



NEW MEXICO
LEGISLATIVE
FINANCE
COMMITTEE

New Mexico's Distributional Tax Structure: Proposals in Context

Ismael Torres, Chief Economist
Jennifer Faubion, Senior Economist
New Mexico Legislative Finance Committee

October 14, 2026

This briefing describes the landscape of New Mexico taxes and who pays those taxes.

Included

- How each tax works today, who bears it, and what it funds
- A standard set of reductions for each tax
- Who would receive the relief
- FY27 revenue and spending

Not included

- An evaluation or endorsement of any bill proposal
- Dynamic or behavioral effects; all costs are static
- How a reduction would be paid for: other revenue, spending reductions, or reserves



A tax system is judged on several criteria at once, and each proposal may have criteria in conflict.

Adequacy

Raises enough to fund commitments and grows with the economy

Stability

Predictable through booms and busts, including oil and gas cycles or recessions

Equity

Vertical: burden relative to ability to pay. Horizontal: like people treated alike

Efficiency

Achieves its purpose with the least cost at the highest marginal return

Simplicity

Easy to comply with, administer, and see

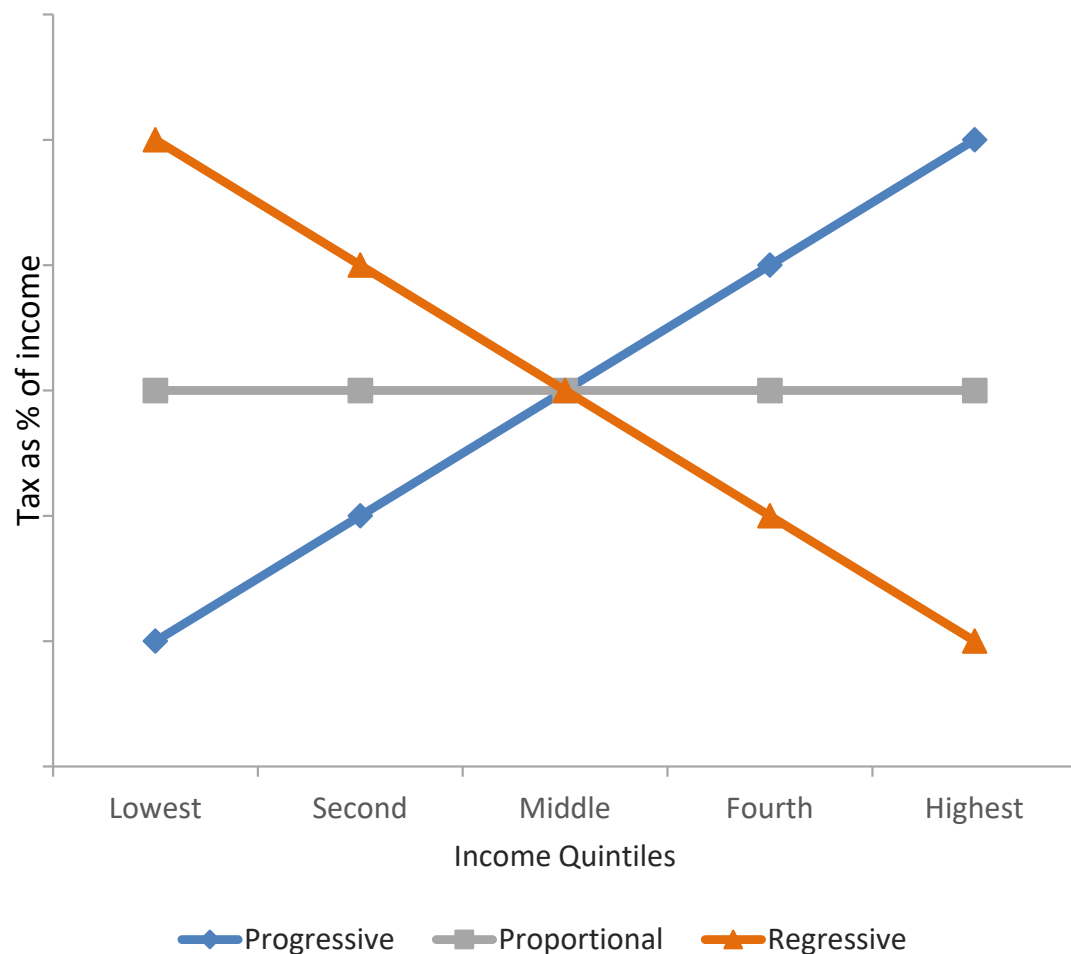
Exportability

Share paid by nonresidents: visitors, out-of-state owners, federal contracts

Look at each tax and the system as a whole. A regressive tax can be offset by progressive features elsewhere, and cutting one tax shifts the mix toward the others.



Progressivity describes how a tax's burden changes as a share of income.



Progressive

Taxes' share of income rises as income rises. Example: New Mexico's income tax, with brackets and refundable credits.

Proportional

Same share at every income, like a flat tax with no exemptions.

Regressive

Taxes' share of income falls as income rises. Sales taxes like the GRT, because lower-income households spend more of what they earn on taxable consumption.

These terms describe shares, not dollars: higher-income households pay more dollars of nearly every tax.



Illustrative chart, not New Mexico data.

The business or person that remits a tax is not always the one who bears its cost.

STATUTORY INCIDENCE

Who remits it

- GRT: the seller
- PIT: the individual
- Property tax: the owner

ECONOMIC INCIDENCE

Who bears it

- Taxes shift through prices, wages, and returns
- GRT is passed on to the buyer
- A PTE may pay the tax but lower returns to shareholders may somewhat pass it on
- Tenants bear part of the property tax on rentals

TAX EXPORTING

Who outside NM pays

- Visitors
- Out-of-state owners of oil and gas and other property
- Federal government and federal contractors, such as the national laboratories

Implication: the revenue cost of a tax cut and the relief New Mexico households receive may not be the same number.



Source: EY/GSU study of the GRT, compensating tax and PIT for RSTP (2018); ITEP, Who Pays? 7th ed. (2024)

Each of these taxes funds government at different levels.

Tax	FY28 Est. State general fund	Local governments	What depends on it
Gross receipts	\$4.83B	\$3.1B local option + \$0.76B state-shared	Largest GF source; county and city budgets; local rates use the state base and collection
Personal income	\$2.27B	None	GF; delivers refundable credits (WFTC, child tax credit, LICTR)
Property	\$0.15B (GO bond debt)	\$2.98B	School capital and debt, counties, cities, hospitals, colleges; secures GO bonds

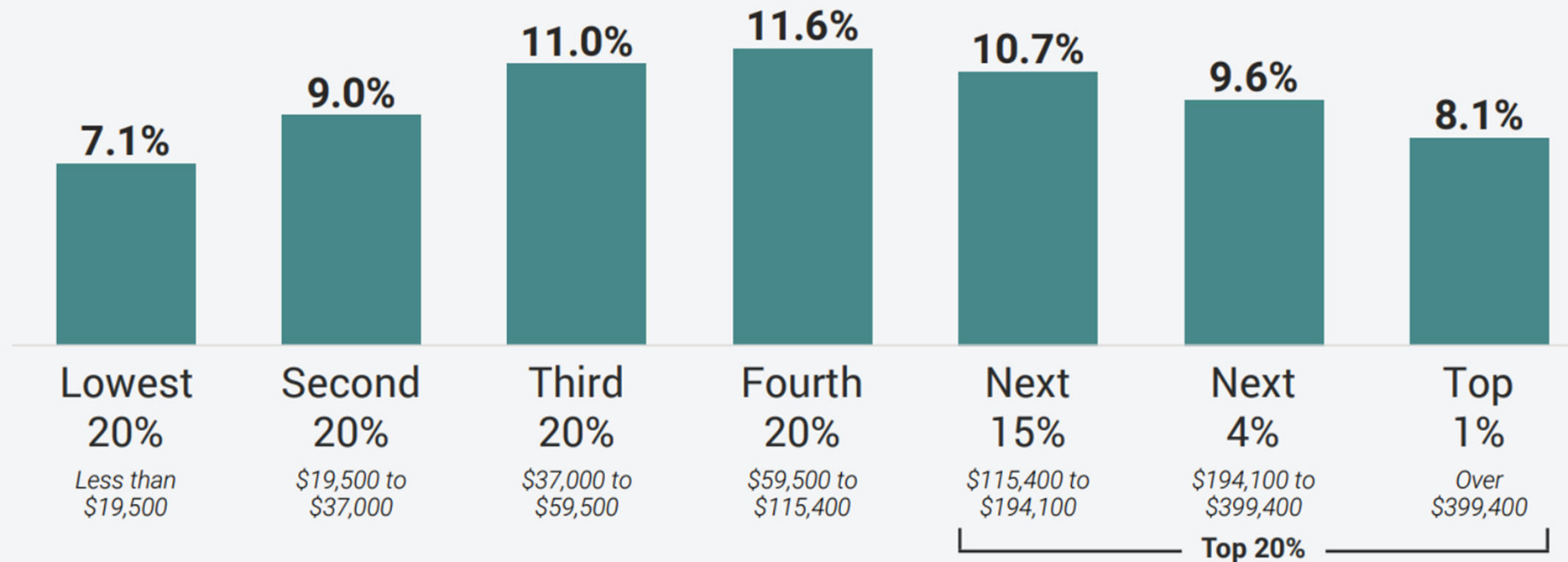


Source: Aug. 2026 CREG; TRD RP-500 via LFC GRT file (FY26); DFA Property Tax Facts (TY2025); TRD analyses (2026)

New Mexico's overall system is progressive at the bottom and regressive at the top.

Total Taxes

Share of family income



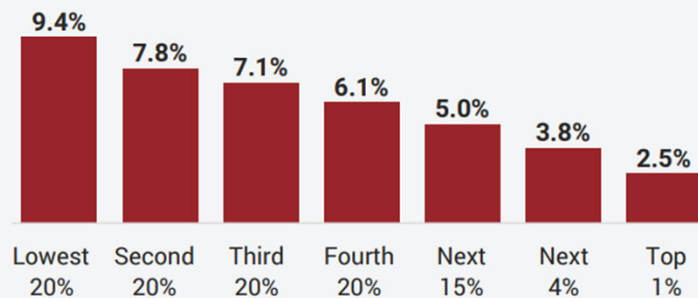
Source: ITEP, *Who Pays?* 7th ed. (Jan. 2024); non-elderly families

New Mexico's overall system is determined by the distribution of tax incidence in each tax program.



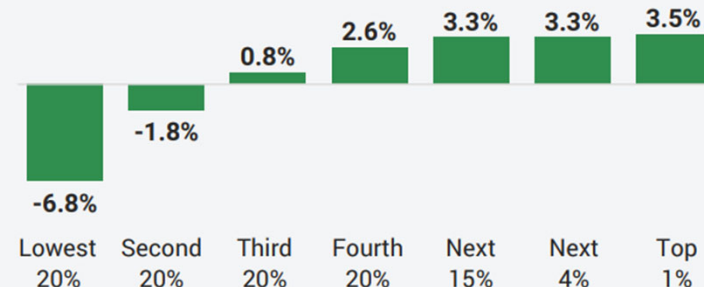
Sales & Excise Taxes

Share of family income



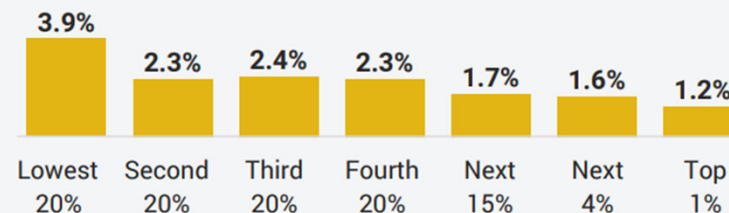
Personal Income Taxes

Share of family income



Property Taxes

Share of family income



Source: ITEP, *Who Pays?* 7th ed. (Jan. 2024)

Nationally, New Mexico ranks mid-pack overall on total burden/competitiveness, first on property tax and weaker on income and sales taxes.

State	Overall	Corporate	Individual income	Sales	Property	Unemp. insurance
New Mexico	28	23	37	38	1	17
Arizona	14	13	9	45	10	1
Colorado	33	20	21	39	34	40
Oklahoma	19	4	29	32	11	6
Texas	7	46	1	36	38	31
Utah	15	12	10	26	14	29
Nevada	20	39	8	41	9	47
California	48	41	49	46	27	26
Oregon	35	49	41	4	28	41
Hawaii	41	27	45	29	15	43
<i>50-state median</i>	25	25	25	25	25	25

Rank color scale:

1 (best)

13

25

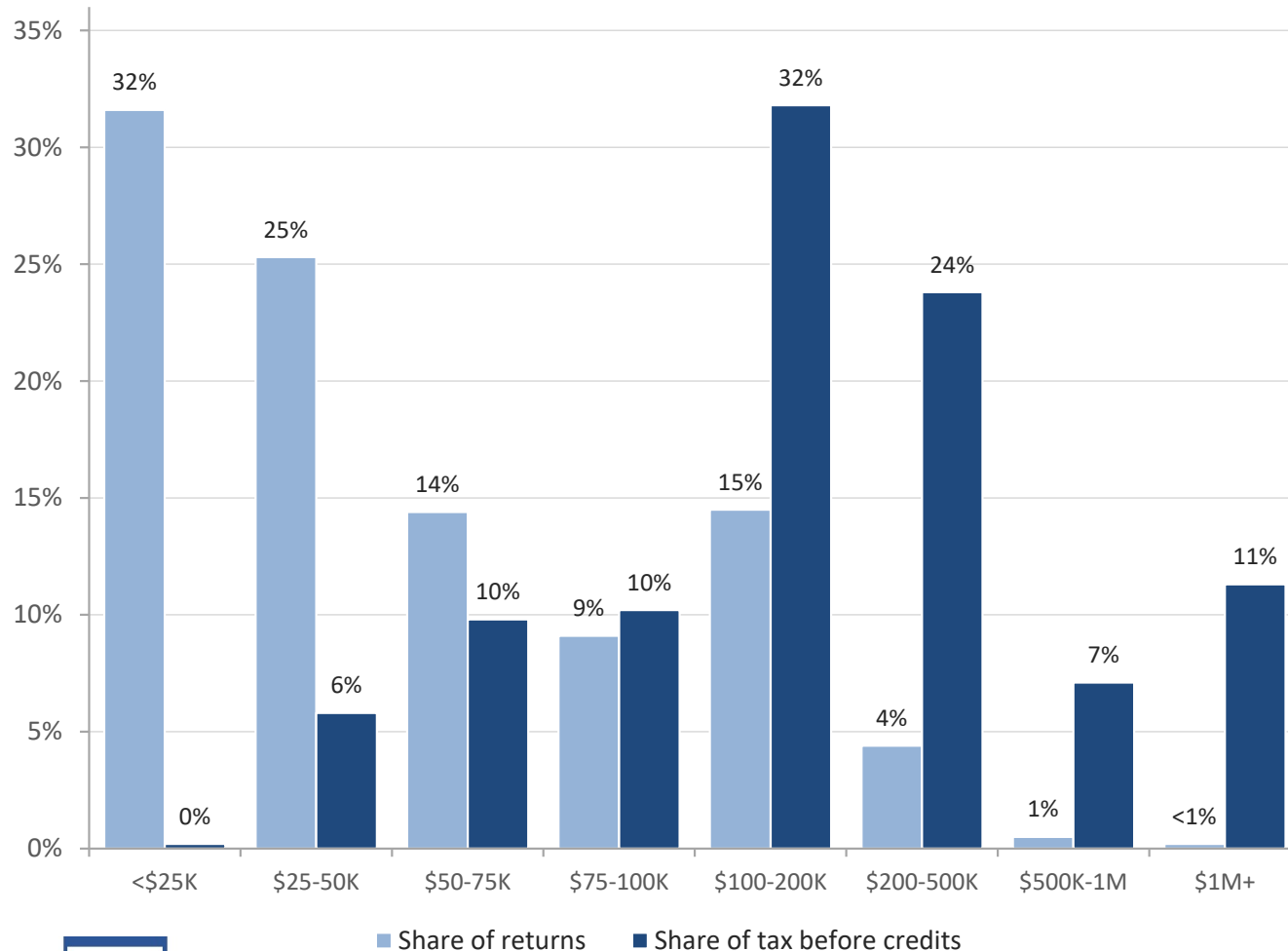
38

50 (worst)



Source: Tax Foundation, 2026 State Tax Competitiveness Index; peer set from EY/GSU study for RSTP (2018)

The income tax is concentrated at higher incomes and is also how New Mexico delivers refundable credits.



20% → 74%

Returns over \$100K: 20% of returns, 74% of tax before credits

57% → 6%

Returns under \$50K: 57% of returns, 6% of tax

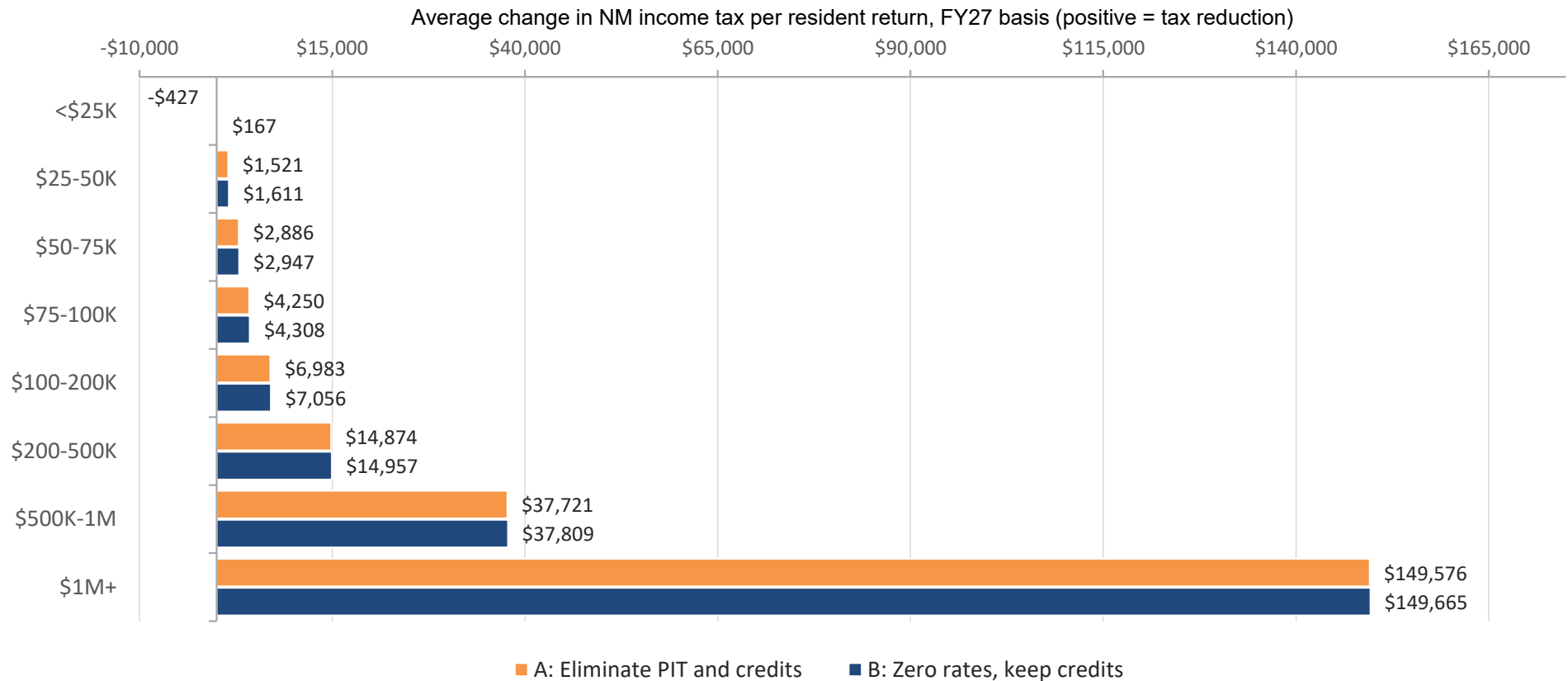
\$322M

Refundable WFTC, child tax credit and LICTR paid through the PIT in FY25



Source: TRD PIT returns by AGI (TY2023) and by taxable income (TY2024); TRD 2025 Tax Expenditure Report

Looking at who pays currently informs how much each filer could benefit under tax changes.



NM taxable income groups, TY2024. FY27 cost: A \$2.25B; B \$2.60B. Under A, returns under \$25K pay about \$427 more on average; under B they gain about \$167.



Source: LFC analysis of TRD TY2024 returns by taxable income, 2025 Tax Expenditure Report and Aug. 2026 CREG

Changes to the income tax should consider the interaction with refundable tax credits.

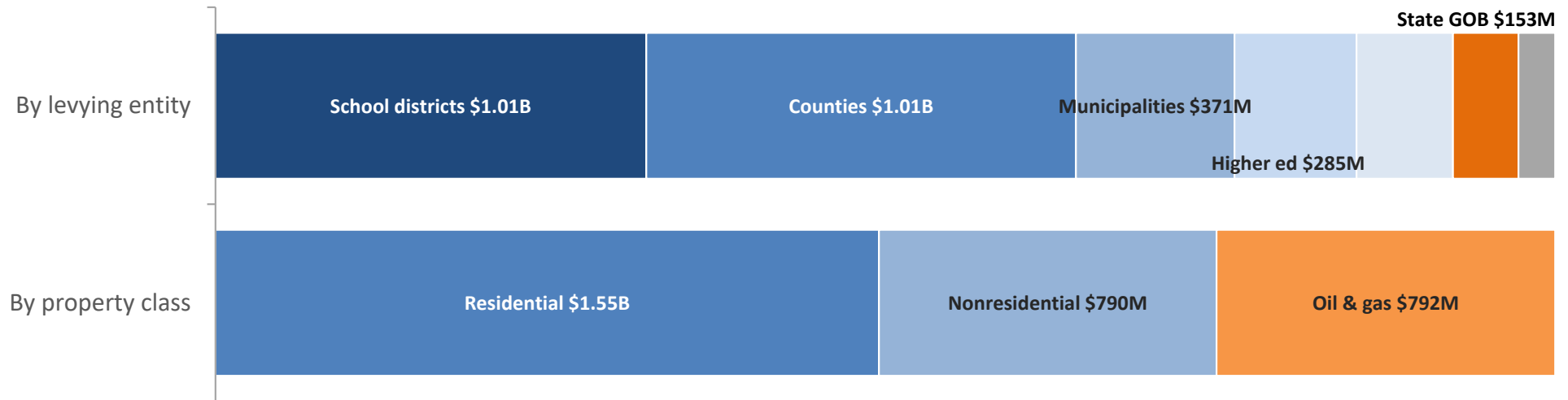
Taxable income (TY2024)	Cut 25%	Cut 50%	A: Eliminate PIT and credits	B: Zero rates, keep credits
Under \$25K	\$42	\$84	-\$430 (pays more)	\$170
\$25K–50K	\$400	\$810	\$1,520	\$1,610
\$50K–75K	\$740	\$1,470	\$2,890	\$2,950
\$75K–100K	\$1,080	\$2,150	\$4,250	\$4,310
\$100K–200K	\$1,760	\$3,530	\$6,980	\$7,060
\$200K–500K	\$3,740	\$7,480	\$14,870	\$14,960
\$500K–1M	\$9,450	\$18,900	\$37,720	\$37,810
Over \$1M	\$37,420	\$74,830	\$149,580	\$149,670
FY27 cost	\$650M	\$1.30B	\$2.25B	\$2.60B

Relief is per return; under scenario A, families now receiving more in credits than they owe would lose those payments.



Source: LFC analysis of TRD TY2024 returns by taxable income, 2025 Tax Expenditure Report and Aug. 2026 CREG

Property tax is mostly a local revenue source; the state levies it only to repay bonds.



Smaller levies: hospitals \$226M, state GO bond debt \$153M, conservancy districts \$86M.

\$3.14 billion

Levied in TY2025; residential alone is \$1.55B

3.9% vs 1.2%

Share of income, lowest 20% vs top 1% (ITEP; renters bear part)

Considerations

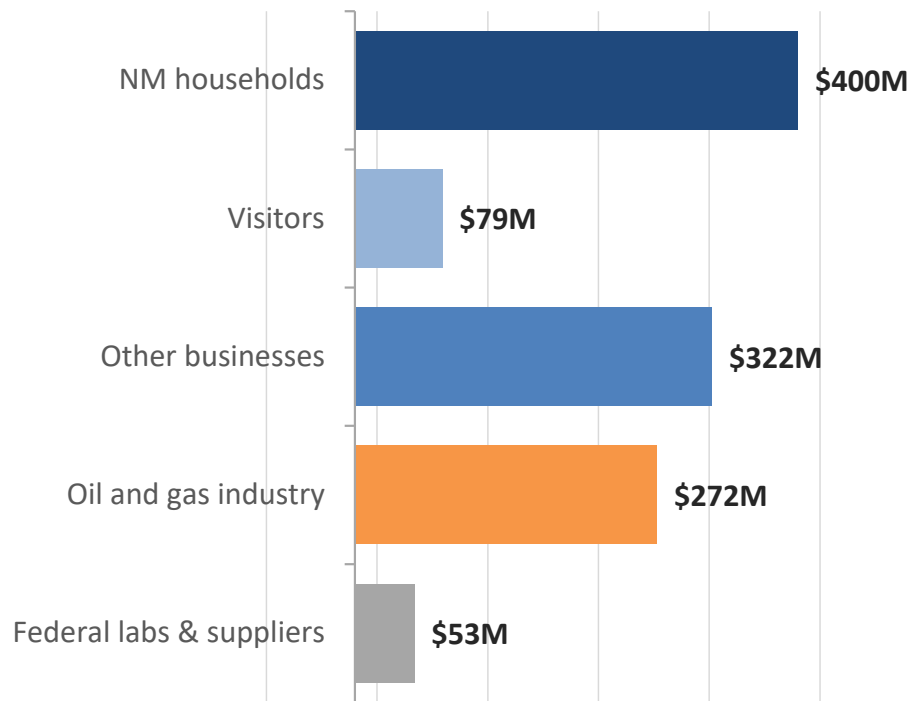
Cuts tend to raise home values, favoring current owners; GO bonds are repaid from these levies.



Source: DFA, Property Tax Facts, TY2025; ITEP, Who Pays? 7th ed. (2024)

Preliminary staff research shows about 35 cents of each GRT rate-cut dollar would go directly to New Mexico households.

Who buys the GRT base	Share
NM households	35%
Visitors	7%
Other businesses	29%
Oil and gas	24%
Federal labs & suppliers	5%



Household income group	Avg. relief	% of income
Lowest 20%	\$109	1.07%
Second 20%	\$267	0.98%
Middle 20%	\$424	0.90%
Fourth 20%	\$640	0.78%
Next 15%	\$874	0.61%
Next 4%	\$1,119	0.43%
Top 1%	\$1,501	0.23%

Per household, relief is larger as a share of income at the bottom and larger in dollars at the top.

Relief from a one-point state rate cut (general fund cost \$1,126M)

Each quarter point of the state rate costs about \$288M including compensating tax; NM households receive roughly \$100M of it directly, about \$120 per household on average.



Source: LFC analysis of TRD RP-500 (FY26), EY/GSU (2018), ITEP (2024), LANL, Sandia and NM Tourism reports

Standard GRT scenarios range from about \$300 million to \$4.8 billion in general fund cost.

Scenario (state rate 4.875%)	GF GRT	Comp. tax	GF total	Local
Cut state rate 1/4 point	\$282M	\$6M	\$288M	None
Cut state rate 1 point	\$1.13B	\$24M	\$1.15B	None
Exempt retail trade	\$858M	n/a	\$858M	\$211M
Exempt business purchases of services	\$563M	n/a	\$563M	\$85M
Eliminate GRT	\$4.71B	\$114M	\$4.83B	\$759M

Who receives retail relief

Households 79% (including visitors), other businesses estimated at 11%, oil and gas estimated at 10% of retail receipts.

Who receives services relief

Business purchases of NAICS 51–56 services: other businesses 76%, oil and gas 19%, federal lab suppliers 5%; households none directly.

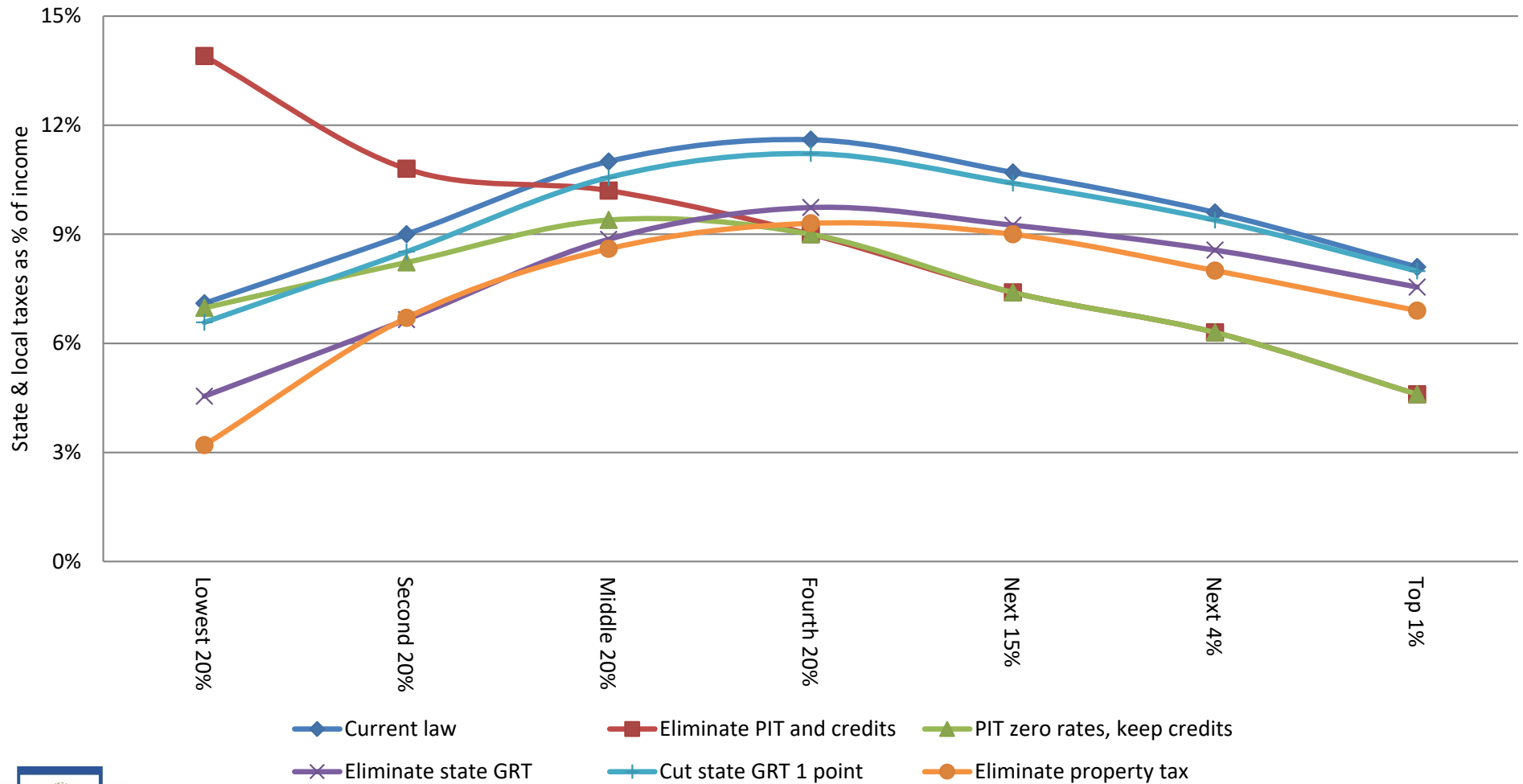
Local interaction

Local GRT shares the state base and collection; exemptions to the tax base also lower local revenues from both their own increments and by reducing the 1.225% municipal distribution.



Source: LFC analysis of Aug. 2026 CREG and TRD RP-500 (FY26)

Removing the income tax would make the system regressive; removing the GRT or property tax, more progressive.



Source: LFC analysis of ITEP, Who Pays? 7th ed. (2024) and TRD PIT data; illustrative, no replacement revenue assumed

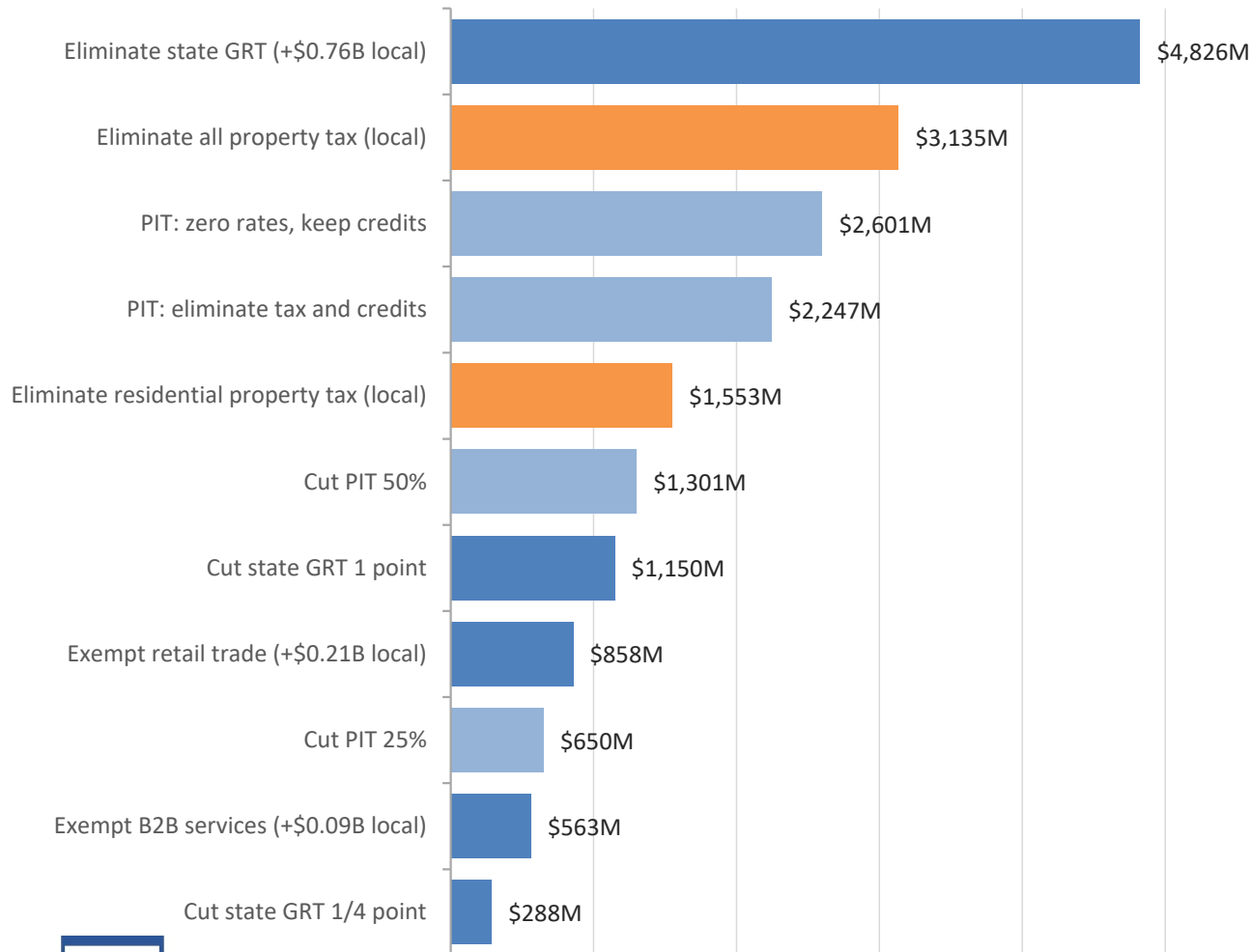
Summary: the options differ in cost, in who gains, and in who else shares the relief.

Option	FY27 cost	Most relief vs. income	Most relief in dollars	Relief also reaches
Cut state GRT 1 point	\$1.15B	Lower incomes	Higher incomes	Oil & gas 24%, federal 5%, visitors 7%
Exempt retail trade	\$858M	Lower incomes	Higher incomes	Oil & gas (10%), visitors, other businesses (11%)
Exempt B2B services	\$563M	Roughly even among businesses	Higher incomes	Businesses, oil & gas
Eliminate state GRT	\$4.83B	Lower incomes	Higher incomes	Oil & gas, federal, visitors
Cut PIT 25% Across the Board	\$650M	Higher incomes	Higher incomes	Federal tax (itemizers)
Eliminate PIT and credits*	\$2.25B	Higher incomes	Higher incomes	Nonresident filers
PIT zero rates, keep credits	\$2.60B	Higher incomes	Higher incomes	Nonresident filers
End residential property tax	\$1.55B	Lower incomes [†]	High-value homes	Second-home owners
Eliminate all property tax	\$3.14B	Lower incomes [†]	Higher incomes	Oil & gas, businesses, second-home owners



Source: LFC analysis (slides 9–18). *Bottom 40% would pay more if refundable credits ended with the tax.
[†]ITEP incidence; renters bear part. Property tax is local revenue.

The main sources of general fund revenue are comparable to entire areas of the recurring budget.



FY27 reference	Amount
Public schools	\$4.75B
HHS	\$3.08B
Higher ed	\$1.52B
Capital Outlay	\$1.3B
GF Transportation	\$0.2B

Reserves can bridge a cut for a time; a recurring cut needs recurring revenue or spending changes.

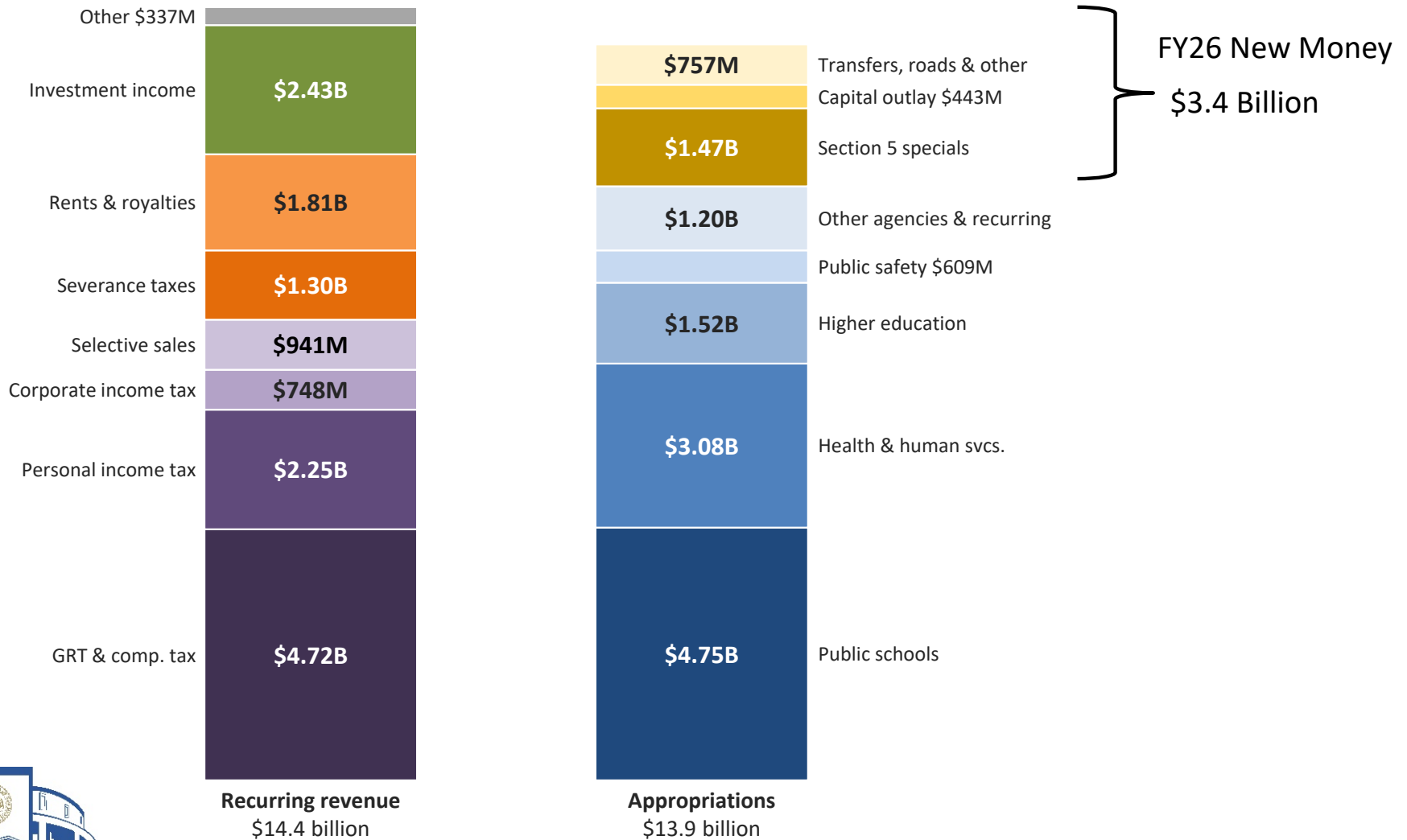
Shrinking GRT or PIT raises reliance on oil and gas and investment income.



NOTE: Property tax costs are as of TY2025 – current or future year costs are significantly higher.

Source: LFC analysis; Aug. 2026 CREG and GFFS; GAA of 2026; DFA; TRD

Economy-based taxes fund 46 percent of the general fund; oil and gas related activity and investments cover the rest.



Source: August 2026 CREG and GFFS; General Appropriation Act of 2026; LFC analysis

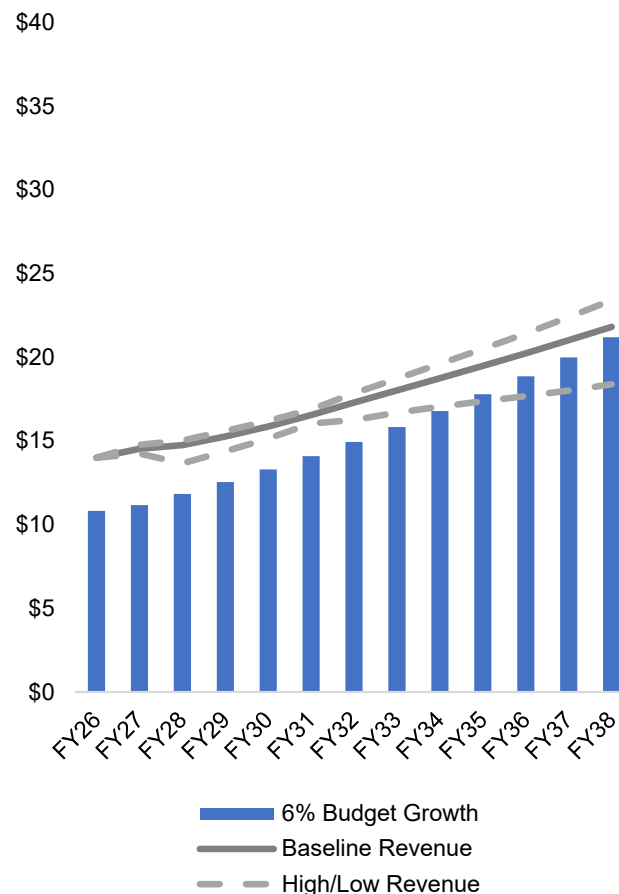
Long-term revenue estimates show there are different runways on deficits based on spending/tax cut scenarios.

**3% Liability Growth and Revenues
(in billions)**



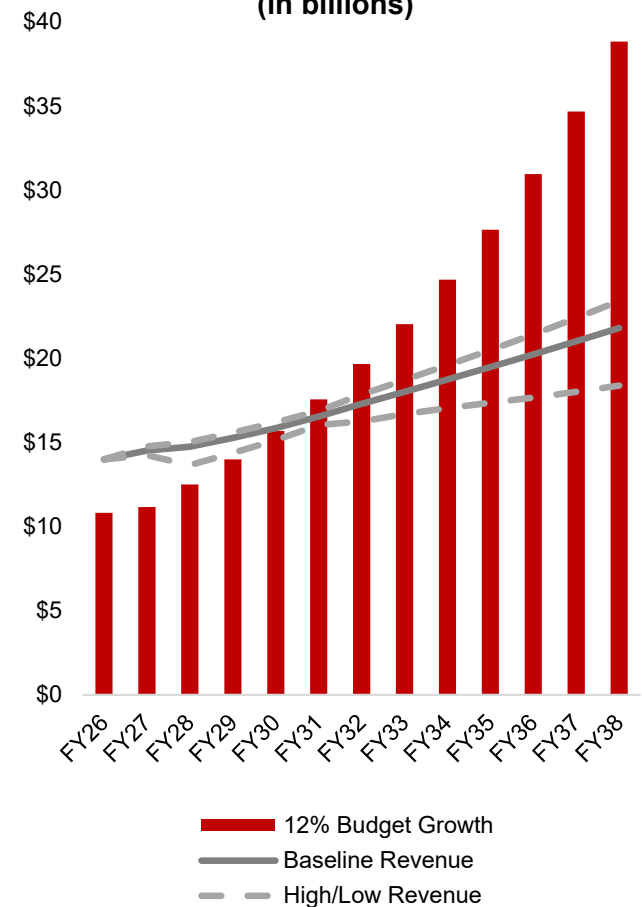
Source: LFC Analysis of 2026 Long-Term CREG

**6% Liability Growth and Revenues
(in billions)**



Source: LFC Analysis of 2026 Long-Term CREG

**12% Liability Growth and Revenues
(in billions)**



Source: LFC Analysis of 2026 Long-Term CREG

So far, agencies have requested 15.7% budget growth, without complete PED or Higher Education Institution requests which are due late in the fall.

General Fund FY27 Op Bud and FY28 Requests (as of Sept. 15, 2026, in thousands)				
	FY27 Op Bud	FY28 Request	Increase	Percent Change
Legislative	\$ 16,650.2	\$ 17,003.8	\$ 353.6	2.1%
Judicial	\$ 498,585.4	\$ 575,359.9	\$ 76,774.5	15.4%
General Control	\$ 235,748.2	\$ 295,069.8	\$ 59,321.6	25.2%
Commerce and Industry	\$ 115,579.4	\$ 124,473.4	\$ 8,894.0	7.7%
Ag, Energy, Natural Resources	\$ 147,782.2	\$ 178,174.5	\$ 30,392.3	20.6%
Healthcare and Communities	\$ 3,085,965.8	\$ 3,506,599.1	\$ 420,633.3	13.6%
Public Safety	\$ 611,682.3	\$ 689,696.0	\$ 78,013.7	12.8%
Public School Support	\$ 95,430.7	\$ 162,622.4	\$ 67,191.7	70.4%
Higher Education	\$ 188,832.5	\$ 230,407.5	\$ 41,575.0	22.0%
Total	\$ 4,996,256.7	\$ 5,779,406.4	\$ 783,149.7	15.7%



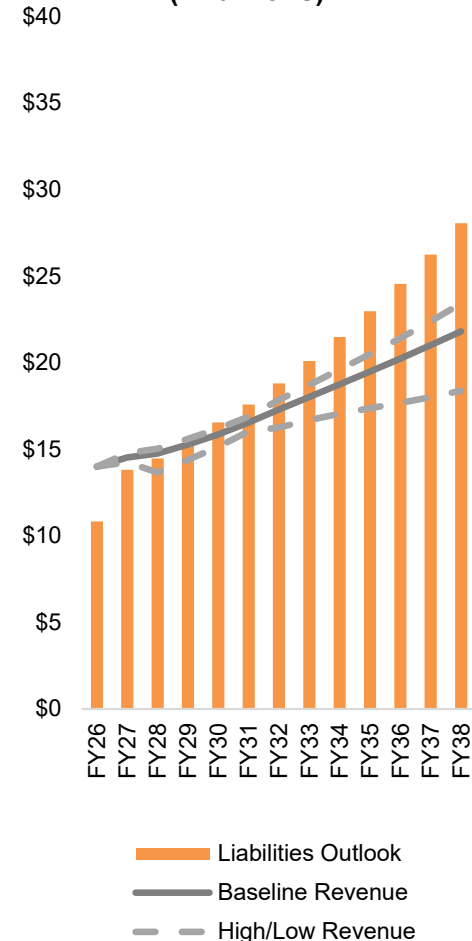
Many options are available to policy makers, with tradeoffs necessary between policy choices.

FY27-FY30 General Fund Recurring Appropriation Outlook with Liabilities

(in millions)

	Operating Budget FY27	Outlook FY28	Outlook FY29	Outlook FY30
Total Recurring Revenue	\$ 14,532.0	\$ 14,765.3	\$ 15,275.0	\$ 15,861.3
Year-to-Year Percent Change		1.6%	3.5%	3.8%
Subtotal - Recurring Appropriations	\$ 11,165.8	\$ 11,704.8	\$ 12,282.6	\$ 12,884.5
Year-to-Year Percent Change, pre-adjustment	3.1%	4.8%	4.9%	4.9%
Other Potential Recurring Liabilities				
Pilots				
- Move Successful GRO to Base Budget	\$	72.0	\$ 151.0	\$ 171.7
- Move Successful PERF to Base Budget	\$	25.0	\$ 45.6	\$ 64.0
Early Childhood/Child Welfare				
- Childcare Assistance Backfill ²	\$	50.0	\$ 50.0	\$ 350.0
- Protective Services Personnel	\$	14.0	\$ 14.0	\$ 14.0
Education				
- Career Technical Education/Internships	\$	45.0	\$ 45.0	\$ 45.0
- Literacy coaches/institute operations	\$	16.6	\$ 16.6	\$ 16.6
- STEM intervention and network	\$	35.0	\$ 35.0	\$ 35.0
- Teacher prep, recruitment, retention, ed fellows	\$	25.6	\$ 25.6	\$ 25.6
Health and Human Services (SNAP/Medicaid)				
- HCAF Coverage for Immigrants/Expired Tax Credits and Other ³	\$	85.3	\$ 161.8	\$ 273.2
- Federal SNAP New State Cost Share for Benefits ⁴			\$	\$ 173.2
- Replace UNM Hospital Directed Payments with State Supplemental Payments		\$	\$ 25.0	\$ 50.0
- DD Waiver Rate Study (2026)	\$	27.3	\$ 27.3	\$ 27.3
- Phase two Personal Care Services Rate Adjustment	\$	10.0	\$ 10.0	\$ 10.0
Subtotal - Additional Recurring	\$	405.8	\$ 606.9	\$ 1,255.6
Total Recurring Appropriations + Additional Rec	\$ 11,165.8	\$ 12,110.6	\$ 12,889.5	\$ 14,140.1
Year-to-Year Percent Change	3.1%	8.5%	6.4%	9.7%
Surplus/(Deficit) Rec	\$ 3,366.2	\$ 2,654.7	\$ 2,385.5	\$ 1,721.2
- Capital Outlay	\$ 443.2	\$ 525.0	\$ 525.0	\$ 525.0
- Higher Ed Capital Fund		\$ 300.0	\$ 300.0	\$ 300.0
- Non Recurring Specials, Supp, & Fund Transfers ⁵	\$ 2,207.9	\$ 1,502.1	\$ 1,502.1	\$ 1,502.1
Subtotal- NR Appropriation from Recurring Rev	\$ 2,651.1	\$ 2,327.1	\$ 2,327.1	\$ 2,327.1
Surplus/(Deficit) Rec & NR	\$ 715.1	\$ 327.6	\$ 58.4	\$ (605.9)

Liability Outlook Budget Growth and Revenues (in billions)



Source: LFC Analysis of 2026 Long-Term CREG

Questions?

THANK YOU!



Appendix: methods and sources.

Methods

- Static FY27 costs; no behavioral or dynamic effects
- GRT: CREG base GRT (\$4,711M) at the 4.182% GF effective rate; 1 point $\approx$ \$1,126M plus \$23.5M comp. tax; sector shares from FY26 RP-500
- Who buys: oil and gas = producing-county mining plus receipts above population-predicted levels in Eddy, Lea, San Juan; federal = LANL and Sandia; rest split by EY/GSU shares; visitors from NM Tourism data
- PIT: TRD TY2023 returns by AGI (concentration) and TY2024 returns by taxable income (scenarios), scaled to FY27; credits from the 2025 Tax Expenditure Report
- Property: DFA TY2025 obligations;

Sources

- CREG, August 2026 estimate and GFFS; General Appropriation Act of 2026
- LFC, August 2026 revenue outlook; LFC GRT master file (TRD RP-500)
- TRD PIT data (TY2023 and TY2024), 2025 Tax Expenditure Report
- EY and Georgia State University study for RSTP (2018)
- ITEP, Who Pays? 7th ed. (2024);
- DFA, Property Tax Facts (TY2025)
- LANL and Sandia economic impact reports (2025);
- NM Tourism Department (2024);
- U.S. Census (2020)

