Investment Credit for Manufacturers
(Chapter 7, Article 9A, NMSA 1978)

New Mexico is one of only nine states that tax manufacturing equipment. This means that manufacturers are subject to tax on the value of the manufacturing equipment being purchased or transferred to their plants in New Mexico.

What is the Investment Credit for Manufacturers?

In 1979, the New Mexico Legislature created the Investment Credit in an attempt to offset the competitive disadvantage the taxation of manufacturing equipment placed on the state. Legislators at the time wanted to provide a more favorable tax climate for manufacturers because of the greater economic benefits they generate.

Currently, the Investment Credit is equal to the compensating tax rate of 5.125%, but it is limited to 85% of the taxpayer's compensating, gross receipts or withholding tax due for the reporting period. Any remaining credit may be claimed in subsequent reporting periods.

What is happening to the credit?

Unless action is taken in this legislative session, the Investment Credit will be capped at $2 million of qualified equipment after June 30, 2020. This would be a major problem, as there is currently no limit on the amount of investment a company may make and for which it can apply the credit.

That means that New Mexico would no longer be competitive for larger job creation projects from new and expanding employers that could help to strengthen and diversify the state's economy.

Additionally, the credit currently requires a company to hire one full-time employee for each $500,000 of investment made, up to $30 million, and then one full-time employee for each $1 million dollars invested thereafter. Unless the credit is extended, companies will be required to hire one full-time employee for each $100,000 of qualified equipment, beginning July 1, 2020. In an era of ever-increasing automation, New Mexico will stand out within the region as uncompetitive as well as unresponsive to industry trends.

The Unintended Consequence of Destination-Based Sourcing

During the 2019 legislative session, the State of New Mexico elected to adopt 'destination-based sourcing' for purposes of determining the tax rate on manufacturing equipment purchases. Therefore, manufacturers will be required to pay the difference between the Compensating Tax rate (5.125%) and the Gross Receipts Tax rate (7.875% in Albuquerque, for example), regardless of where they purchased the equipment.

Unless the Investment Credit is expanded to apply against Gross Receipts Tax, New Mexico will have another barrier to overcome when trying to stimulate investment and job creation. For example, a potential employer considering Albuquerque for a $50 million investment in manufacturing equipment would be facing approximately $1,375,000 in additional taxes above the current Compensating Tax rate.

While this change is being phased-in beginning July 1, 2021, the tax rate on the purchase of qualified equipment will be equal to the Gross Receipts Tax rate wherein the manufacturing operation is physically located in New Mexico.

Albuquerque Economic Development Proposes the Following Solutions:

- Extend the credit to July 1, 2030: New Mexico needs manufacturing projects of all sizes, including those investing more than $2 million
- Make an adjustment for inflation: Change the employment requirement to one full-time employee for each $750,000 of investment, up to $30 million, and then one full-time employee for each $1 million invested thereafter. The current employment to investment ratio hasn't been adjusted for inflation since 2003.
- Expand the credit to also apply against Gross Receipts Tax: This will eliminate the unintended consequence of Destination-Based Sourcing.
- Cap the credit at 5.125% for qualified equipment purchased through an Industrial Revenue Bond: This will ensure that companies realize the same value of the credit today, while maintaining the projected costs of the credit to what it is today.

Adopting these changes will offer much-needed predictability to employers in the manufacturing sector considering New Mexico for investment and job creation.