



# Economic Development Department



2013 Legislative Proposals

# New Century Economy Summit

---

- New Mexico First facilitated New Century Economy Summit Oct. 2
- 125 participants from all regions of the state, urban and rural
  - Businesspeople, economic development specialists, college and university faculty and staff, government officials, organized labor, and the public

# New Century Economy Summit

---

- Tax, Regulations, & Infrastructure Barriers Work Group Endorsed Two Proposals
  - Review and reform corporate income tax policies to reduce rates and give sales-factor relief, as well as revise filing options.
  - Review and comprehensively reform gross receipts tax policies to reduce pyramiding and increase competitiveness and fairness.

# Corporate Income Tax Rates

---

- Corporate Income Tax Rate Reductions
  - Compress three brackets to two
    - 4.8% for up to \$500,000 in income
    - 4.9% for more than \$500,000 in income

# Corporate Income Tax Rates

---

- According to Ernst & Young, New Mexico has the single highest tax burden on new business investment in the nation
- New Mexico ranked 38<sup>th</sup> nationally in the 2012 Tax Foundation's *State Business Tax Climate Index* despite lowest per capita property tax in the nation
  - 39<sup>th</sup> in CIT in 2013
- Among states levying corporate income taxes, New Mexico ranks 20<sup>th</sup> highest nationally and second only to California in the West
  - Texas and Nevada have no corporate income tax

# Corporate Income Tax Rates

State	CIT Rate	SSF	State	CIT Rate	SSF
Arizona	4.9	Mandatory	N. Dakota	2.1-6.4	No
California	8.84	Elective	Oklahoma	6	No
Colorado	4.63	Mandatory	Oregon	6.6-7.9	Mandatory
Idaho	7.6	No (2x-weighted sales)	S. Dakota	None	N/A
Kansas	4-7.05	No	Texas	None	N/A
Montana	6.75	No	Utah	5	Elective
Nebraska	5.58-7.81	Mandatory	Washington	None	N/A
Nevada	None	N/A	Wyoming	None	N/A
<b>New Mexico</b>	<b>4.8-7.6</b>	<b>No</b>			

# Corporate Income Tax Rates

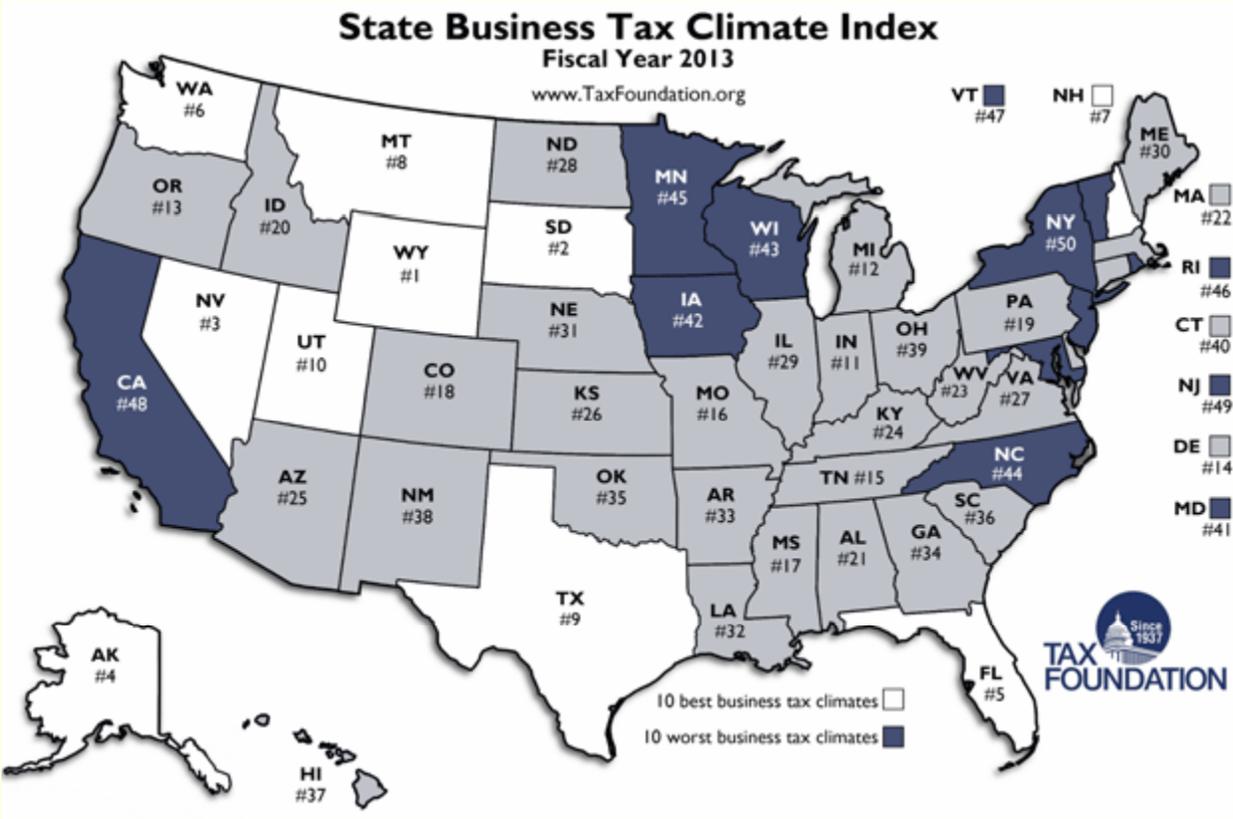
---

- According to the Tax Foundation, many states that utilize the gross receipts tax do so in place of a corporate income tax.
- New Mexico
  - Has both GRT and CIT
  - Has a high maximum CIT rate
  - Is one of only 16 states that utilize graduated CIT brackets
- New Mexico's CIT brackets are not indexed for inflation
  - Creates a de facto tax increase on the nominal increase in income due to inflation

# Corporate Income Tax Rates

State	Overall Rank	Corporate Income Tax	Individual Income Tax	Sales Tax	Unemployment Insurance	Property Tax
Arizona	27	28	17	50	1	5
Colorado	16	20	16	44	23	9
Nevada	3	1	1	42	42	16
<b>New Mexico</b>	<b>38</b>	<b>38</b>	<b>33</b>	<b>45</b>	<b>14</b>	<b>1</b>
Oklahoma	33	7	38	39	2	12
Texas	9	37	7	35	15	31
Utah	10	5	14	22	24	3

# Corporate Income Tax Rates



# Corporate Income Tax Rates

---

- CIT rates are
  - “very likely . . . the single largest determinant of economic growth.” (Tax Foundation, 2012.)
  - more harmful to growth than personal income, consumption, or property taxes. (OECD, 2010.)
- Each point of CIT reduces
  - annual growth by .1-.2%. (Ferede and Dahlby, 2012; Lee and Gordon, 2005.)
  - GDP by 1.3% after just two years. (IMF, 2010.)
  - real per capita personal income growth by .9% over the next five years. (Mackinac Center, 2011.)

# Corporate Income Tax Rates

---

- Reducing corporate income tax rates will make New Mexico more competitive with other states in recruiting and relocation and help us attract more businesses to the state
- Levels the playing field for businesses not targeted by incentives.
- This rate reduction will match the 2011 Arizona Jobs Bill that reduces Arizona's corporate income tax from 7% to 4.9%
- According to the 2012 New Mexico Business Tax Competitiveness Study from Ernst & Young and the New Mexico Tax Research Institute, putting in place a corporate tax rate of 4.9% would reduce the New Mexico effective tax rate from 6.0% to 4.3%

# Single Sales Factor Apportionment Formula

---

- Elective
- For all industries

# Single Sales Factor Apportionment Formula

---

- CIT imposed upon the net income of every foreign corporation employed or engaged in the transaction of business in, into or from this state or deriving any income from any property or employment within this state.

# Single Sales Factor Apportionment Formula

---

- NCCUSL approved UDITPA in 1957
- New Mexico adopted UDITPA in 1965
- UDITPA apportions business income according to traditional three-factor formula
  - Property
  - Payroll
  - Sales

# Single Sales Factor Apportionment Formula

---

- UDITPA gives states the option to use other apportionment methodologies
- In Moorman Mfg. Co. v. Blair, Supreme Court upheld validity of single sales factor apportionment methodology and gave states wide latitude to develop their own apportionment policies

# Single Sales Factor Apportionment Formula

---

- New Mexico enacted double-weighted sales for manufacturers in 1993
- Over the last 10 years, 17 states have increased the sales factor in their apportionment formulas, including Arizona, California, Colorado, and Texas
- 25 states now have a single sales factor apportionment formula

# Single Sales Factor Apportionment Formula

---

- Under the three-factor apportionment formula, if a multi-state corporation hires an employee in New Mexico or invests in its physical plant in New Mexico, it gets a tax increase

# Single Sales Factor Apportionment Formula

---

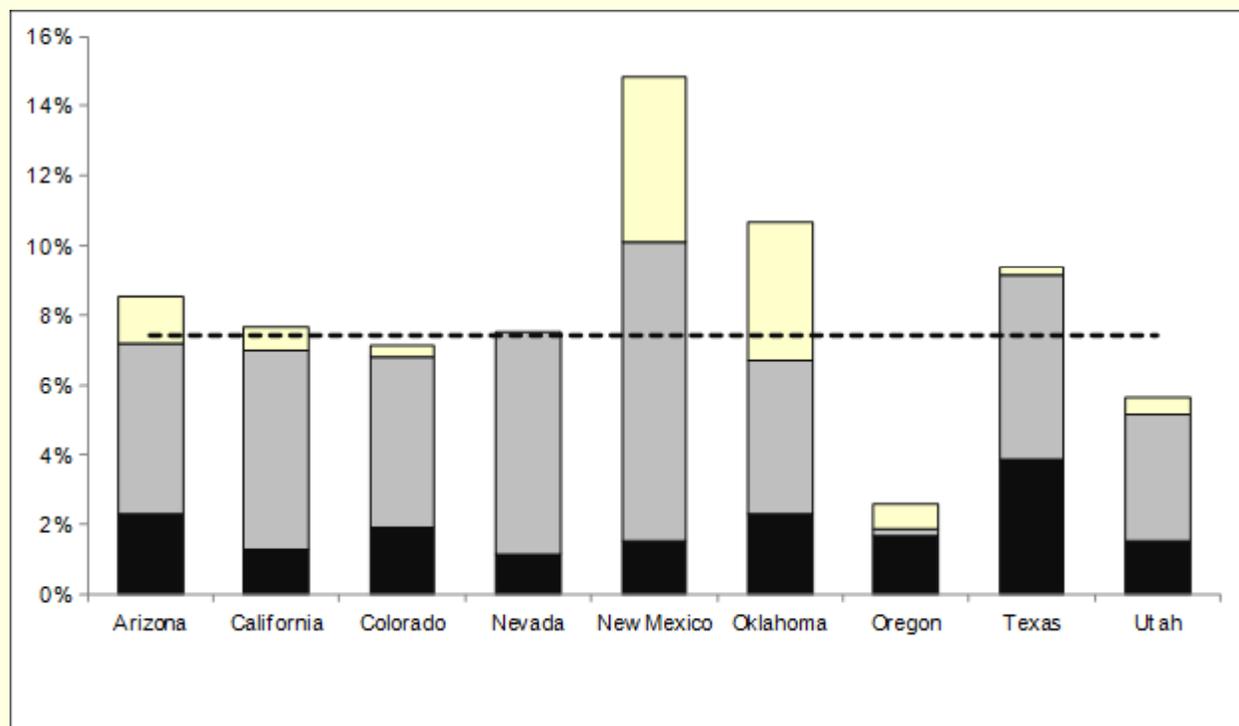
- Moving to a single sales factor apportionment methodology will encourage investment in New Mexico and incentivize employers to add jobs in New Mexico

# High Wage Jobs Tax Credit

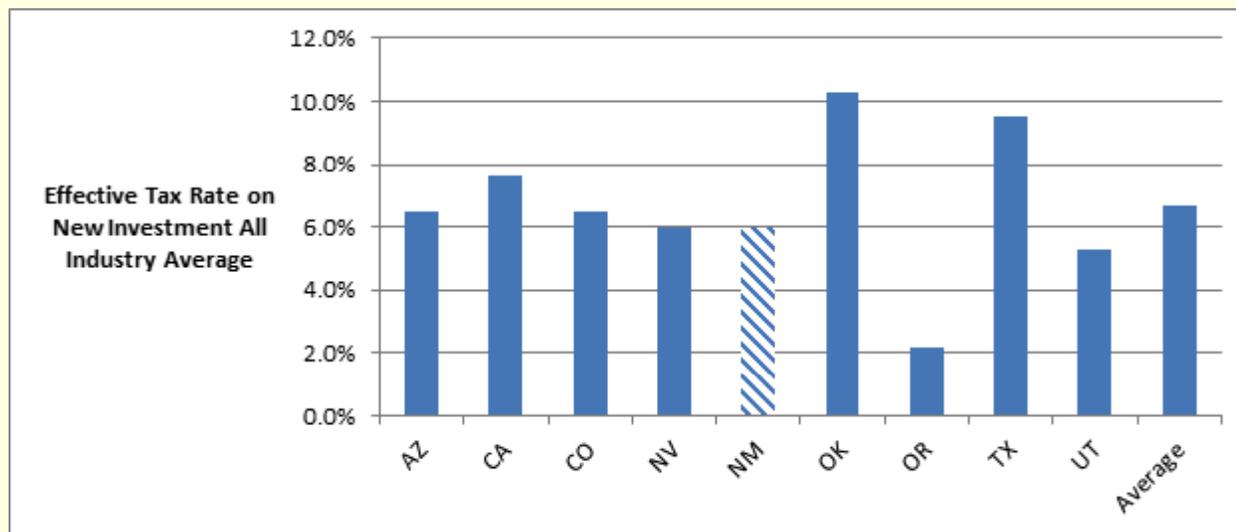
---

- Effective Incentive for Non-Retail Employers to Hire Employees at High Wages
  - Utilized by urban and rural economic developers to recruit business to New Mexico and encourage existing businesses to expand

# High Wage Jobs Tax Credit



# High Wage Jobs Tax Credit



# High Wage Jobs Tax Credit

---

- In FY12, foregone revenue jumped to 3-4 times previous levels
  - Several bills in 2012 session attempted to limit revenue loss

# High Wage Jobs Tax Credit

---

- Targets Incentive to Industries We Want to Attract
  - Limits eligible jobs to those eligible for JTIP
- Closes Loopholes
  - Limits credit claims to one year after job was created
  - Closes M&A loophole
  - Closes government contractor loophole
- Clean Up
  - Geographic limitation for urban/rural distinction
  - Use “wages and benefits” to determine threshold
  - Define “wages” and “benefits”
  - Extends sunset

# High Wage Jobs Tax Credit

---

- Credit Available for Jobs that Pay
  - \$40,000 in urban area
  - \$28,000 in rural area

# High Wage Jobs Tax Credit

---

- Wage Thresholds Need Not Be Changed
  - More than 90% of credit claims were for jobs that paid above the thresholds
  - More than 95% of credits made for jobs that pay above the thresholds
  - Raising the thresholds will disproportionately disadvantage rural employers

# High Wage Jobs Tax Credit

Credit Allowed	\$2,800- \$4,000	\$4,000- \$6,000	\$6,000- \$8,000	\$8,000- \$10,000	\$10,000- \$12,000
Compensation Range	\$28,000- \$40,000	\$40,000- \$60,000	\$60,000- \$80,000	\$80,000- \$100,000	\$100,000- \$120,000
Mean Credit	\$3,446	\$5,041	\$6,926	\$8,903	\$11,521
Median Credit	\$3,459	\$5,061	\$6,891	\$8,862	\$12,000
Number of Credit Claims	503	1,784	1,235	683	833
Total Claims Allowed	\$1,773,378	\$8,992,395	\$8,553,264	\$6,080,715	\$9,596,885