Companies by Income Brackets						
		Taxable Income over \$1,000,000		Taxable Income over \$500,000 but not over \$1,000,000		Taxable Income not over \$500,000		Total
		Count	% of Sector	Count	% of Sector	Count	% of Sector	Count
11	Agriculture, Fishery and Hunting	10	1.9%	3	0.6%	522	97.6%	535
21	Oil and Gas and Other Mining	102	12.0%	24	2.8%	723	85.2%	849
22	Utilities	12	11.9%	1	1.0%	88	87.1%	101
23	Construction	149	8.8%	47	2.8%	1,491	88.4%	1,687
31-33	Manufacturing	547	31.5%	36	2.1%	1,152	66.4%	1,735
42	Wholesale Trade	331	27.3%	45	3.7%	838	69.0%	1,214
44-45	Retail Trade	163	11.9%	17	1.2%	1,194	86.9%	1,374
48-49	Transportation & Warehousing	105	16.1%	24	3.7%	524	80.2%	653
51	Information	149	21.8%	16	2.3%	518	75.8%	683
52	Finance & Insurance	516	21.9%	81	3.4%	1,762	74.7%	2,359
53	Real Estate& Rental & Leasing	115	6.4%	19	1.0%	1,677	92.6%	1,811
54	Professional, Scientific & Technical Services	483	19.2%	76	3.0%	1,961	77.8%	2,520
55	Management of Companies & Enterprises	224	29.8%	12	1.6%	515	68.6%	751
56	Administrative & Support & Waste Mgmt Remediation	138	20.7%	23	3.4%	506	75.9%	667
62	Health Care & Social Assistance	55	7.7%	11	1.5%	648	90.8%	714
72	Accommodation & Food Service	49	11.6%	2	0.5%	372	87.9%	423
81	Other Services except Public Administration	36	6.4%	12	2.1%	514	91.5%	562
99	Other	155	11.1%	14	1.0%	1,228	87.9%	1,397
	Total	3,339	16.7%	463	2.3%	16,233	81.0%	20,035



Distribution of Number of Corporations by Taxable Income Bracket by Industry *2010 Tax Year Data for All Corporations*

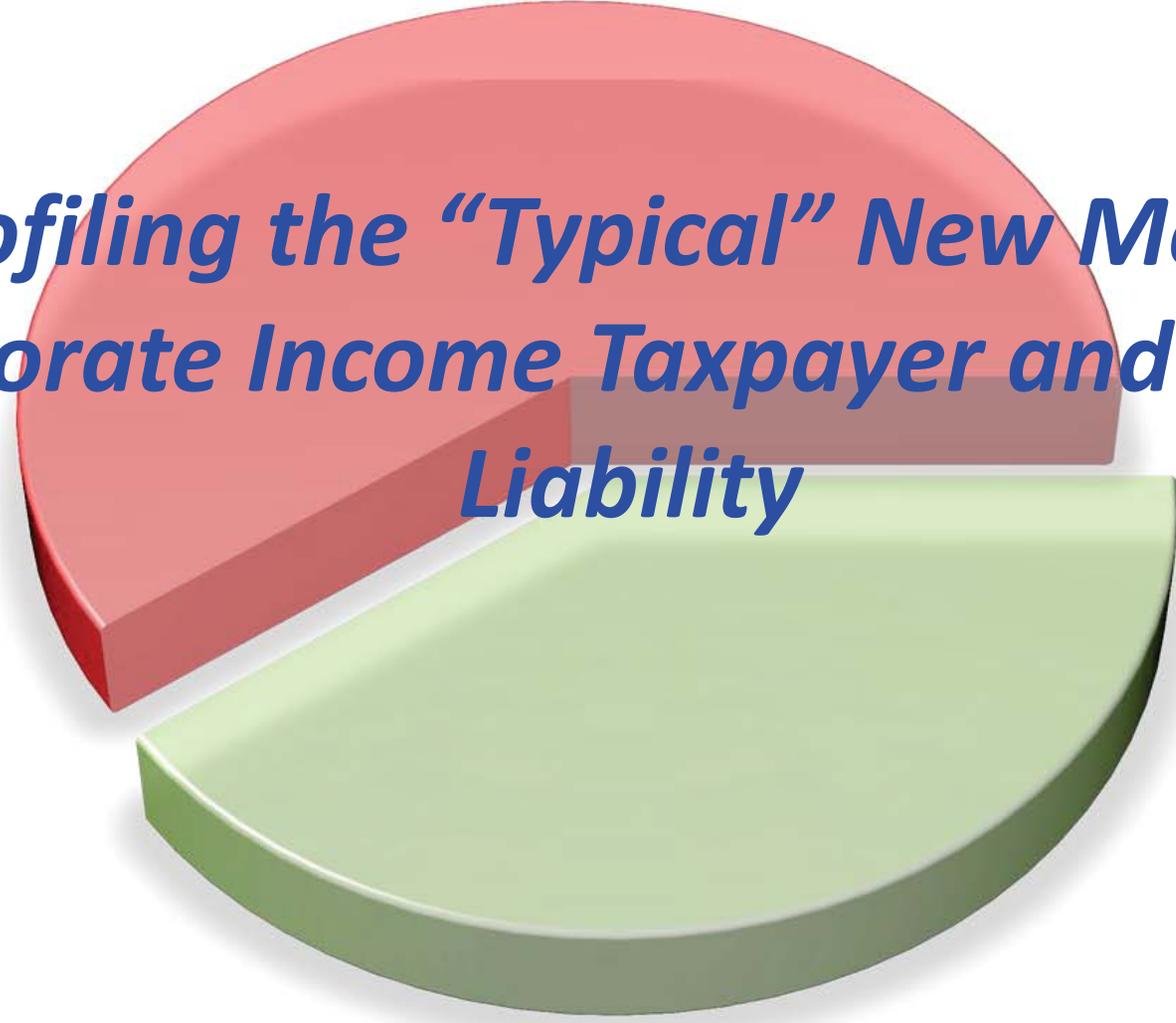


■ Taxable Income over \$1,000,000
 ■ Taxable Income over \$500,000 but not over \$1,000,000
 ■ Taxable Income not over \$500,000



NM Corporate Income Tax

*Profiling the “Typical” New Mexico
Corporate Income Taxpayer and Its Tax
Liability*

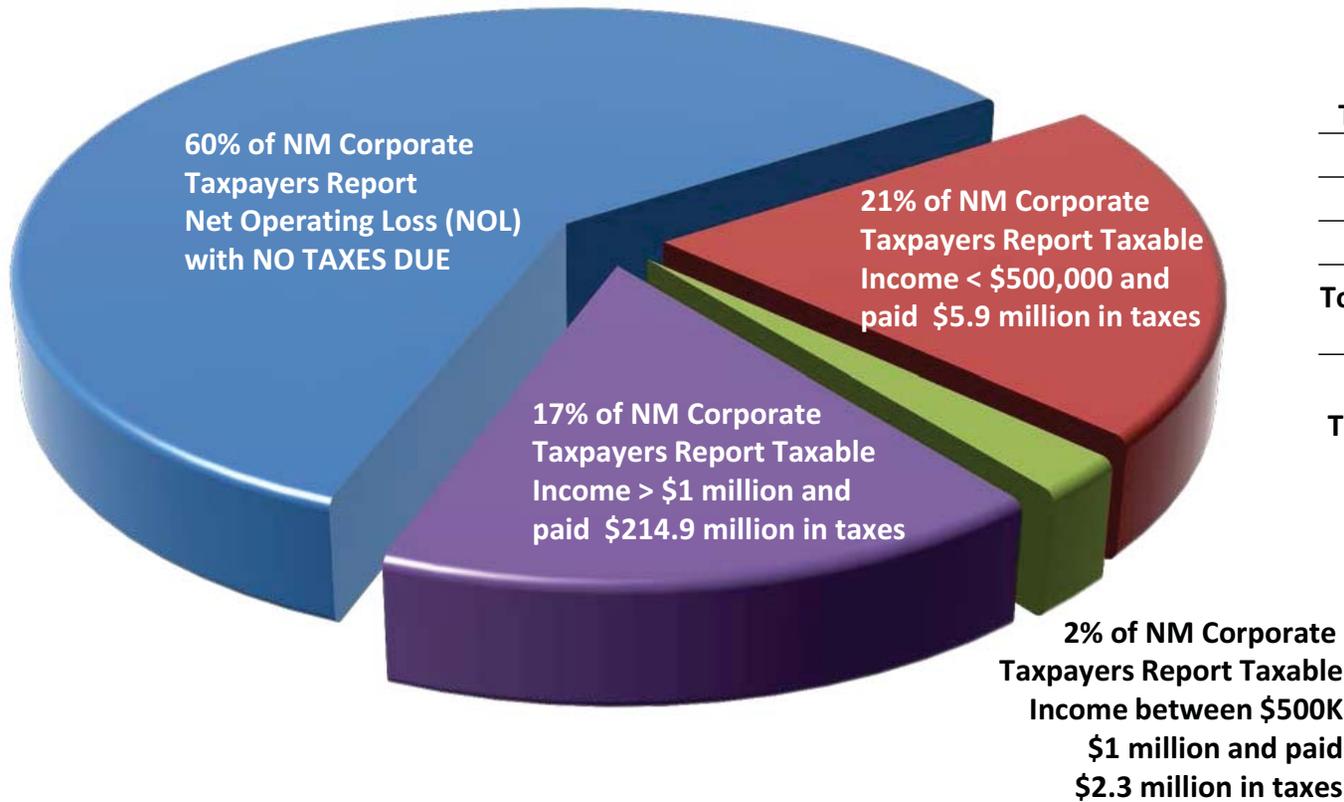


2010 Tax Paid by Filing Method

Tax Year 2010				
Filing Method	Number of Corporations			Corporate Income Tax Liability
	Total	Net Operating Loss (NOL)	Positive Net Taxable Income	
Separate	18,415	11,162	7,253	\$159,676,476
Combined	524	263	261	\$27,924,091
Consolidated	1,093	595	498	\$35,352,562
Total	20,032	12,020	8,012	\$222,953,129



NM Corporate Income Tax Paid in 2010 by Bracket



NM CIT Tax Paid (\$millions) where Taxable Income is . . .			
	Less Than \$500K	Between \$500K and \$1 million	Greater than \$1 million
Tax Rate			
4.80%	\$5.86	\$1.47	\$2.41
6.40%	n/a	\$0.81	\$3.21
7.60%	n/a	n/a	\$209.20
Total Taxes Paid	\$5.86	\$2.27	\$214.82
# of Taxpayers	4,210	463	3,339

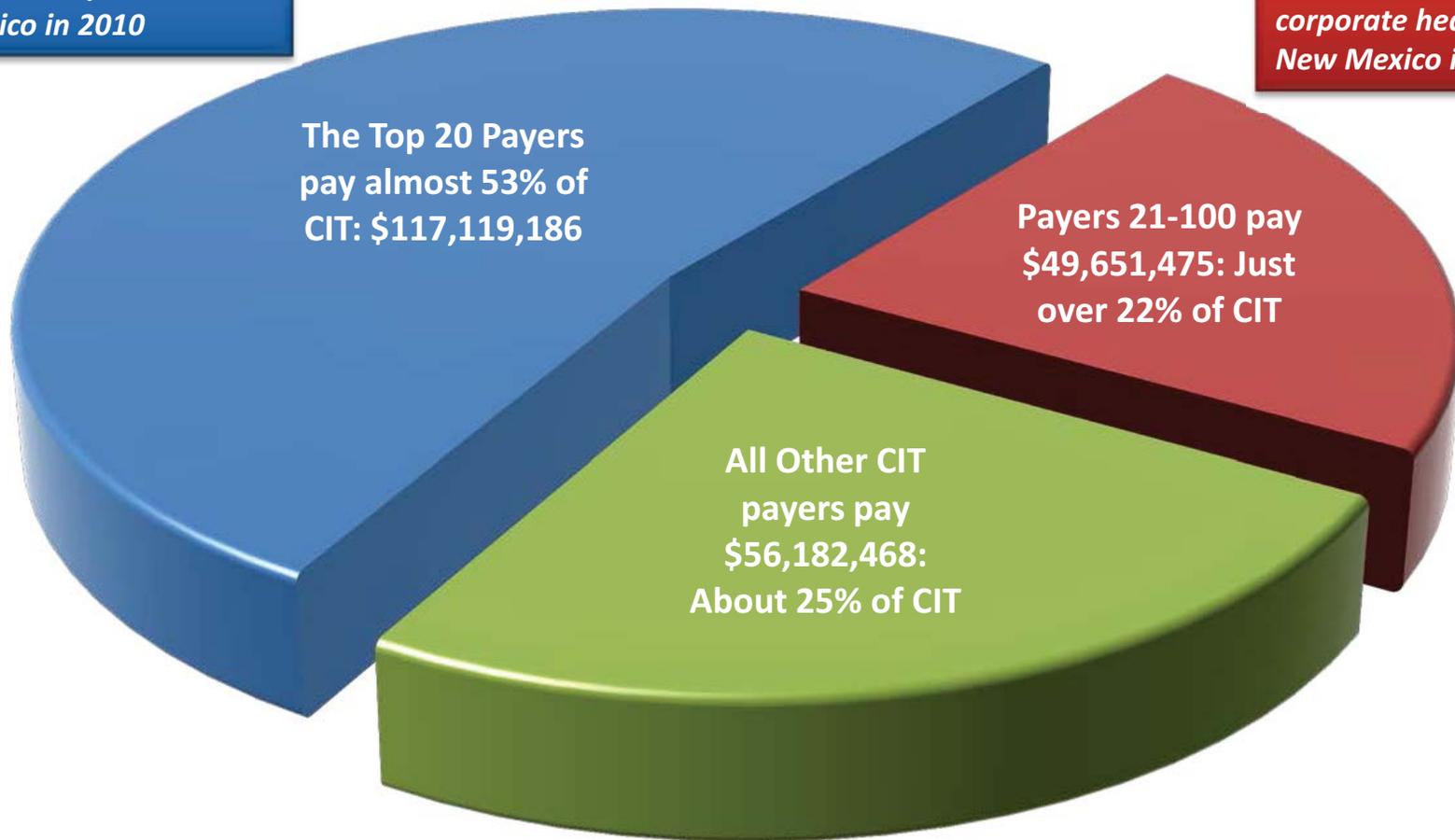


Distribution of CIT Paid By Taxpayer Ranking

Corporations Ranked by Amount of CIT Paid, 2010 Tax Year Data

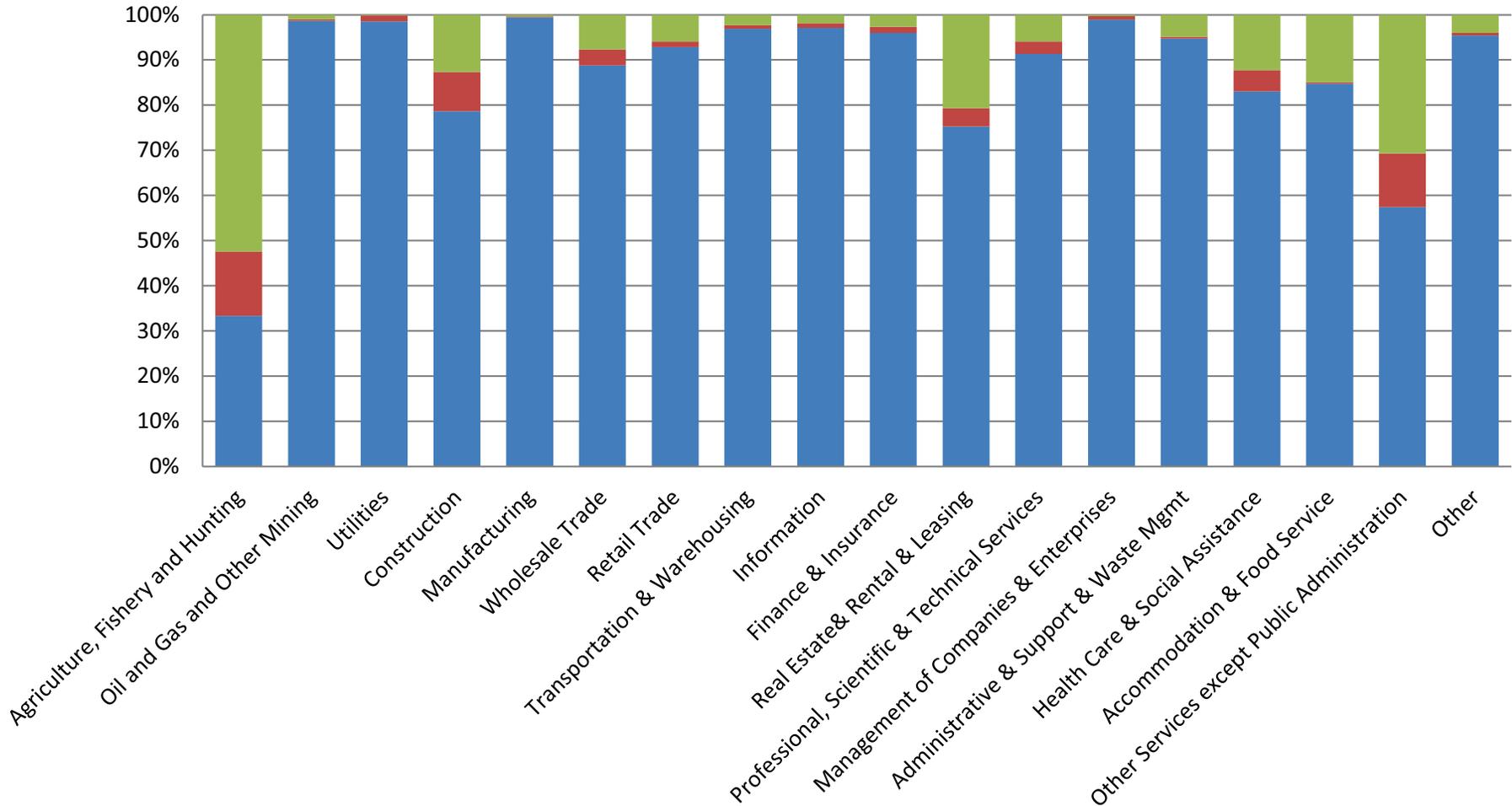
There were NO taxpayers in the Top 20 CIT Payers with corporate headquarters in New Mexico in 2010

There were 4 taxpayers in the Top 100 CIT Payers with corporate headquarters in New Mexico in 2010



Distribution of Tax by Taxable Income Bracket by Industry

2010 Tax Year Data for All Corporations

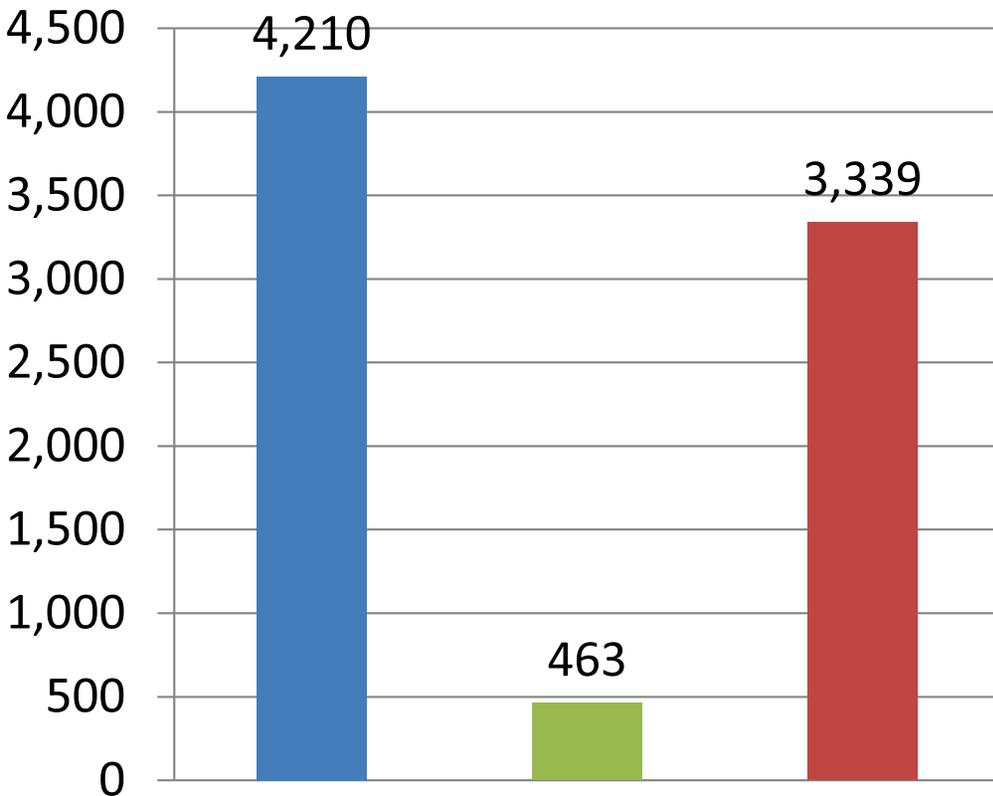


■ Taxable Income over \$1,000,000
 ■ Taxable Income over \$500,000 but not over \$1,000,000
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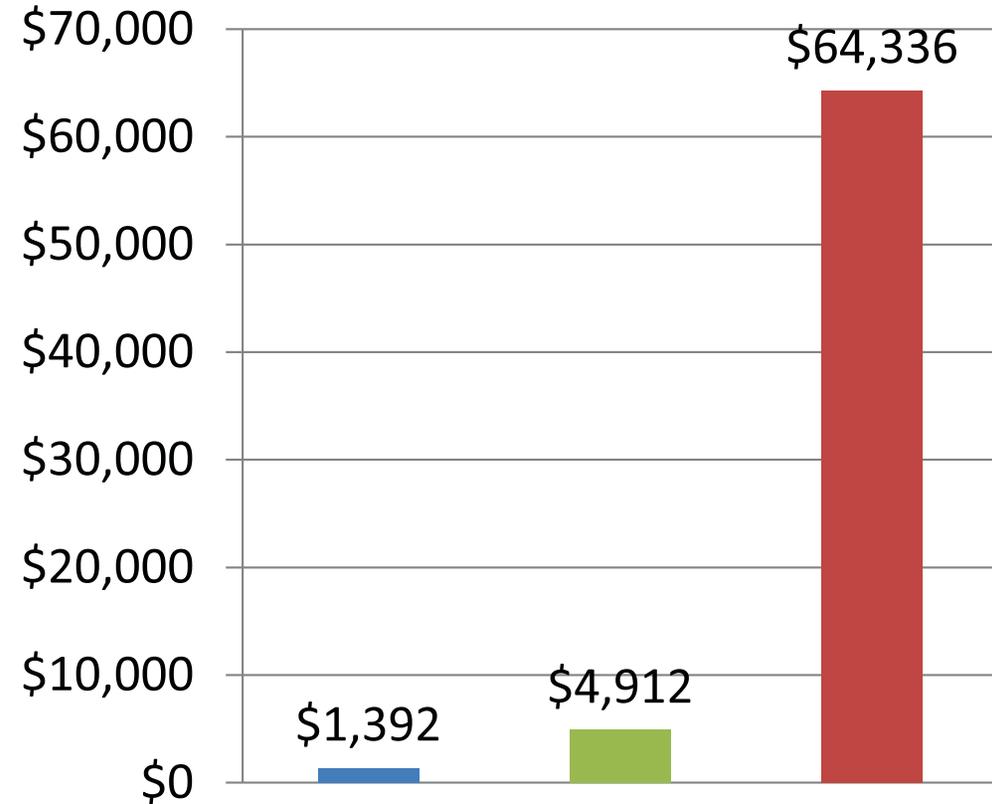


Who is the “Typical” New Mexico CIT Payer?

Number of Taxpayers



Average Tax Liability



■ < \$500k NTI
 ■ \$500k < NTI < \$1m
 ■ > \$1m NTI



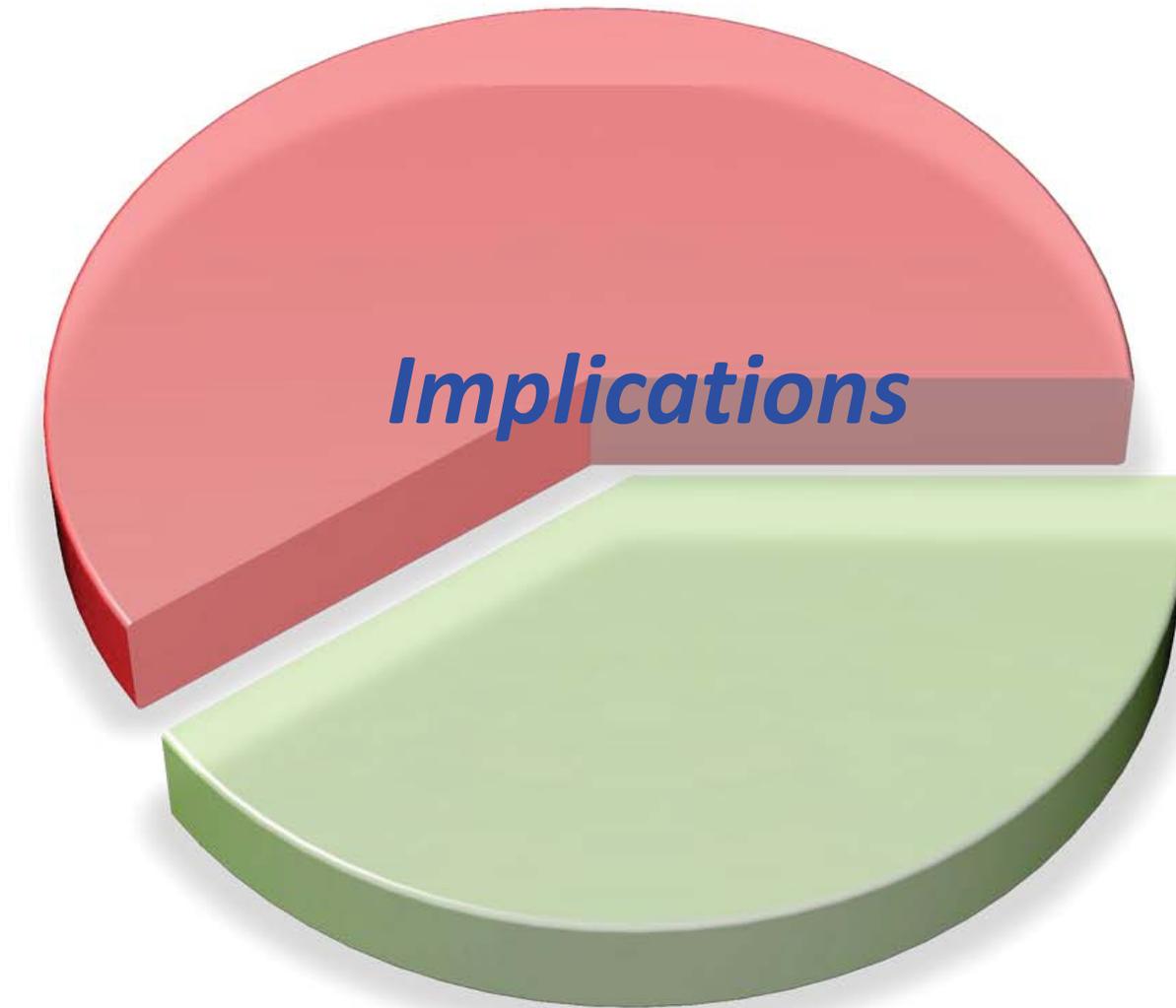
Tax Paid by Corporations by Income Bracket by Industry

2010 Tax Year Data for All Corporations

2 digit Industry NAICS code	Industry Name	Total Income Tax Paid by Companies in Respective Income Brackets			
		Taxable Income over \$1,000,000	Taxable Income over \$500,000 but not over \$1,000,000	Taxable Income not over \$500,000	Total
11	Agriculture, Fishery and Hunting	\$ 199,901	\$ 85,284	\$ 313,950	\$ 599,135
21	Oil and Gas and Other Mining	\$ 53,178,369	\$ 178,296	\$ 535,968	\$ 53,892,633
22	Utilities	\$ 1,986,043	\$ 25,906	\$ 3,462	\$ 2,015,411
23	Construction	\$ 4,354,134	\$ 479,314	\$ 724,186	\$ 5,557,634
31-33	Manufacturing	\$ 72,663,666	\$ 123,559	\$ 278,368	\$ 73,065,593
42	Wholesale Trade	\$ 6,100,692	\$ 244,991	\$ 526,433	\$ 6,872,116
44-45	Retail Trade	\$ 12,899,567	\$ 171,621	\$ 824,954	\$ 13,896,142
48-49	Transportation & Warehousing	\$ 7,134,472	\$ 57,652	\$ 169,872	\$ 7,361,996
51	Information	\$ 4,963,216	\$ 52,777	\$ 94,611	\$ 5,110,604
52	Finance & Insurance	\$ 9,808,769	\$ 139,741	\$ 270,489	\$ 10,218,999
53	Real Estate& Rental & Leasing	\$ 1,931,500	\$ 104,023	\$ 530,165	\$ 2,565,688
54	Professional, Scientific & Technical Services	\$ 7,759,934	\$ 235,079	\$ 503,103	\$ 8,498,116
55	Management of Companies & Enterprises	\$ 19,765,079	\$ 152,515	\$ 57,955	\$ 19,975,549
56	Administrative & Support & Waste Mgmt	\$ 2,410,570	\$ 9,817	\$ 123,893	\$ 2,544,280
62	Health Care & Social Assistance	\$ 1,770,424	\$ 100,309	\$ 261,814	\$ 2,132,547
72	Accommodation & Food Service	\$ 1,071,010	\$ 4,540	\$ 188,680	\$ 1,264,230
81	Other Services except Public Administration	\$ 332,381	\$ 68,820	\$ 177,697	\$ 578,898
99	Other	\$ 6,489,172	\$ 39,935	\$ 274,451	\$ 6,803,558
Total		\$ 214,818,899	\$ 2,274,179	\$ 5,860,051	\$ 222,953,129

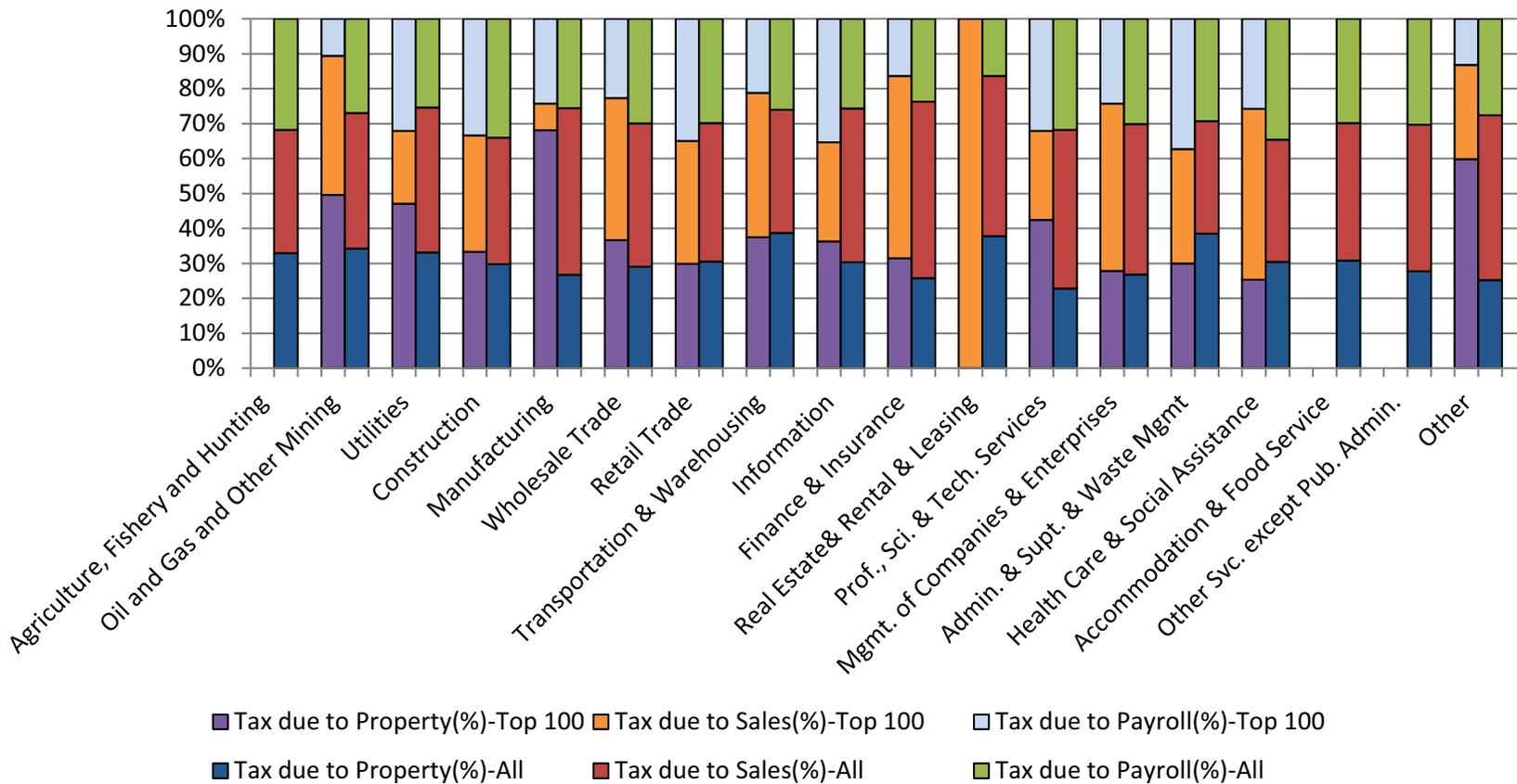


NM Corporate Income Tax



Percentage NM Corporate Income Tax Paid by Each Apportionment Factor by Industry

Comparison of All Corporations and the 100 Largest Taxpayers 2010 Tax Year Data



- The top 100 companies have a different tax liability distribution. For one, most of the Tax liability is not due to the Sales Factor. For the Manufacturing and Oil & Gas Industries a large chunk of the tax liability comes from the property factor.
- No top 100 taxpayers in the following industries: Agriculture, Fishery and Hunting; Accommodation & Food Service; Other Services except Public Administration.

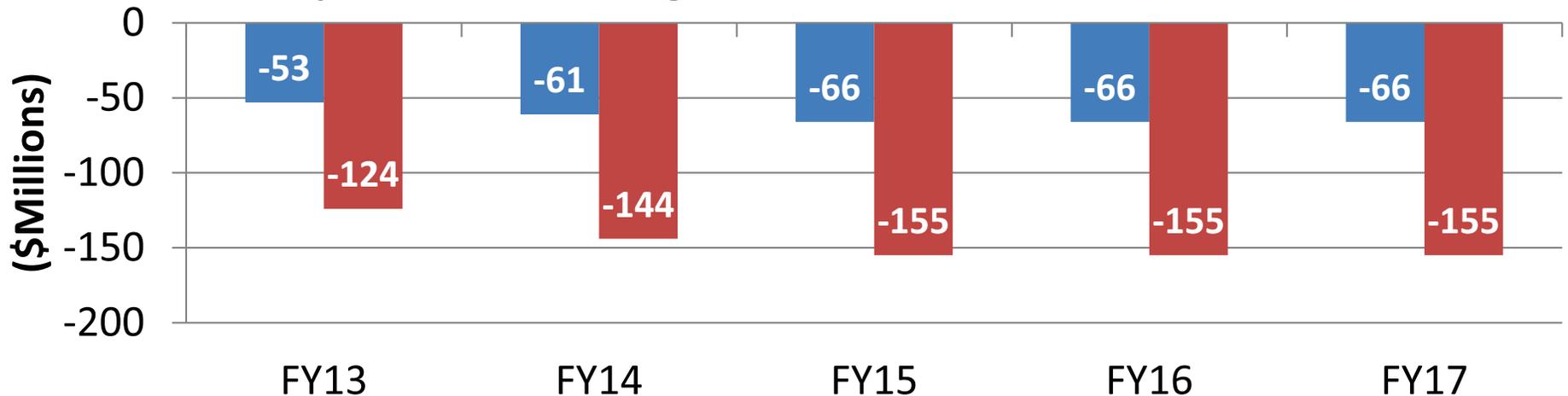


Projected Impact of Changing CIT Rates

Projections Made Using August 2012 Forecast Amounts for CIT as Baseline

	1 st Bracket	2 nd Bracket	3 rd Bracket	Average Rate
Ratio of Apportioned Tax by Rate	4.56%	1.96%	93.48%	
Current Law	4.80%	6.40%	7.60%	7.45%
Reducing Top Bracket to 6.40%	4.80%	6.40%	6.40%	6.33%
Flat 4.80%	4.80%	4.80%	4.80%	4.80%

Projected CIT Change From Baseline Under Each Scenario



■ 6.40% Top Rate

■ 4.80% Flat Rate

