TAXATION & REVENUE
NEW MEXICO

2014
Tax Expenditure Report

Presented to the Revenue Stabilization & Tax Policy Committee

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2014 Tax Expenditure Report

UNDERSTANDING THE REPORT

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What is a "Tax Expenditure?"

- Used Federal Definition for 2014:
  - "Those revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability…"
- Previous Tax Expenditure Reports:
  - "Deviations from a baseline tax system created by specific tax law provisions."
- TRD economists used a consensus approach.

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What is NOT a "Tax Expenditure?"

- Exemptions, deductions, or credits required by the US or NM Constitutions or federal law.
- Exemptions, deductions, or credits allowed because of "in lieu of" taxation – i.e. taxation under a different tax program.
- Double taxation/anti-pyramiding provisions per Executive Order 2011-071.

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Major Tax Programs

- Personal Income Tax
- Corporate Income Tax
- Gross Receipts Tax
- Compensating Tax
- Other Excise Taxes
- Natural Resource Extraction Taxes
- Property Tax

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2014 Expenditure/Non-Expenditure Summary

- 126 Tax Expenditures.
  - There may be multiple statutes or tax programs implicated by a single expenditure.
- 113 Non-Expenditures.
- 19 Marginal Provisions.

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Information Reported for Each Tax Expenditure

- Brief description of statute
- Statutory basis
- Intended purpose
- History
- Evaluation
- Recommendations
- Reliability Factor
- Fiscal impact

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Intended Purpose

- Key Word Indicator:
  - No "presumably:" the purpose statement came either directly from the bill or from a FIR;
  - "Presumably:" the purpose statement is the interpretation ascribed to the expenditure by the TRD Tax Policy group economists.
- Hierarchy of Intended Purpose:
  - Global – overarching policy goal.
  - Evaluation – for Tax Expenditures Report.
  - Legal – statutory interpretation disputes that arise in the context of assessments/refund claims.

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History

- Original enactment date.
- Amendments over time.

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Evaluation & Recommendations

- Evaluation:
  - TRD economists' evaluation of the effectiveness of the expenditure in achieving the stated or presumed purpose.
- Recommendations:
  - TRD economists' recommendations on measures that may improve effectiveness of the expenditure in achieving its stated or presumed purpose.

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Reliability Factor

- Analyzes the reliability of the expenditure amount.

1. The highest reliability.
   - Separately applied for credits and separately reported deductions.
2. Estimated from taxpayer-reported data as contained in GenTax.
3. Estimated using national data and extrapolating to New Mexico.
4. The least reliable data.

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Reliability Factor Summary

Reliability Category	Tax Expenditure Count
1	61
2	22
3	17
4	15
No data	11
	126 Total

- Category 1 includes 18 tax expenditures (30 percent) with zero dollar amount claimed in 2014.

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Fiscal Impact

- Cost data for the majority of Tax Expenditures is included in chart format, if data is available.
  - TRD economists ascribed a numerical value, where possible, even if the numerical value had low reliability.

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Important Notes on Fiscal Impact Charts

- Data:
  - GRT/GGRT is (predominantly) monthly, cash-basis reporting.
    - 2014 report includes 2013 FY data.
    - Little to no changes to previous years' expenditure amounts.
  - PIT/CIT is by tax year.
    - One-year lag due to filing deadlines.
    - 2014 report includes FY 2013 data (2012 tax year data).
    - Frequent changes to previous years' data due to late filing, amended returns, and federal adjustments.

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Important Notes on Fiscal Impact Charts (continued)

- Must be read in conjunction with the reliability factor.
- All charts are in thousands.
- “Count” measures returns, not taxpayers.

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A QUICK GLANCE AT THE BIG PICTURE

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Categorizing Expenditures

- Citizen Benefits
- Economic Development
- Environment, Conservation & Renewable Energy
- Health Care
- Highly Specialized Industries

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Citizen Benefits

- Expenditures that are available to all taxpayers.
  - Examples – Food & medical services, prescription drugs, contributions to education.
- Expenditures designed to alleviate burdens for a specific subset of the NM population.
  - Examples – veterans, active military, low-income, elderly.
- Expenditures that lessen burdens of government.
  - Examples – nonprofit expenditures.

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Citizen Benefit Expenditures

Tax Expenditure Name	Statute
Affordable Housing Tax Credit	7-9I-1 *et seq.*
Armed Forces Salaries Exemption	7-2-5.11
Buses Operated by Religious or Non-Profit Organizations Exemption	7-15A-5(C)
Capital Gains Deduction	7-2-34
Certain Individuals Exemptions Against Motor Vehicle Excise Tax (Disabled Veteran)	7-14-6(E)
Certain Individuals Exemptions Against Motor Vehicle Excise Tax (Disabled)	7-14-6(D)
Child Care Credit	7-2-18.1
Contributions to Certain Organizations / Agencies Deduction	7-9-91
Corporate Supported Child Care Credit	7-2A-14
Disabled Street Vendors Exemption	7-9-41.3
Cultural Property Preservation Credit	7-2A-8.6 & 7-2-18.2
Educational Trust Fund Payments Deduction	7-2-32
Electronic ID Card Readers Credit	7-2A-18 & 7-2-18.8
Expenses Related to Organ Donation Deduction	7-2-36
Fees from Social Organizations Exemption	7-9-39
Food Deduction	7-9-92
Food Deduction (Hold Harmless)	7-9-92
Food Stamps Exemption	7-9-18.1

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Citizen Benefit Expenditures

Tax Expenditure Name	Statute
Fundraising Events Deduction	7-9-85
Hearing and Vision Aides Deduction	7-9-111
Job Mentorship Programs Credit	7-2A-17.1 & 7-2-18.11
Loans Deduction	7-9-61.1
Low- and Middle-Income Persons Exemption	7-2-5.8
Low Income Comprehensive Tax Rebate	7-2-14(A)
Low Income Property Tax Rebate	7-2-14.3
Medical Care Savings Accounts Exemption	7-2-5.6
National Guard Member Premiums Paid for Life Insurance Exemption	7-2-5.10
Nonathletic Special Events Deduction	7-9-104
Non-Profit Elderly Care Facilities Against GRT	7-9-16
Nonprofit Organizations Deduction	7-9-60
Nonprofit Organizations Exemption	7-9-15 & 7-9-29
Officiating at NM Activities Association-Sanctioned School Events Exemption	7-9-41.4
Persons 100 Years of Age or Older Exemption	7-2-5.7
Persons 65 Year of Age or Older Tax Rebate	7-2-14(C)
Persons 65 Years of Age or Older or Blind Exemption	7-2-5.2
Prescription Drugs Deduction	7-9-73.2

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Citizen Benefit Expenditures

Tax Expenditure Name	Statute
Sales to Nonprofit Organizations Deduction	7-9-60
Special Needs Adopted Child Tax Credit	7-2-18.16
Tax Holiday Sales Deduction	7-9-95
Tax rebate against PIT of property tax due that exceeds the elderly taxpayer's maximum property tax liability	7-2-18
Textbooks Exemption	7-9-13.4
Trade-in Vehicle Deduction	7-14-4
Trade-Ins Deduction	7-14A-8
Unreimbursed or uncompensated medical care expenses deduction*	7-2-35
Unreimbursed or Uncompensated Medical Expenses for Persons 65 Years of Age or Oder Exemption **	7-2-5.9
Unreimbursed or Uncompensated Medical Expenses for Persons 65 Years of Age or Older Credit **	7-2-18.13
Veteran Employment Tax Credit	7-2-18.28 & 7-2A-27
Welfare to Work Programs Credit	7-2-18.5 & 7-2A-8.8
Working Families Tax Credit	7-2-18.15

Open for discussion:

* Not included in the 2014 report. Will be included in the 2015 tax expenditure report.
** Included in the 2013 tax year database but excluded in the 2014 report. Not repealed and not sunset. The dollar amounts for these expenditures were not included in the pie-chart on page 32, below.

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Economic Development

- Expenditures designed to stimulate investment in New Mexico.
  - Example – Angel Investment Credit.
- Job creation expenditures.
  - Examples – High-Wage and Rural Job Tax Credits.
- Expenditures designed to attract industries.
  - Examples – Film Production Credit, R&D credit.

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Economic Development Expenditures

Tax Expenditure Name	Statute
Alternative Energy Product Manufacturers Tax Credit	7-9J-1 *et seq.*
Angel Investment Credit	7-2-18.17
Business Facility Rehabilitation Credit	7-2-18.4 & 7-2A-15
Credit Unions' Sales Deduction	7-9-61.2
Double-Weighted Sales Apportionment	7-4-10(B)
Film Production Tax Credit	7-2F-1 *et seq.*
High-Wage Jobs Tax Credit	7-9G-1
Hosting World Wide Web Sites Deduction	7-9-56.2
Investment Advisory Services Deduction	7-9-108
Investment Tax Credit	7-9A-1 *et seq.*
Jet Fuel Deduction	7-9-83 & 7-9-84
Laboratory Partnership with Small Business Tax Credit	7-9E-1 *et seq.*
Research and Development Small Business Tax Credit	7-9H-1 *et seq.*
Rural Job Tax Credit	7-2E-1.1
Software Development Services Deduction	7-9-57.2
Tax Increment for Development	5-15-15
Technology Jobs Tax Credit	7-9F-1 *et seq.*
Vehicles Operating Within 10 Miles of Border with Mexico Exemption	7-15-3.2
Venture Capital Investment Credit	7-2D-8.1

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Environment, Conservation, & Renewable Energy

- Expenditures designed for environmental health, to promote conservation, and to promote renewable energy technologies and usage.
  - Examples – Advanced Energy Credit (renewables and carbon sequestration), Biofuels Incentives, Renewable Energy Production Tax Credit, and PIT/CIT credit for land conservation contributions.

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Environment, Conservation & Renewable Energy Expenditures

Tax Expenditure Name	Statute
Advanced Energy Deduction	7-9-114
Advanced Energy Tax Credit	7-2-18.25, 7-2A-25 & 7-9G-2
Agricultural Water Conservation Credit	7-2A-22 & 7-2-18.20
Biodiesel Blending Facility Credit	7-9-79.2
Biomass-Related Equipment and Biomass Materials Deduction	7-9-98
Electric Transmission Facilities Services Deduction	7-9-103
Electric Transmission Facilities Deduction	7-9-101 & 7-9-102
Geothermal Ground Coupled Heat Pump Credit	7-2A-24 & 7-2-18.24
Land Conservation Credit	7-2A-8.9 & 7-2-18.10
Renewable Energy Production Credit (Solar & Wind)	7-2A-19 & 7-2-18.18
Solar Energy Systems Deduction	7-9-112
Solar Market Development Credit	7-2-18.14
Sustainable Building Credit	7-2A-21 & 7-2-18.19
Wind and Solar Generation Equipment Deduction	7-9-54.3
Agricultural Biomass Credit	7-2A-26 & 7-2-18.26

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Health Care

- Expenditures designed to increase accessibility to and lower the costs of health care.
  - Examples – Health Care Practitioners deduction, Hospital Construction Deduction, and Rural Health Care Practitioners Credit.

Health Care Expenditures

Tax Expenditure Name	Statute
Construction of Health Care Facilities Deduction	7-9-99
Health Care Practitioners Deduction	7-9-93
Health Care Practitioners Deduction (Hold Harmless)	7-1-6.46
Hospitals Credit	7-9-96.1
Hospitals Deduction	7-9-73.1
Medical Services Deduction	7-9-77.1
Physician participation in cancer treatment clinical trials credit	7-2-18.27
Rural Health Care Practitioners Credit	7-2-18.22
Sole Community Provider Hospital Construction Deduction	7-9-100

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Highly Specialized Industries

- Expenditures available to specific or highly specified industries, such as agriculture, uranium, aerospace, and other industries.
- Note: many of these expenditures cross-purpose with economic development.

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Highly Specialized Industries Expenditures

Tax Expenditure Name	Statute
Aircraft Parts and Services Deduction	7-9-62(B)
Aircraft Manufacturer Sales Deduction	7-9-62(B)
Aircraft Sales 50% Deduction	7-9-62(A)
Aircraft Services Deduction	7-9-62.1
Agricultural Implements Deduction	7-9-62 & 7-9-77
Coal: Exemption	7-26-6.2
Discount of sale stamps from Cigarette Tax	7-12-7(D)
Electricity Conversion Deduction	7-9-103.1
Electricity Exchange Deduction	7-9-103.2
Fuel Used in Space Vehicles Exemption	7-9-26.1
Locomotive Engine Fuel Deduction	7-9-110.1 & 7-9-110.2
Lottery Retailers Deduction	7-9-87
Microbrewer Beer Rate Differential	7-17-5(A)(5) & (6)
Military Acquisition Programs Deduction	7-9-94
Military Construction Services Deduction	7-9-106

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Highly Specialized Industries Expenditures

Tax Expenditure Name	Statute
Molybdenum: Rate Differential	7-25-5(A)(4)
Molybdenum: Sales to Tax-Exempt Entities, Service Charges, and Royalty Deductions	7-25-5(A)(4) & 7-25-4(A)(3)
Motor Carriers Operating Exclusively within 10 Miles of Mexican Border	7-15A-5(D)
Natural Gas: Exemption	7-29-4(B)(1)
Natural Gas: Rate Differential (Based on Price)	7-29-4(A)(1)(6)(7) & 7-31-4(A)(6)(7)
Natural Resources, all, except Timber, Potash and Molybdenum: Sales to Tax-Exempt Entities, Service Charges, and Royalty Deductions	7-25-3I
Natural Resources, except Potash and Molybdenum: Sales to Tax-Exempt Entities, Service Charges, and Royalty Deductions	7-25-3I
Newspapers Deduction	7-9-64
Oil and Other Liquid Hydrocarbons: Exemption	7-29-4(B)(2)
Oil and Other Liquid Hydrocarbons: Rate Differential (Based on Price)	7-31-4(A)(4)(5) & 7-29-4(A)(3)
Potash: Rate Differential	7-25-4(A)(2) & 7-25-5A(2)
Potash: Sales to Tax-Exempt Entities, Service Charges, and Royalty Deductions	7-25-3I
Production or Staging of Professional Contests Deduction	7-9-107
Publication Sales Deduction	7-9-63
Railroad Equipment and Aircraft Exemption	7-9-30
Spaceport Related Transactions Deduction	7-9-54.2

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Highly Specialized Industries Expenditures

Tax Expenditure Name	Statute
Space-Related Test Articles Deduction	7-9-54.4
Test Articles Deduction	7-9-54.5
Timber: Rate Differential	7-25-5(A)(2)
Timber: Sales to Tax-Exempt Entities, Service Charges, and Royalty Deductions	7-25-3I
Trade-Support Companies in Border Zone Deduction	7-9-56.3
Transportation of Agricultural Workers Exemption	7-15A-5(B)
Uranium: Deductions equal to 25% of difference between Indian Royalties and Taxable Value under Resources Excise Tax	7-30-5(C)
Weight Distance Rate Differential (One Way Hauler)	7-15A-6(B)

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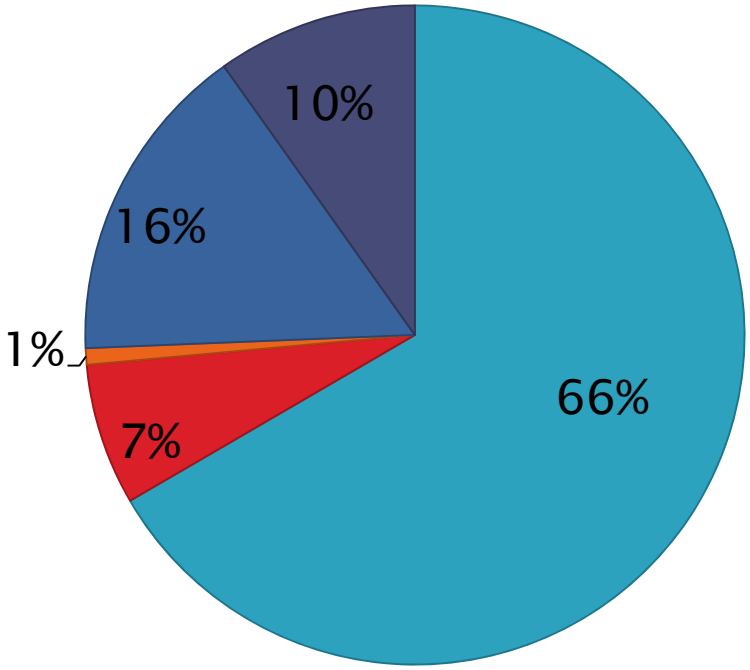
Expenditure by Category

(percent based on dollar amount)



- Citizen Benefits
- Economic Development
- Environment, Conservation & Renewable Energy
- Health Care
- Highly Specialized Industries

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!Cautionary Notes!

- Pie chart cannot be read without considering reliability factors.
- Slight inconsistencies between database search to generate tables/chart and the expenditure listing in the hard-copy report.
  - Blended biodiesel PIT/CIT credit (p.42).
  - 50% deduction for non-registered motor vehicles (p.156).
  - Aerospace services to USAF (p. 159) – no impact.
  - Special/dyed diesel fuel GRT deduction (p.172).
  - Vegetable oil fuel (p.184).
  - Vehicles titled before July 1991 (p.186) – no impact.

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2014 Tax Expenditure Report

A LOOK FORWARD

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Self-Improvement

- Correct and eliminate surface flaws in the report.
- Continually review and reconsider expenditure/non-expenditure/marginal.
- Database building, field searches, and appendices.
- Develop cost-effective ways to bridge the reliability factor gulf between 1s/2s and 3s/4s.
- Improve certain evaluation sections.

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THANK YOU

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Tax Policy Director Bio

- Frank joined the Department's Legal Services Bureau in 2014 and was appointed as the Tax Policy Director in July 2015. He brings extensive state and local tax experience to the Office of the Secretary, complimenting TRD's team of talented economists and tax policy analysts. Before joining the Department, Frank spent almost a decade as a practicing state and local tax attorney in the Phoenix office of a large international law firm. He has 50-state tax experience in corporate income, sales and use, property and state excise taxes. Having represented taxpayers, industry groups, and the State revenue collection agency, Frank strives to bring an objective, balanced perspective to state tax policy matters.
- Frank has a Bachelor's Degree in Political Science from Duke University and earned his law degree from the University Colorado School of Law in 2005. He lives in Santa Fe, is fond of motorcycles and mountain bikes, and takes every opportunity he can to enjoy the New Mexico outdoors.

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