

# New Mexico Income Tax Programs

Presented to the Revenue Stabilization & Tax Policy Committee

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# Income Tax Programs

- ▶ Corporate Income Tax
- ▶ Personal Income Tax
- ▶ Both taxes “piggy-back” the federal income tax programs (i.e. the starting point for determining the New Mexico tax base is derived from a figure reported on taxpayers’ federal returns).

# Corporate Income Tax Program

- ▶ Imposes tax on the “net” income of every corporation that transacts business in or derives income from New Mexico.
  - Net Income is “base income” (federal taxable income before federal NOL deductions plus income earned from US/State bonds) minus NOL deductions (as defined for NM) and interest on US bond obligations.
- ▶ Also imposes a flat \$50 fee on every corporation that transacts business in or derives income from New Mexico.

# Exempt Corporations

- ▶ Insurance companies that pay NM premium tax;
- ▶ Trusts set up by employers for the benefit of employees that are exempt under the IRC;
- ▶ Nonprofits that are exempt under the IRC (other than their unrelated business income, if any).

# Tax Year 2015 Brackets and Rates

| Income Bracket,<br>Base | Income Bracket,<br>Top | Marginal Tax<br>Rate | Bracket Tax                             | Average Tax Rate |
|-------------------------|------------------------|----------------------|---|------------------|
| \$ 1                    | \$ 500,000             | 4.80%                | \$ 24,000                               | 4.80%            |
| \$ 501,000              | \$ 1,000,000           | 6.40%                | \$ 56,000                               | 5.60%            |
| \$ 1,000,001            |                        | 6.90%                | \$56,000 + (\$0.069 x Income over \$1M) |                  |

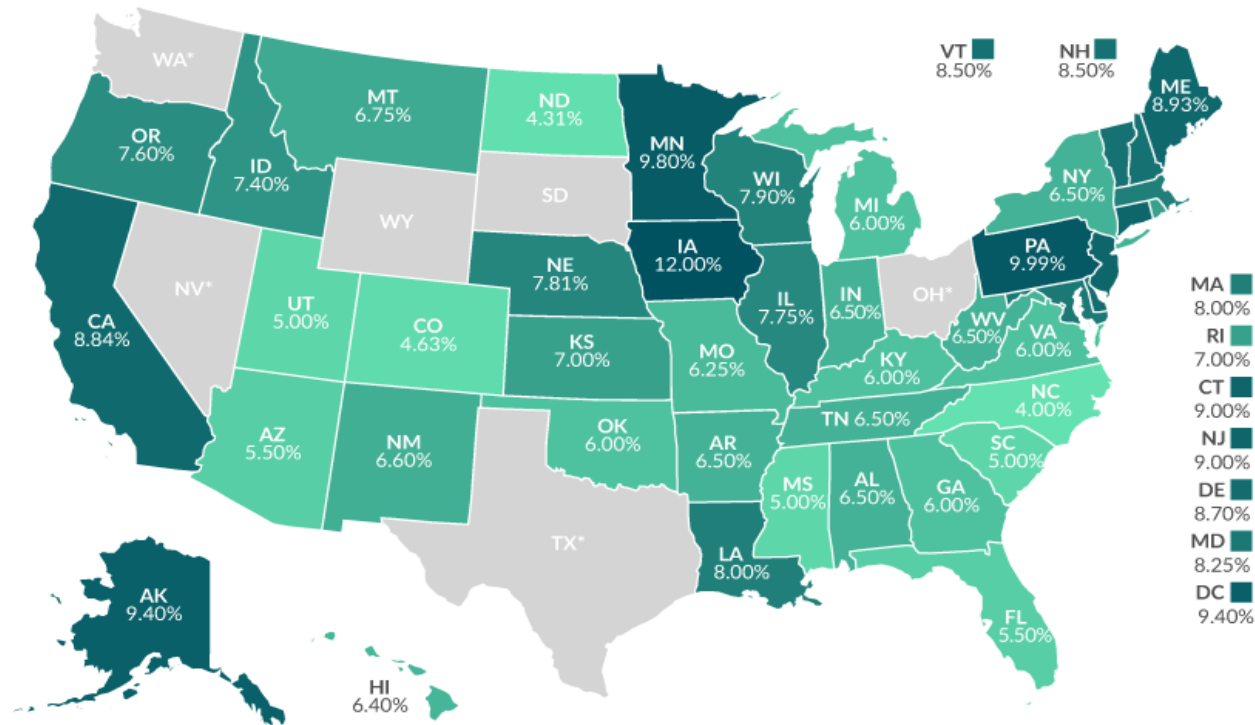
# Tax Rate Primer

- ▶ **Tax rate (statutory)** – the rate applied by statute to a threshold level of net income;
- ▶ **Marginal Tax Rate** – the rate applied to the next taxable dollar of net income earned;
- ▶ **Average Tax Rate** – the average of the rate paid across multiple net income thresholds (tax paid/taxable income).
- ▶ **Effective Tax Rate** – the average rate at which a corporation's pre-tax profits are taxed.



# How High Are Corporate Income Tax Rates in Your State?

Top State Marginal Corporate Income Tax Rates in 2016



Note: (\*) Nevada, Ohio, Texas, and Washington do not have corporate income taxes but do have gross receipts taxes with rates not strictly comparable to corporate income tax rates. Arkansas assesses a surcharge of 3% of the taxpayer's total liability. Connecticut's rate includes a 20% surtax. Delaware and Virginia have gross receipts taxes in addition to their corporate income taxes. Illinois' rate includes two separate corporate income taxes, one at a 5.25% rate and one at a 2.5% rate. The tax rate in Indiana will decrease to 6.25% on July 1, 2016.

Source: State tax statutes, forms, and instructions; Commerce Clearinghouse.



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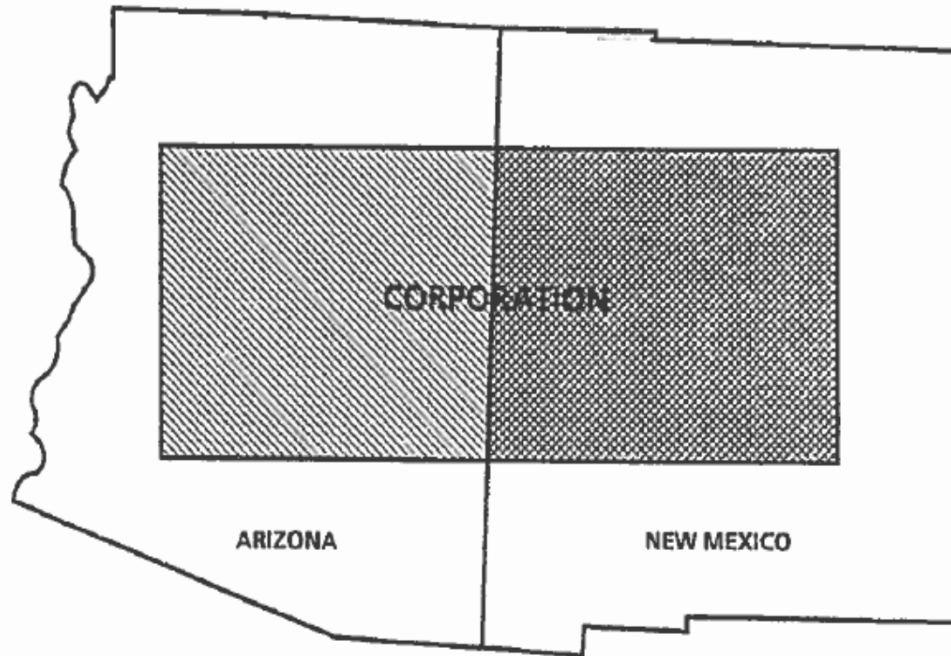


# “Ladder” of Corporate Filing Options

- ▶ **Separate Entity Reporting**
  - Each company transacting business in NM files its own NM CIT return, regardless of total corporate entity structure and ownership.
- ▶ **Combined (Unitary) Reporting**
  - A group of commonly owned corporations that engage in a “unitary” business may file one CIT return that includes all unitary members, if at least one of the unitary corporations transacts business in NM.
  - NM retailers selling goods from facilities that exceed 30,000 square feet must file combined returns.
- ▶ **Federal Consolidated Reporting**
  - If a commonly owned group of corporations files a consolidated return for federal income tax purposes and at least one member of the group transacts business in New Mexico, the group may file one CIT return in NM that includes all members of the federal consolidated group.
- ▶ Taxpayers may elect to go “up” the ladder at will, but need permission to go “down” the ladder.



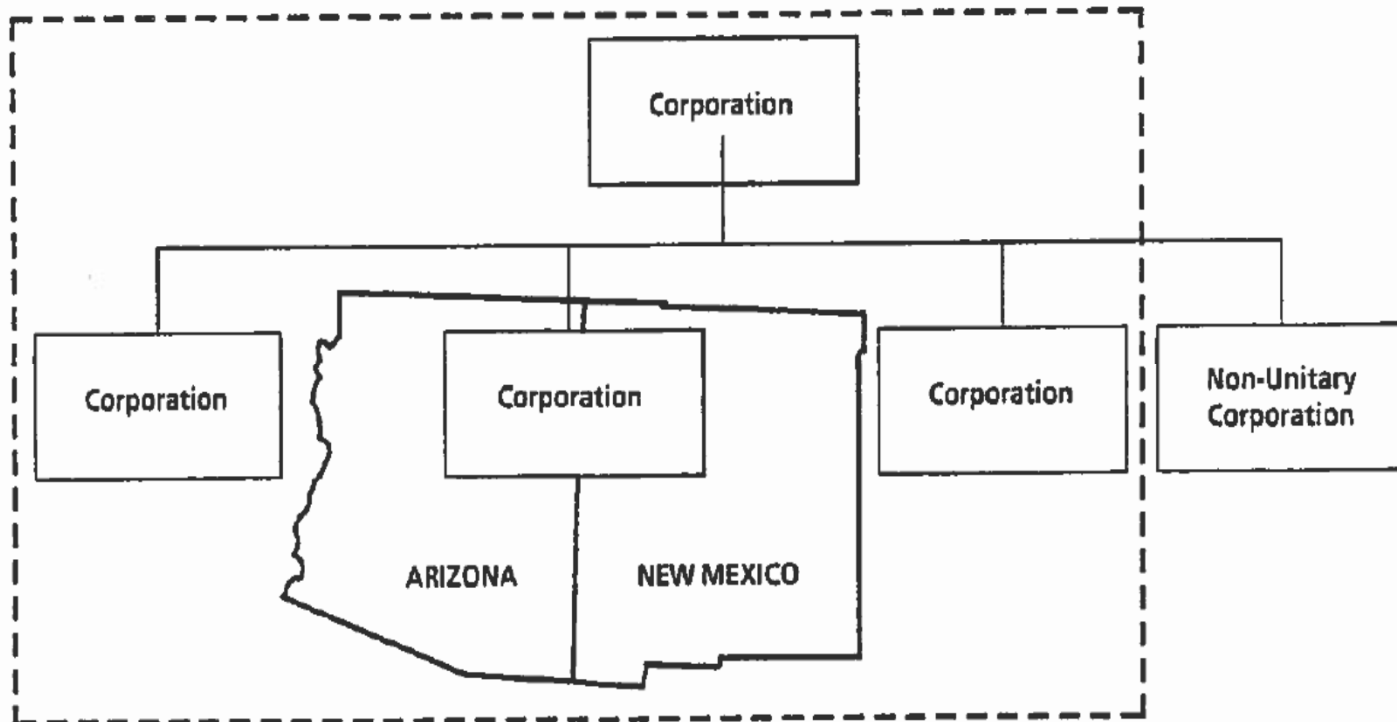
# Separate Entity Reporting



Taxpayer reports through the use of the three-factor formula applied to the federal taxable income of the corporate entity.

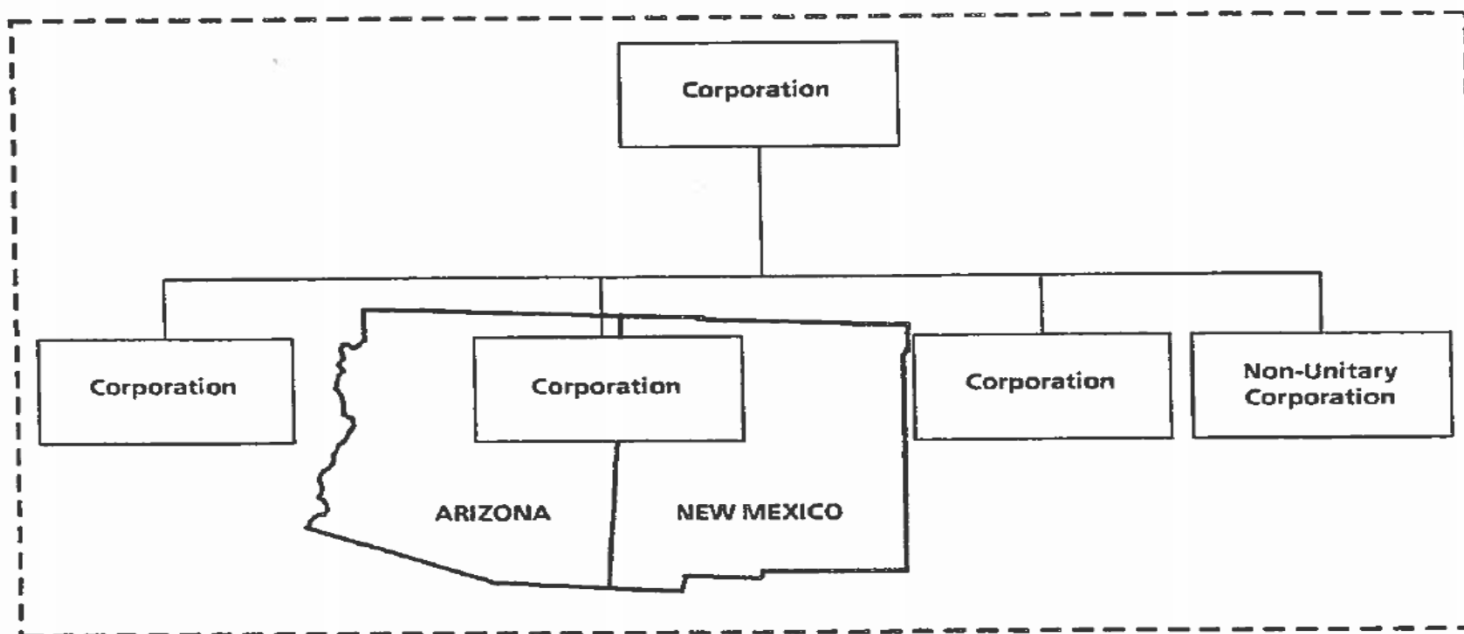
# Combined (Unitary) Reporting

## COMBINATION OF UNITARY CORPORATIONS



Taxpayer reports through the use of the three-factor formula applied to what should be the federal taxable income of the combined group.

# Federal Consolidated Reporting



Taxpayer applies the three-factor formula to the federal taxable income of the total consolidated group.

# A Simplified Example of Filing Methods

| Corporation                | Nexus in State X | Taxable Income | State X Numerator | State X Denominator | Apportionment Factor | Separate Filing | Consolidated Filing | Combined Filing |
|----------------------------|------------------|----------------|-------------------|---------------------|----------------------|-----------------|---------------------|-----------------|
| Parent                     | Y                | 300            | 40                | 400                 | 10.00%               | 30              | 0                   | 0               |
| Sub One                    | Y                | 200            | 20                | 500                 | 4.00%                | 8               | 0                   | 0               |
| Combined Unitary Total     |                  | 500            | 60                | 900                 | 6.67%                | 0               | 33                  | 0               |
| Sub Two                    | N                | 100            | 0                 | 100                 | 0.00%                | 0               | 0                   | 0               |
| Federal Consolidated Total |                  | 600            | 60                | 1000                | 6.00%                | 0               | 0                   | 36              |

# Dividing Income of Multistate Businesses

- ▶ Corporations that derive income from NM and other states determine the amount of their total income that is subject to NM CIT through a statutory process of allocation and apportionment under NMSA §§ 7-4-1 *et seq.*

# Business / Non-Business Income

- ▶ **Business income:**
  - **Transactional** – Income arising from transactions and activity in the regular course of the taxpayer's trade or business.
  - **Liquidations** – Income from liquidating a business or business segment.
  - **Functional** – Income from tangible or intangible property if the acquisition, management, or disposition of the property constitute integral parts of the taxpayer's trade or business.
- ▶ **Non-Business income: everything else.**

# Non-Business Income is Allocated

- ▶ Non-business income is not run through a “factor” formula, but is generally allocated to one state.
  - Where property is used or located;
  - Taxpayer’s commercial domicile.





# Business Income is Apportioned

- ▶ Business income is apportioned according to statutory formulae.
- ▶ The “standard formula:”

$$\frac{\text{NM Property}}{\text{Total Property}} + \frac{\text{NM Payroll}}{\text{Total Payroll}} + \frac{\text{NM Sales}}{\text{Total Sales}}$$

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# Special Formulas for Manufacturers and Headquarters Operations

## ▶ Manufacturers:

- 2016 formula:
  - 15% property; 15% payroll; 70% sales.
- 2017 formula:
  - 10% property; 10% payroll; 80% sales.
- 2018:
  - 100% sales (single sales factor).

## ▶ Headquarters Operations:

- 100% sales (single sales factor).

# The Sales Factor Numerator

- ▶ Sales of tangible personal property are sourced based on the destination of the sold property.
- ▶ Sales of services and intangibles are sourced to the state where the taxpayer expends the greatest “cost of performance.”



# Standard Formula Does Not Always Work

- ▶ UDITPA “relief” provision – § 7-4-19 – allows deviations from the standard formula when the results do not fairly reflect the extent of the taxpayer’s business activities in the state.
- ▶ Burden on the party seeking deviation.
- ▶ Allows:
  - Separate accounting;
  - Excluding one or more factors;
  - Including additional factors;
  - Any other method to equitably allocate and apportion taxpayer’s income.

# Deviations for Specific Industries

- ▶ Consensus that standard formula does not work well for certain industries.
- ▶ NM regulations adopted largely from MTC rules for these industries.
  - Construction Contractors. NMAC 3.5.19.12;
  - Railroads. NMAC 3.5.19.13.
  - Airlines. NMAC 3.5.19.14.
  - Trucking Companies. NMAC 3.5.19.15.
  - Financial Institutions. NMAC 3.5.19.17.
  - Television & Radio Broadcasting. NMAC 3.5.19.18.
  - Publishing. NMAC 3.5.19.19.

# Trends in Formulas and Factors

- ▶ Nineteen states have gone to a single sales factor for all or most businesses.
  - CA, CO, CT, DC, GA, IA, IN, IL, ME, MI, MN, NE, NJ, NY, OR, RI, SC, TX, UT, WI.
- ▶ Twenty-two states have gone to market-based sourcing for services.
  - AL, CA, CT, DC, GA, IA, IL, MA, MD, ME, MI, MN, NE, NY, OH, OK, PA, RI, TN, UT, WA, WI.
- ▶ Nineteen states have gone to market-based sourcing for intangibles (with another eight having some form of hybrid that is not COP).
  - AL, CA, CT, DC, GA, IA, MA, ME, MI, MN, NE, NJ, NY, OH, OK, RI, TN (for royalties), UT, WI.

# CIT Tax Expenditures (1 of 2)

| NMSA            | Expenditure   |
|-----------------|---|
| 7-4-10          | Manufacturers/HQ Formula Election                       |
| 7-2A-8.6        | Cultural Property Preservation                          |
| 7-2A-8.8        | Welfare to work (defunct federal program)               |
| 7-2A-8.9        | Land conservation or preservation                       |
| 7-2A-14         | Corporate-supported child care                          |
| 7-2A-15         | Business facility rehabilitation (defunct/unused)       |
| 7-2A-17.1       | Job mentorship credit                                   |
| 7-2A-18         | Electronic equipment credit for tobacco/alcohol vendors |
| 7-2A-19         | Renewable Energy Production Tax Credit                  |
| 7-2A-21/7-2A-28 | Sustainable Building Tax Credit                         |
| 7-2A-23         | Blended Biodiesel Fuel Credit (2012 last tax year)      |



# CIT Tax Expenditures (2 of 2)

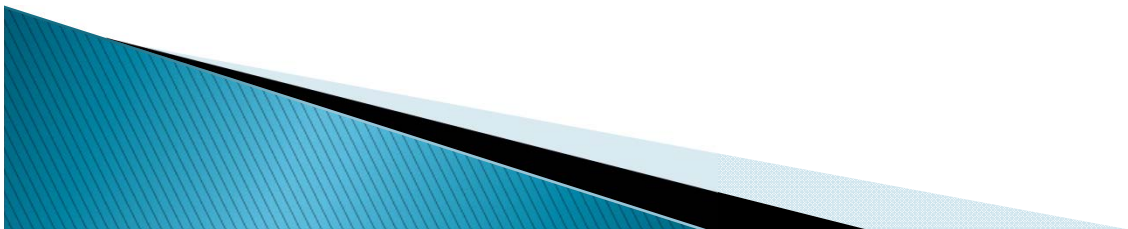
| NMSA                    | Expenditure  |
|-------------------------|--|
| 7-2A-24                 | Geothermal Heat Pump Credit  |
| 7-2A-25                 | Advanced Energy Credit (excess only)                                     |
| 7-2A-26                 | Agricultural Biomass   |
| 7-2A-27                 | Veteran Employment   |
| 7-2F-1 <i>et seq.</i>   | Film Production Tax Credit   |
| 7-2E-1.1                | Rural Jobs Tax Credit (cross program)                                    |
| 7-9F-9.1 <i>et seq.</i> | Additional Tech Jobs and Research and Development Credit (cross program) |
| 7-9I-1 <i>et seq.</i>   | Affordable Housing Tax Credit (cross program)                            |

# CIT Mechanics

- ▶ Start with “base income” (federal taxable income before NOL and other special deductions).
- ▶ NM-specific adjustments (i.e. subtract NM NOLs) to get to “net income.”
- ▶ Calculate tax.
- ▶ Allocate and apportion income to reach a NM percentage.
- ▶ Apply that percentage to the “tax.”
- ▶ Apply any credits.

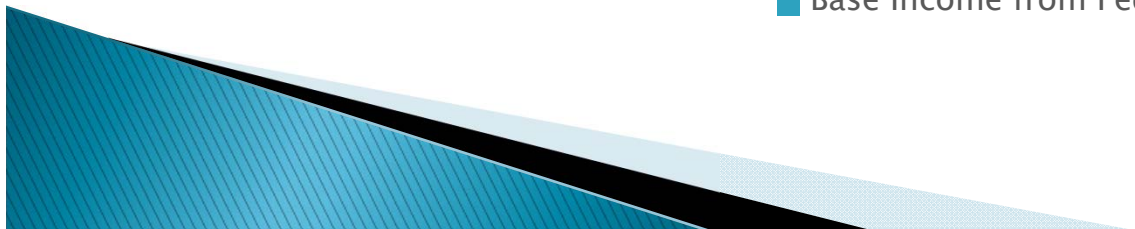
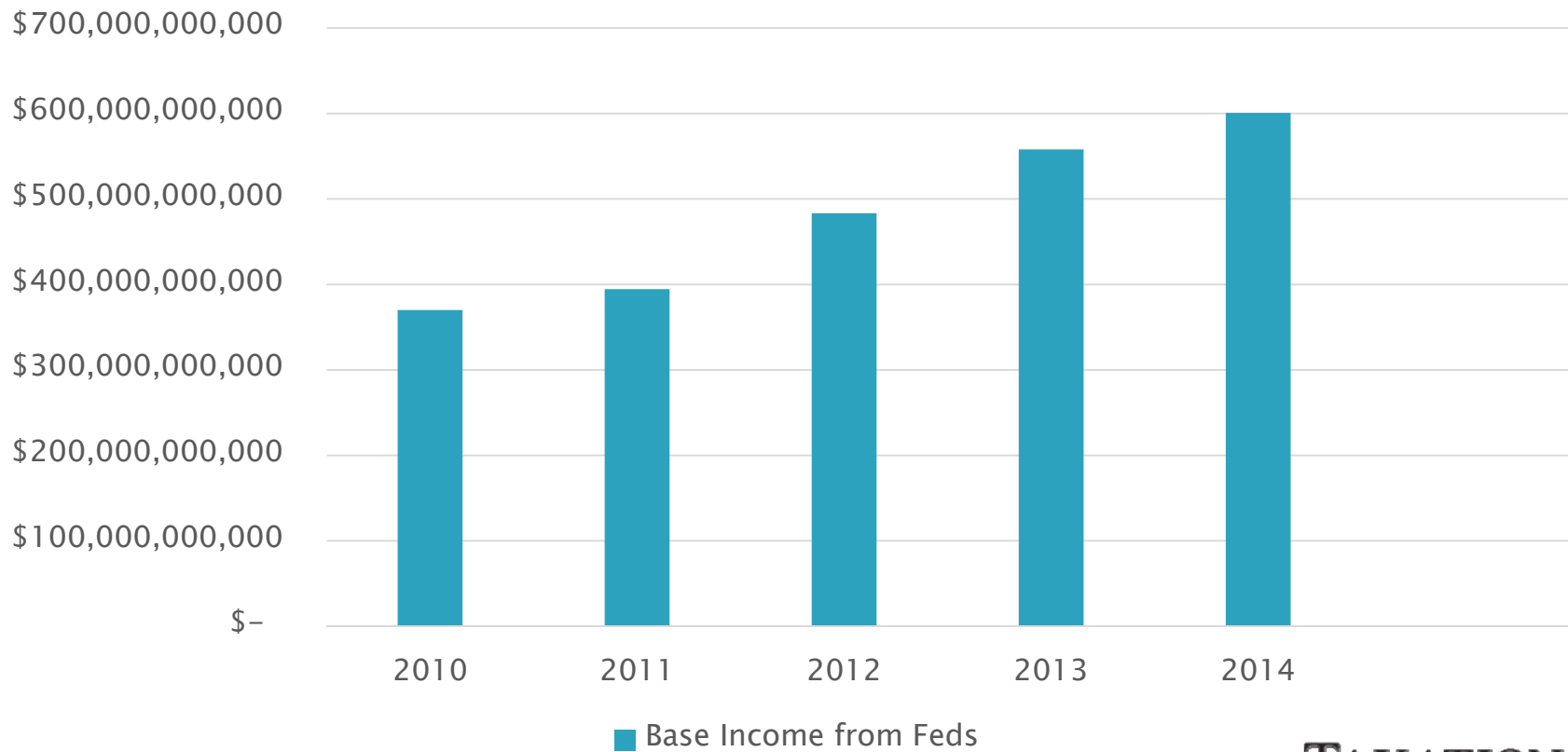
# CIT Mechanics

- ▶ Start with “base income” (federal taxable income before NOL and other special deductions).



# NM Piggy-Back off Reported Federal Income

Base Income

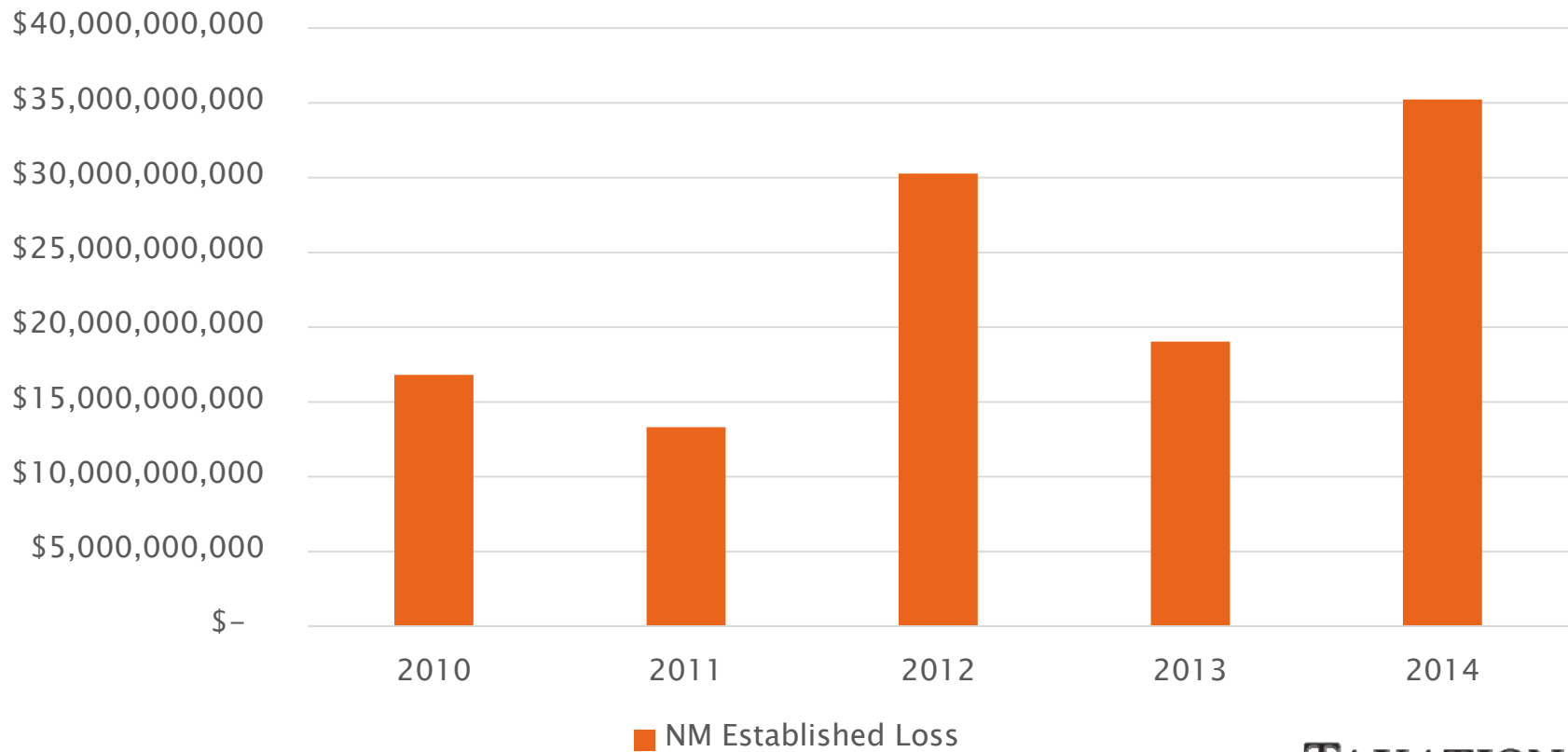


# CIT Mechanics

- ▶ Start with “base income” (federal taxable income before NOL and other special deductions).
- ▶ NM-specific adjustments (i.e. subtract NM NOLs) to get to “net income.”

# Established Losses from Federal Income

NM NOL Carryover



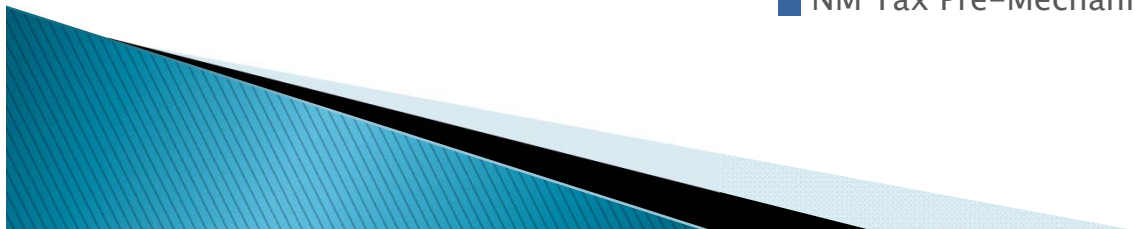
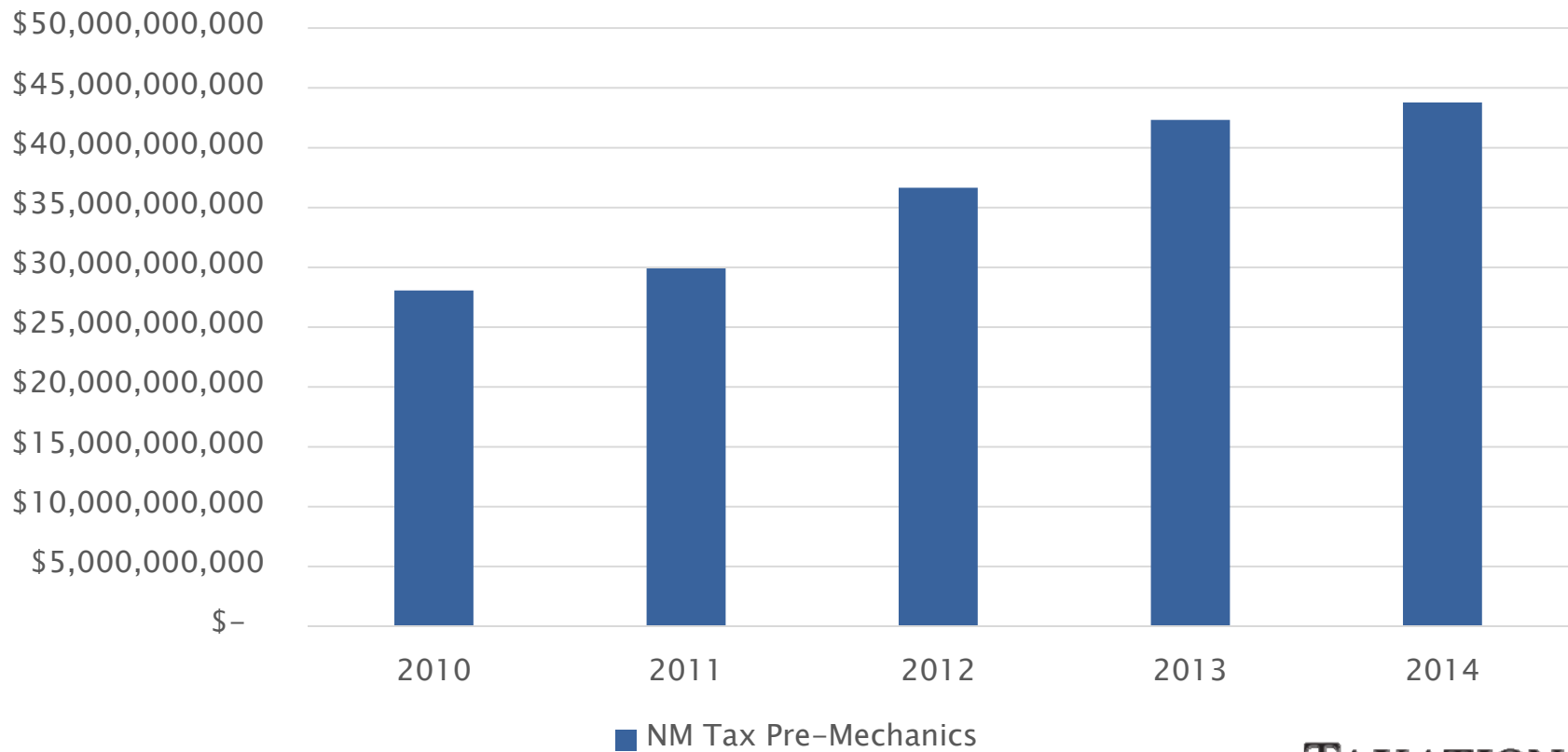
# CIT Mechanics

- ▶ Start with “base income” (federal taxable income before NOL and other special deductions).
- ▶ NM-specific adjustments (i.e. subtract NM NOLs) to get to “net income.”
- ▶ Calculate tax on “net” income.



# Tax on Net Income

## NM Tax BEFORE Allocation & Apportionment

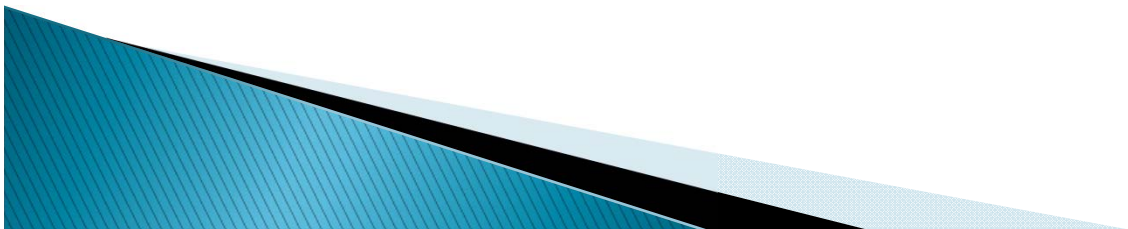


# CIT Mechanics

- ▶ Start with “base income” (federal taxable income before NOL and other special deductions).
- ▶ NM-specific adjustments (i.e. subtract NM NOLs) to get to “net income.”
- ▶ Calculate tax.
- ▶ Allocate and apportion income to reach a NM percentage.

# Allocation and Apportionment: New Mexico Percentage

- ▶ CIT B – Allocation of Non-Business Income
- ▶ CIT A – Apportionment of Business Income
- ▶ CIT C – Calculation of NM%

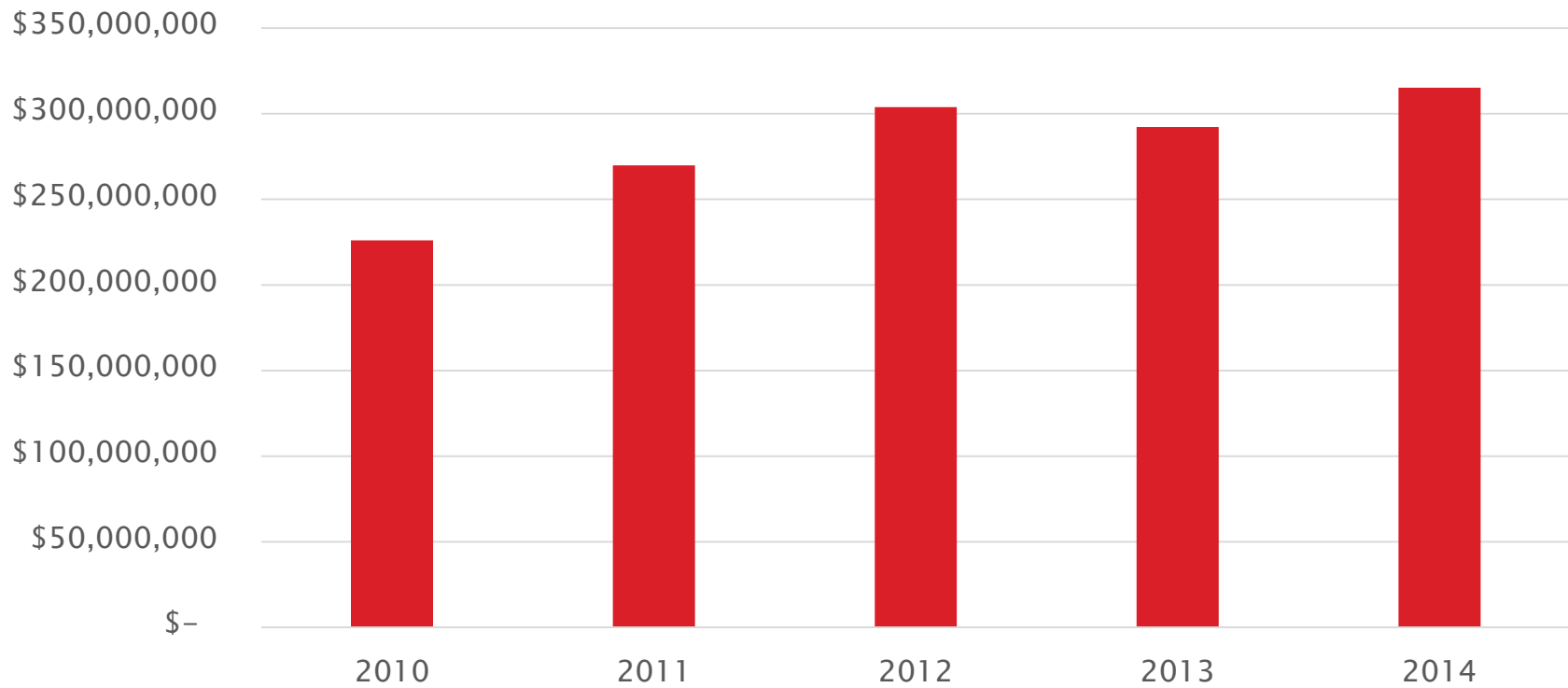


# CIT Mechanics

- ▶ Start with “base income” (federal taxable income before NOL and other special deductions).
- ▶ NM-specific adjustments (i.e. subtract NM NOLs) to get to “net income.”
- ▶ Calculate tax.
- ▶ Allocate and apportion income to reach a NM percentage.
- ▶ Apply that percentage to the “tax.”

# NM CIT, Pre Non Refundable Credits

NM Tax Pre Credits



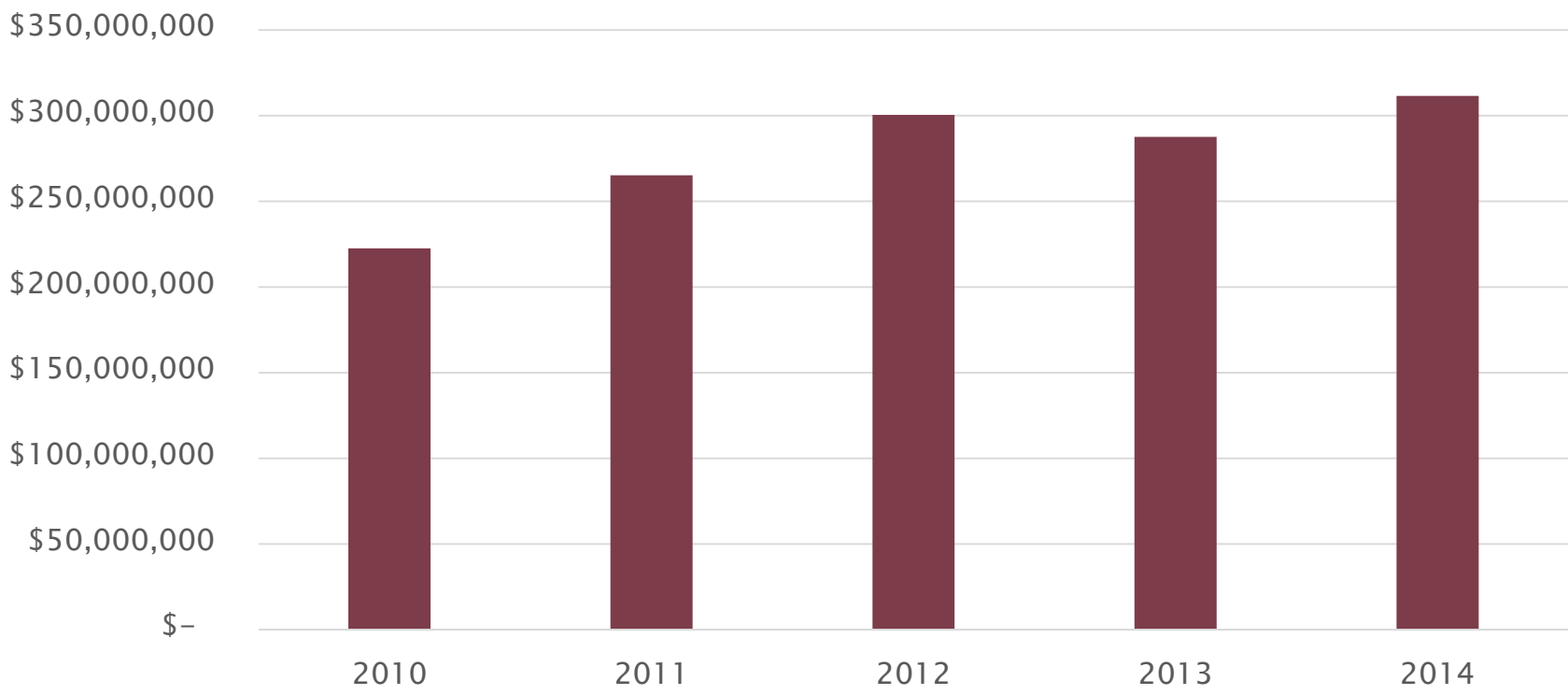
■ NM Tax Pre Credits

# CIT Mechanics

- ▶ Start with “base income” (federal taxable income before NOL and other special deductions).
- ▶ NM-specific adjustments (i.e. subtract NM NOLs) to get to “net income.”
- ▶ Calculate tax.
- ▶ Allocate and apportion income to reach a NM percentage.
- ▶ Apply that percentage to the “tax.”
- ▶ Apply any credits.

# NM Net CIT

CIT after NM% applied to Calculated Tax



■ NM Net CIT

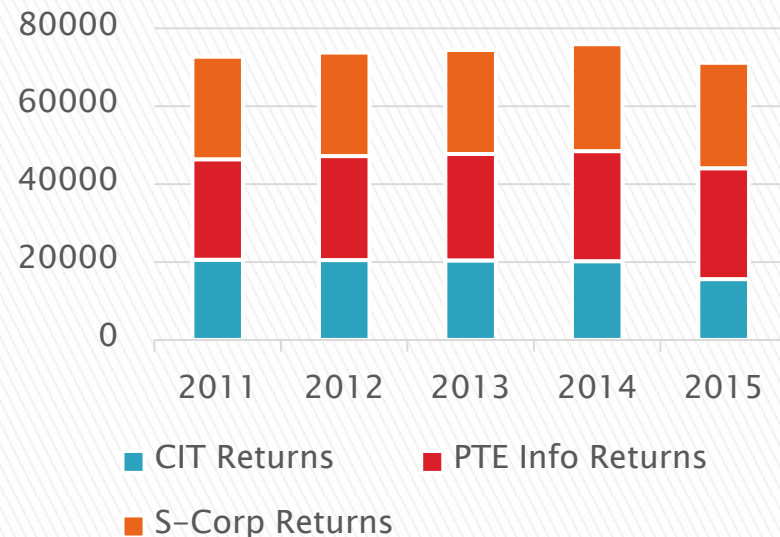


# Corporate Income Tax Returns

## What the chart tells us

- ▶ CIT Returns average just under 20K per year, and have been declining at a rate just less than 1% per year since 2010
- ▶ PTE & S-Corp Returns have been increasing each year
  - PTE at a rate of approximately 2.5% per year
  - S-Corp at a rate of approximately 1.0% per year
- ▶ TY2015 is INCOMPLETE

## CIT Returns by Form Submitted CIT1, PTE (info), or S-Corp





# CIT by NAICS (1 of 2)

| 2 digit NAICS | 2014 Industries                  | Taxable Income over \$1,000,000 |           | Taxable Income over \$500,000 but not over \$1,000,000 |           | Taxable Income under \$500,000 |           |
|---------------|----------------------------------|---------------------------------|-----------|--|-----------|--------------------------------|-----------|
|               |                                  | CIT                             | # Returns | CIT  | # Returns | CIT                            | # Returns |
| 11            | Agriculture, Fishery and Hunting | \$75,202                        | <4        | \$175,787  | 4         | \$489,289                      | 181       |
| 21            | Oil and Gas and Other Mining     | \$36,123,275                    | 40        | \$1,024,313  | 22        | \$987,160                      | 314       |
| 22            | Utilities                        | \$91,614                        | <4        | \$63,536   | <4        | \$45,696                       | 17        |
| 23            | Construction                     | \$1,083,407                     | 8         | \$492,884  | 13        | \$1,035,834                    | 457       |
| 31-33         | Manufacturing                    | \$94,955,722                    | 61        | \$1,724,410  | 34        | \$2,936,708                    | 665       |
| 42            | Wholesale Trade                  | \$4,905,884                     | 23        | \$1,307,930  | 26        | \$2,441,606                    | 591       |
| 44-45         | Retail Trade                     | \$18,079,502                    | 42        | \$1,339,419  | 26        | \$2,020,825                    | 467       |
| 48-49         | Transportation & Warehousing     | \$21,385,483                    | 14        | \$372,144  | 7         | \$744,181                      | 255       |
| 51            | Information                      | \$5,992,954                     | 18        | \$39,527   | <4        | \$746,549                      | 205       |
| 52            | Finance & Insurance              | \$17,722,467                    | 47        | \$1,032,010  | 23        | \$1,630,738                    | 610       |

# CIT by NAICS (2 of 2)

| 2 digit NAICS | 2014 Industries                             | Taxable Income over \$1,000,000 |           | Taxable Income over \$500,000 but not over \$1,000,000 |           | Taxable Income under \$500,000 |           |
|---------------|---|---------------------------------|-----------|--|-----------|--------------------------------|-----------|
|               |   | CIT                             | # Returns | CIT  | # Returns | CIT                            | # Returns |
| 53            | Real Estate & Rental & Leasing              | \$2,010,954                     | 10        | \$80,881   | <4        | \$1,109,234                    | 528       |
| 54            | Professional, Scientific & Technical        | \$6,274,030                     | 21        | \$926,100  | 19        | \$2,158,884                    | 885       |
| 55            | Management of Companies & Enterprises       | \$40,097,788                    | 42        | \$801,355  | 14        | \$1,415,177                    | 270       |
| 56            | Admin & Support & Waste Mgt Remediation     | \$1,921,963                     | 4         | \$209,909  | 4         | \$577,248                      | 271       |
| 61            | Educational Services                        | \$471,851                       | <4        | \$0  | 0         | \$130,169                      | 41        |
| 62            | Health Care & Social Assistance             | \$1,487,880                     | 8         | \$386,159  | 7         | \$440,516                      | 175       |
| 71            | Arts, Entertainment, & Recreation           | \$110,863                       | <4        | \$136,002  | <4        | \$111,086                      | 61        |
| 72            | Accommodation & Food Service                | \$634,908                       | 5         | \$211,100  | 4         | \$550,184                      | 157       |
| 81            | Other Services except Public Administration | \$221,004                       | <4        | \$123,602  | <4        | \$332,188                      | 205       |

# Personal Income Tax Program

- ▶ Imposes a net income tax on NM residents and any non-residents that derive income from New Mexico sources.
- ▶ The PIT revenue stream includes income earned by individuals from distributive shares of Pass-through entity ownership (S-corps, partnerships, and LLCs that elect partnership taxation at the federal level).



# Marginal Rates and Brackets

| Married Filing Separately | Head of Household,<br>Surviving Spouses, and<br>Married Filing Jointly | Individuals, Estates, and<br>Trusts | Rate |
|---------------------------|--|-------------------------------------|------|
| Up to \$4,000             | Up to \$8,000  | Up to \$5,500                       | 1.7% |
| Over \$4,000 to \$8,000   | Over \$8,000 to \$16,000   | Over \$5,500 to \$11,000            | 3.2% |
| Over \$8,000 to \$12,000  | Over \$16,000 to \$24,000  | Over \$11,000 to \$16,000           | 4.7% |
| Over \$12,000             | Over \$24,000  | Over \$16,000                       | 4.9% |

# PIT Revenues by Income Bracket (1 of 3)

| All Tax Payers (Tax Year 2014 Data) |                   |                 |                                      |                           |                                |                |
|-------------------------------------|-------------------|-----------------|--------------------------------------|---------------------------|--------------------------------|----------------|
| Income Bracket                      | Number of Returns | Percent Returns | New Mexico Taxable Income by Bracket | Percent NM Taxable Income | Estimated Tax on TI in Bracket | Percent Tax    |
| Under \$25,000                      | 628,635           | 62.28%          | 2,616,698,286                        | 2.76%                     | 67,773,915                     | 5.34%          |
| \$25,000-\$50,000                   | 145,020           | 14.37%          | 5,308,344,213                        | 5.61%                     | 190,048,885                    | 14.99%         |
| \$50,000-\$75,000                   | 88,052            | 8.72%           | 5,407,146,932                        | 5.71%                     | 203,833,160                    | 16.08%         |
| \$75,000-\$100,000                  | 49,627            | 4.92%           | 4,279,208,068                        | 4.52%                     | 161,410,063                    | 12.73%         |
| \$100,000-\$200,000                 | 61,892            | 6.13%           | 8,365,758,766                        | 8.84%                     | 295,000,173                    | 23.26%         |
| Over \$200,001                      | 36,119            | 3.58%           | 68,691,347,610                       | 72.56%                    | 349,937,789                    | 27.60%         |
| <b>Total</b>                        | <b>1,009,345</b>  | <b>100.00%</b>  | <b>94,668,503,875</b>                | <b>100.00%</b>            | <b>1,268,003,985</b>           | <b>100.00%</b> |

# PIT Revenues by Income Bracket (2 of 3)

| All Tax Payers (Tax Year 2014 Data) |                |                |                       |                |                    |                |
|-------------------------------------|----------------|----------------|-----------------------|----------------|--------------------|----------------|
| Single Filers                       |                |                |                       |                |                    |                |
| Under \$25,000                      | 343,260        | 73.84%         | 1,522,205,703         | 8.81%          | 41,923,801         | 12.81%         |
| \$25,000-\$50,000                   | 67,939         | 14.62%         | 2,431,247,048         | 14.07%         | 90,996,897         | 27.80%         |
| \$50,000-\$75,000                   | 27,685         | 5.96%          | 1,677,658,581         | 9.71%          | 64,740,557         | 19.78%         |
| \$75,000-\$100,000                  | 10,871         | 2.34%          | 931,597,491           | 5.39%          | 35,017,938         | 10.70%         |
| \$100,000-\$200,000                 | 9,899          | 2.13%          | 1,316,398,232         | 7.62%          | 43,941,182         | 13.42%         |
| Over \$200,001                      | 5,204          | 1.12%          | 9,403,892,598         | 54.41%         | 50,748,339         | 15.50%         |
| <b>Total</b>                        | <b>464,858</b> | <b>100.00%</b> | <b>17,282,999,653</b> | <b>100.00%</b> | <b>327,368,714</b> | <b>100.00%</b> |
| Head of Household Filers            |                |                |                       |                |                    |                |
| Under \$25,000                      | 135,606        | 83.05%         | \$435,881,216         | 15.80%         | \$10,173,070       | 14.57%         |
| \$25,000-\$50,000                   | 16,392         | 10.04%         | \$592,957,221         | 21.50%         | \$20,902,681       | 29.93%         |
| \$50,000-\$75,000                   | 6,394          | 3.92%          | \$385,814,033         | 13.99%         | \$14,820,224       | 21.22%         |
| \$75,000-\$100,000                  | 2,194          | 1.34%          | \$187,555,820         | 6.80%          | \$7,380,962        | 10.57%         |
| \$100,000-\$200,000                 | 1,846          | 1.13%          | \$243,123,310         | 8.81%          | \$8,700,241        | 12.46%         |
| Over \$200,001                      | 848            | 0.52%          | \$913,051,470         | 33.10%         | \$7,852,829        | 11.25%         |
| <b>Total</b>                        | <b>163,280</b> | <b>100.00%</b> | <b>2,758,383,070</b>  | <b>100.00%</b> | <b>69,830,007</b>  | <b>100.00%</b> |

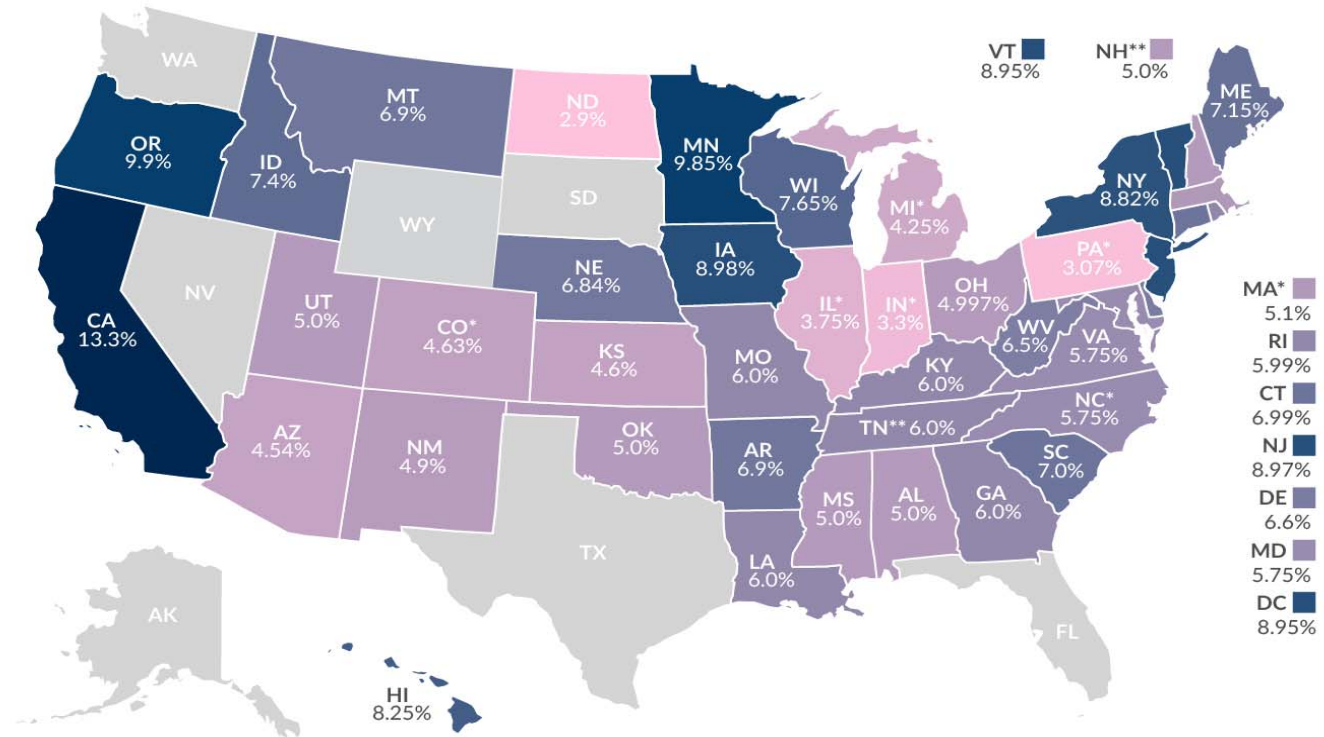
# PIT Revenues by Income Bracket (3 of 3)

| All Tax Payers (Tax Year 2014 Data) |                   |                 |                                      |                           |                                |                |
|-------------------------------------|-------------------|-----------------|--------------------------------------|---------------------------|--------------------------------|----------------|
| Income Bracket                      | Number of Returns | Percent Returns | New Mexico Taxable Income by Bracket | Percent NM Taxable Income | Estimated Tax on TI in Bracket | Percent Tax    |
| <b>Joint and Surviving Spouse</b>   |                   |                 |                                      |                           |                                |                |
| Under \$25,000                      | 143,959           | 38.86%          | \$617,210,830                        | 0.89%                     | \$14,352,748                   | 1.68%          |
| \$25,000–\$50,000                   | 58,288            | 15.73%          | \$2,197,815,584                      | 3.17%                     | \$74,766,619                   | 8.74%          |
| \$50,000–\$75,000                   | 52,954            | 14.29%          | \$3,282,056,654                      | 4.74%                     | \$121,894,781                  | 14.25%         |
| \$75,000–\$100,000                  | 36,118            | 9.75%           | \$3,121,892,246                      | 4.51%                     | \$117,646,492                  | 13.75%         |
| \$100,000–\$200,000                 | 49,701            | 13.42%          | \$6,745,988,853                      | 9.74%                     | \$240,620,026                  | 28.12%         |
| Over \$200,001                      | 29,431            | 7.94%           | \$53,317,953,184                     | 76.96%                    | \$286,371,573                  | 33.47%         |
| <b>Total</b>                        | <b>370,451</b>    | <b>100.00%</b>  | <b>69,282,917,351</b>                | <b>100.00%</b>            | <b>855,652,238</b>             | <b>100.00%</b> |
| <b>Separate Filers</b>              |                   |                 |                                      |                           |                                |                |
| Under \$25,000                      | 5,810             | 54.02%          | \$41,400,537                         | 0.77%                     | \$1,324,296                    | 8.74%          |
| \$25,000–\$50,000                   | 2,401             | 22.32%          | \$86,324,360                         | 1.62%                     | \$3,382,688                    | 22.32%         |
| \$50,000–\$75,000                   | 1,019             | 9.47%           | \$61,617,664                         | 1.15%                     | \$2,377,598                    | 15.69%         |
| \$75,000–\$100,000                  | 444               | 4.13%           | \$38,162,511                         | 0.71%                     | \$1,364,671                    | 9.01%          |
| \$100,000–\$200,000                 | 446               | 4.15%           | \$60,248,371                         | 1.13%                     | \$1,738,724                    | 11.47%         |
| Over \$200,001                      | 636               | 5.91%           | \$5,056,450,358                      | 94.62%                    | \$4,965,048                    | 32.77%         |
| <b>Total</b>                        | <b>10,756</b>     | <b>100.00%</b>  | <b>5,344,203,801</b>                 | <b>100.00%</b>            | <b>15,153,025</b>              | <b>100.00%</b> |



# How High Are Income Tax Rates in Your State?

Top State Marginal Individual Income Tax Rates, 2016



Note: (\*) State has a flat income tax. (\*\*) State also only taxes interest and dividends income. Map shows top marginal rates: the maximum statutory rate in each state. It is not an effective marginal tax rate, which would include the effects of phase-outs of various tax preferences. Local income taxes are not included. Source: State tax forms and instructions.



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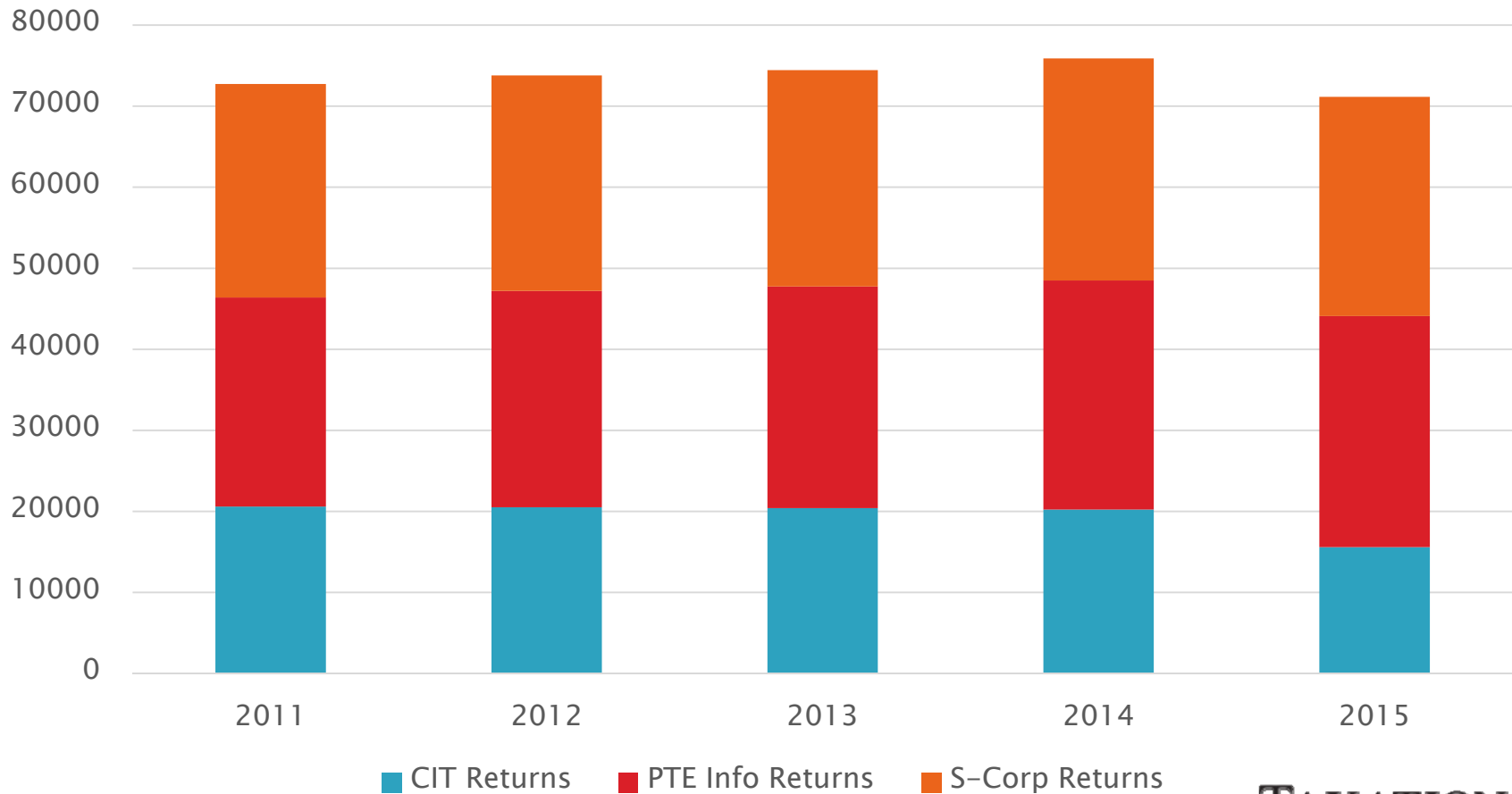


# Pass-Through-Entities effect on PIT

- ▶ PTE include S-Corporations, Partnerships, & Limited Liability Companies
- ▶ PTE file informational returns, but often do not incur entity level income tax liability
- ▶ Taxable event occurs when PTE makes an earnings distribution to its ownership
  - Non NM Residents are subject to PTW (4.9% of distribution)
  - Owners required to disclose this income on NM PIT-B
  - Allocation & Apportionment rules for PIT same as CIT

# Pass-Through Entities & S-Corporations

## CIT, PTE, & S-Corp Returns



# PIT Expenditures (1 of 2)

| NMSA   | Short Title  |
|--|--|
| <b>Article 2 Income Tax General Provisions</b> |  |
| 7-2-4  | Exemptions, PIT  |
| 7-2-5.2  | Exemption, income of persons 65+ or blind                    |
| 7-2-5.5  | Exemption, earnings by Indians                               |
| 7-2-5.6  | Exemption, medical care savings account                      |
| 7-2-5.7  | Exemption, income of persons 100+                            |
| 7-2-5.8  | Exemption, low & middle income taxpayers                     |
| 7-2.5.9  | Exemption, unreimbursed medical care expenses of persons 65+ |
| 7-2-5.10                                       | Exemption, NM national guard member premiums                 |
| 7-2-5.11                                       | Exemption, Armed Forces salaries                             |
| 7-2-14   | Rebate, Low Income Comprehensive                             |
| 7-2-14C  | Rebate, Low Income 65+ or Blind                              |
| 7-2-14.3                                       | Rebate, Property Tax due from Low Income                     |
| 7-2-18.1                                       | Credit, Dependent Child Day Care Expenses                    |
| 7-2-18.2                                       | Credit, Preservation of Cultural Property                    |
| 7-2-18.4                                       | Credit, Qualified Business Facility Rehabilitation           |
| 7-2-18.5                                       | Credit, Welfare-to-Work                                      |
| 7-2-18.7                                       | Rebate, SDV Property Tax Exemption                           |
| 7-2-18.8                                       | Credit, Electronic ID Reader                                 |
| 7-2-18.10                                      | Credit, Conveyance of Real Property                          |

# PIT Expenditures (2 of 2)

| NMSA   | Short Title  |
|--|--|
| <b>Article 2 Income Tax General Provisions</b> |  |
| 7-2-18.11                                      | Credit, Job Mentorship                                     |
| 7-2-18.13                                      | Credit, unreimbursed medical care expenses of persons 65+  |
| 7-2-18.14                                      | Credit, Solar Market Development                           |
| 7-2-18.15                                      | Credit, Working Family (Earned Income)                     |
| 7-2-18.16                                      | Credit, Special Needs Adopted Child                        |
| 7-2-18.17                                      | Credit, Angel Investment                                   |
| 7-2-18.18                                      | Credit, Renewable Energy Production                        |
| 7-2-18.19                                      | Credit, Sustainable Building                               |
| 7-2-18.21                                      | Credit, Blended Biodiesel Fuel                             |
| 7-2-18.22                                      | Credit, Rural Healthcare Practitioner                      |
| 7-2-18.23                                      | Credit, 2007 Taxable Year                                  |
| 7-2-18.24                                      | Credit, Geothermal Ground-Coupled Heat Pump                |
| 7-2-18.25                                      | Credit, Advance Energy                                     |
| 7-2-18.26                                      | Credit, Agricultural Biomass                               |
| 7-2-18.27                                      | Credit, Physician Participation in Cancer Treatment Trials |
| 7-2-18.28                                      | Credit, Veteran Employment                                 |
| 7-2-18.29                                      | Credit, New Sustainable Building                           |
| 7-2-32   | Deduction, Payments into Education Trust Fund              |
| 7-2-34   | Deduction, Net Capital Gain Income                         |
| 7-2-36   | Deduction, Organ Donation Expenses                         |
| 7-2-37   | Deduction, Unreimbursed Medical Care Expenses              |

# Thank you!

Our Mission is to administer and enforce New Mexico's tax and revenue laws, vehicle and driver licensing, and transportation programs in a manner warranting the highest degree of public confidence.

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