TAXATION & REVENUE
NEW MEXICO

2013 HB641
Update on CIT Components

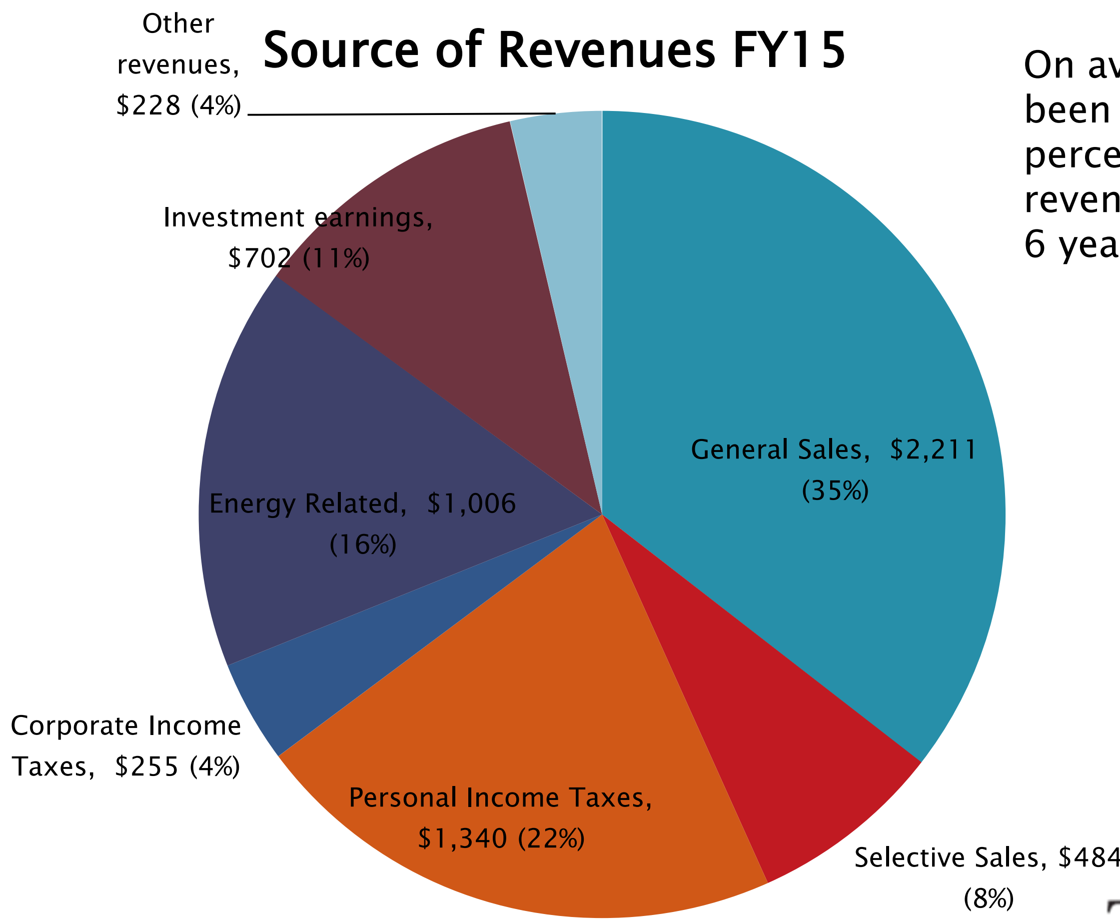
Presented to the Revenue Stabilization and Tax Policy Committee
on 9/8/2015

Demesia Padilla, Cabinet Secretary
Elisa Walker-Moran, Chief Economist

New Mexico Corporate Income Tax Revenues

TAXATION & REVENUE
NEW MEXICO

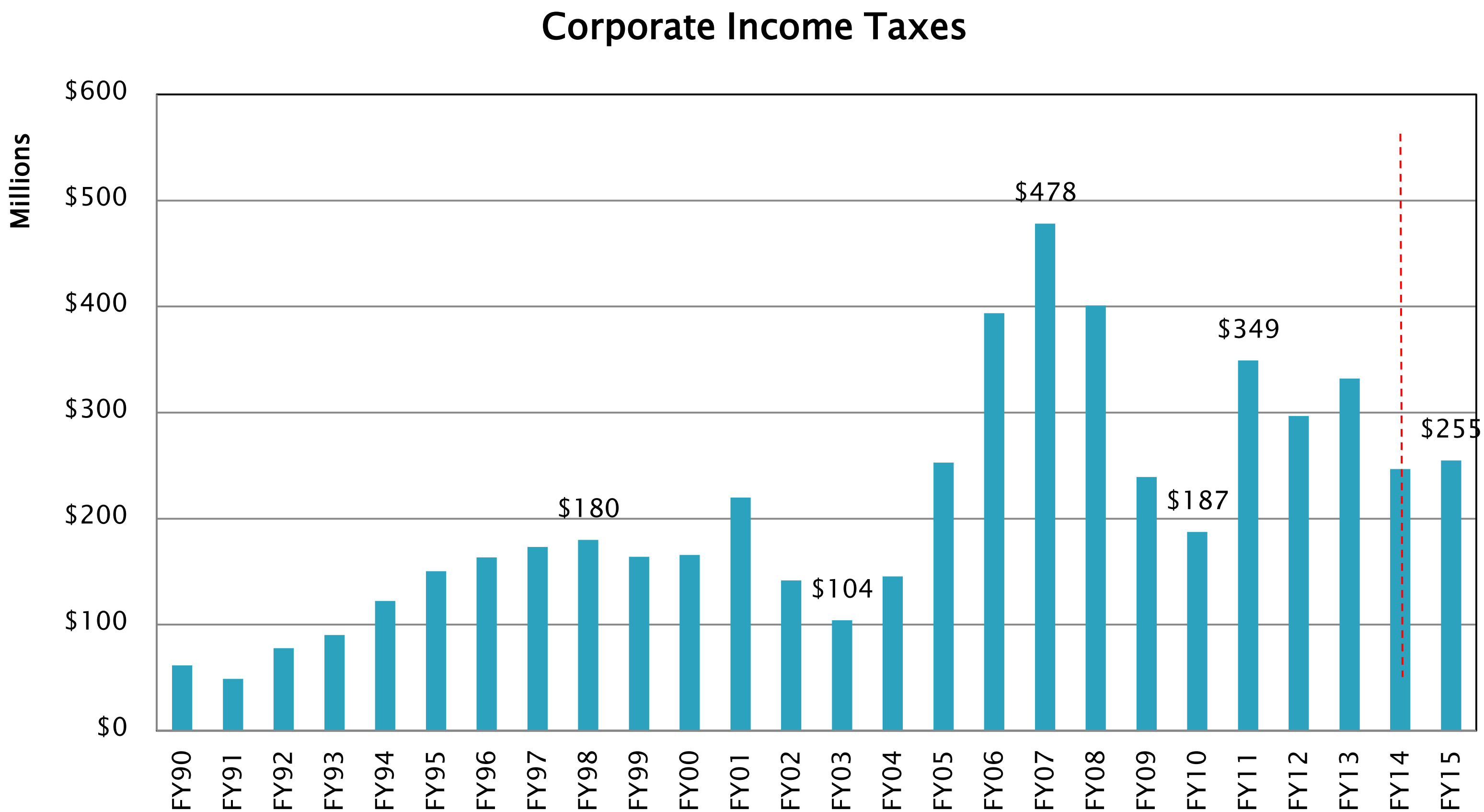
FY15 General Fund Consensus Forecast (in Millions)



On average, CIT has been close to four percent of the total revenues for the last 6 years.

TAXATION & REVENUE NEW MEXICO

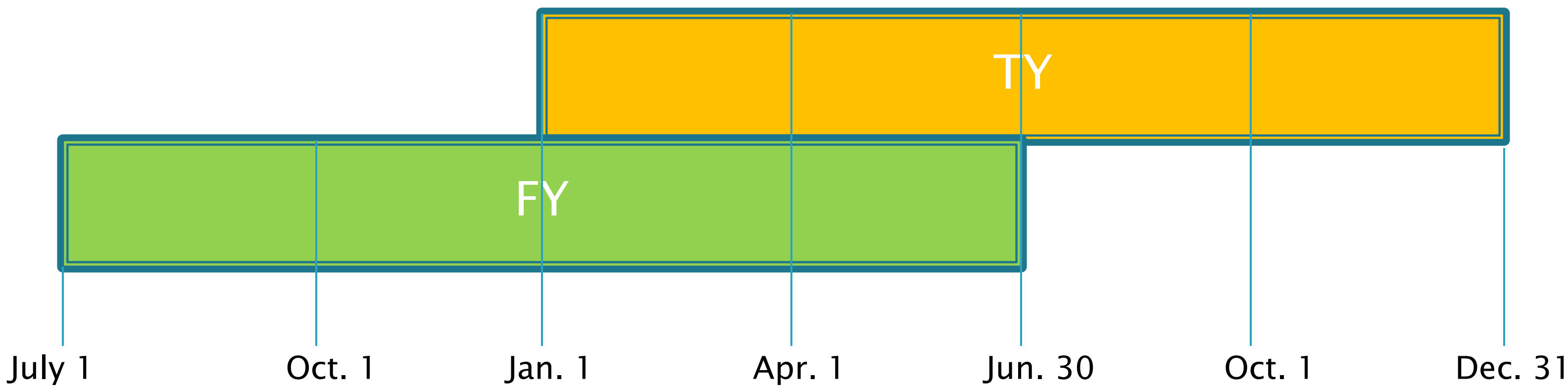
CIT General Fund Revenues



- CIT is net distribution to General Fund after all credits, including $50 million Film Tax Credit.
- CIT components of HB 641 apply to tax years beginning from and after January 1, 2014 (see red dotted line).

TAXATION & REVENUE NEW MEXICO

HB 641only applies to part of the revenue collected in FY 2014



House Bill 641 (2013)

TAXATION & REVENUE
NEW MEXICO

CIT's Five Major Components

Filing Method • Separate entity/combined (unitary) group/federal consolidated group
Net Income (the tax base) • Federal taxable income plus NM additions and subtractions
Allocation & Apportionment of Multistate Income • Formulary apportionment for business income
Tax Rate
After-Tax Credits

TAXATION & REVENUE
NEW MEXICO

HB 641

- Affected three of the five major CIT components:
  - <u>Tax Rate</u>: phased-in CIT rate reduction (applies regardless of industry)
  - <u>Allocation & Apportionment</u>: phased-in an elective single sales factor for manufacturers
  - <u>Filing Method</u>: added mandatory combined reporting for retailers

HB 641 Tax Rate Reduction

- Effective for tax years beginning on or after January 1, 2014 (§ 7-2A-5);
- Decreases the highest corporate income tax rates to 5.9% over five years, beginning in TY2014.

<table>
<tr><th></th><th>TY2013</th><th>TY2014</th><th>TY2015</th><th>TY2016</th><th>TY2017</th><th>TY2018</th></tr>
<tr><td>Income < $500k</td><td colspan="6">4.8%</td></tr>
<tr><td>Income $500k - $1m</td><td colspan="4">6.4%</td><td rowspan="2">6.2%</td><td rowspan="2">5.9%</td></tr>
<tr><td>Income > $1m</td><td>7.6%</td><td>7.3%</td><td>6.9%</td><td>6.6%</td></tr>
</table>

TAXATION & REVENUE
NEW MEXICO

2012 CIT Paid by Income Bracket and by Industry 2012 for Primary Industries

2 digit NAICS	Industry	Taxable Income over $1,000,000		Taxable Income over $500,000 but not over $1,000,000		Taxable Income under $500,000	
11	Agriculture, Fishery and Hunting	$542,279	19	$128,386	7	$466,752	206
21	Oil and Gas and Other Mining	$21,996,281	143	$441,322	31	$622,771	279
22	Utilities	$1,274,730	12	$510	3	$26,452	15
23	Construction	$1,743,274	140	$217,329	54	$636,887	435
31-33	Manufacturing	$136,370,481	619	$125,315	37	$324,490	191
42	Wholesale Trade	$6,383,033	374	$391,333	52	$428,741	266
44-45	Retail Trade	$6,383,033	317	$391,333	22	$428,741	182
48-49	Transportation & Warehousing	$20,280,568	141	$136,922	133	$147,106	152
51	Information	$12,663,677	163	$84,329	18	$153,510	77
52	Finance & Insurance	$18,100,159	640	$226,147	118	$325,385	470
53	Real Estate& Rental & Leasing	$2,570,220	141	$40,376	21	$434,367	428
54	Professional, Scientific & Technical	$8,852,373	560	$130,890	71	$585,539	524
55	Management of Companies & Enterprises	$32,869,318	285	$77,447	13	$81,284	95
56	Admin & Support & Waste Mgt Remediation	$1,793,031	153	$61,032	25	$111,560	152
62	Health Care & Social Assistance	$5,505,573	71	$4,162	5	$205,627	168
72	Accommodation & Food Service	$1,224,565	50	$81,048	7	$195,431	104
81	Other Services except Public Administration	$438,156	45	$54,718	6	$240,333	181
	Total	**$278,990,751**	**3,873**	**$2,592,599**	**623**	**$5,414,976**	**3,925**

REVENUE & NEW MEXICO

Effect on Filers/Revenues

- Based on 2012 actual filing counts and revenues, at full phase-in, the rate reduction will impact:
  - The 54% of all CIT filers in the top and middle tax brackets; and
  - The vast majority of CIT revenues.

Fiscal Impact of Rate Reduction

- TRD estimated the change in revenue due to lowering the top CIT rate from 7.6% to 5.9% over five years.
- In the 2013 FIR, TRD used only TY2010 data.
- This update is based on the average of detailed taxpayer data for TY2010–TY2012.

TAXATION & REVENUE
NEW MEXICO

Fiscal Impact of Rate Reduction

Original 2013 Fiscal Impact				
	FY2014	**FY2015**	**FY2016**	**FY2017**
Dec 2012 Forecast Gross CIT Revenues	377,000	433,000	450,000	460,000
HB 641 2013 Impact	-8,368	-28,833	-48,832	-70,496
% of Total	-2%	-7%	-11%	-15%

Updated Impact Analysis Based on Revised Forecast							
	FY2014	**FY2015**	**FY2016**	**FY2017**	**FY2018**	**FY2019**	**FY2020**
Aug 2015 Forecast Gross CIT Revenues	303,347	339,000	336,000	389,000	386,000	377,000	392,000
New Impact	-5,570	-24,209	-34,278	-55,664	-67,204	-65,637	-68,249
% of Total	-3%	-7%	-10%	-14%	-17%	-17%	-17%

Takeaways: Rate Reduction

- Percentage change between the 2013 FIR and the current impact analysis remains in line.
- The rate reduction had a minimal impact on declining revenues in FY14.

TAXATION & REVENUE
NEW MEXICO

HB 641 Single Sales Factor

- NM UDITPA (§§ 7-4-1 *et seq.*) uses a formula to "apportion" multistate business income among the states in which a corporation operates.
- The Standard Formula:

$$\frac{\text{Property factor} + \text{Payroll factor} + \text{Sales factor}}{3}$$

- Each "factor" is a ratio that compares NM to the corporate total.

TAXATION & REVENUE
NEW MEXICO

Elective Single Sales Factor for Manufacturers

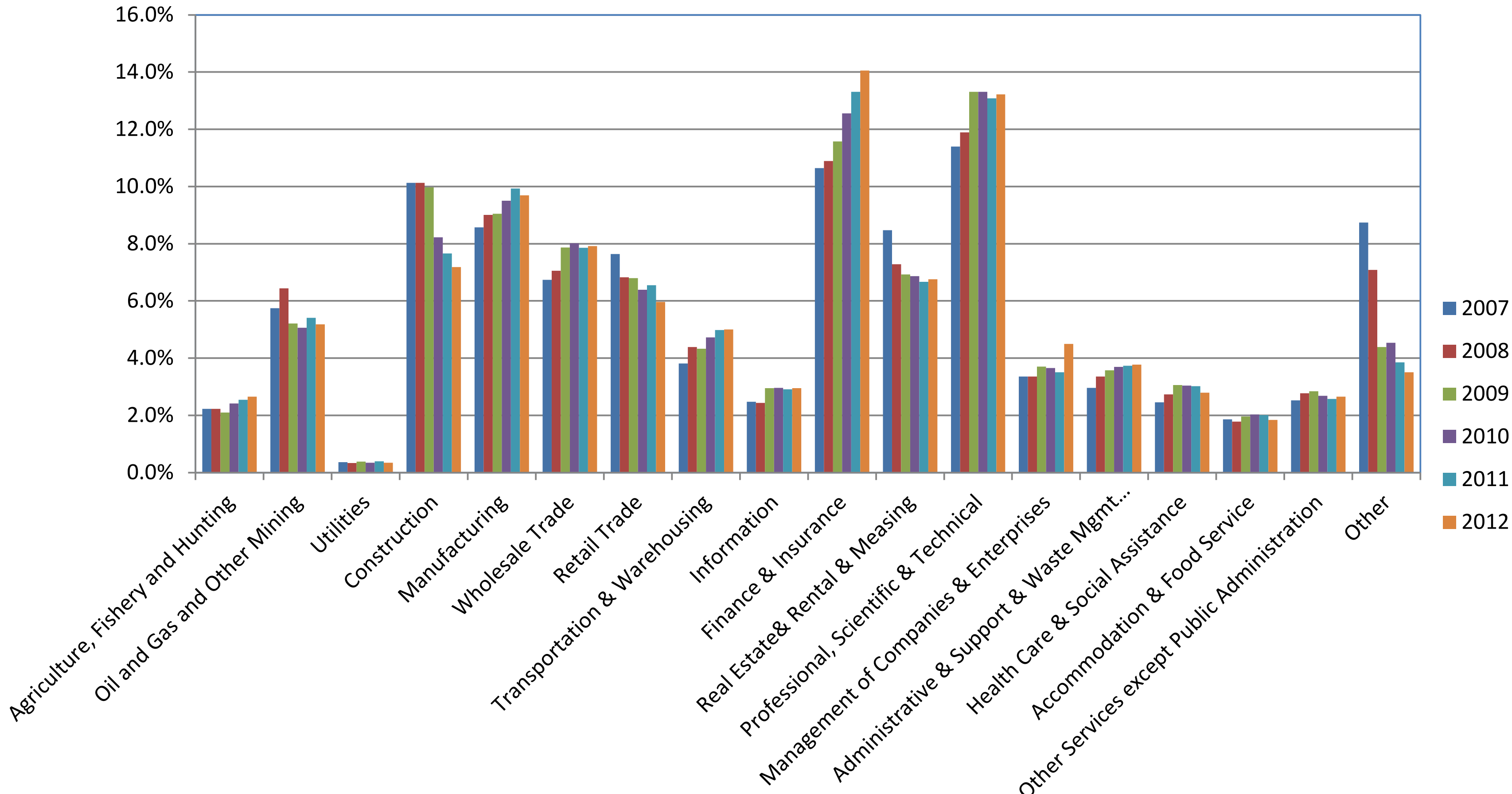
- Effective for tax years beginning from and after January 1, 2014
- Allows a taxpayer, whose principal business activity is "manufacturing," to elect to apportion business income to New Mexico using a phased-in single sales factor.
- Once the election is made, taxpayers must use the formula for three consecutive tax years before being able to opt back out.

HB 641Phases in a Single Sales Factor for Manufacturers

Tax Year	Apportionment Formula
2014*	(2Xsales factor)+(property factor)+(payroll factor)
(50%)	4
2015	(3Xsales factor)+(property factor)+(payroll factor)
(60%)	5
2016	(7Xsales factor)+(1.5Xproperty factor)+(1.5Xpayroll factor)
(70%)	10
2017	(8Xsales factor)+(property factor)+(payroll factor)
(80%)	10
2018	(total sales in New Mexico)
(100%)	(total corporate sales)

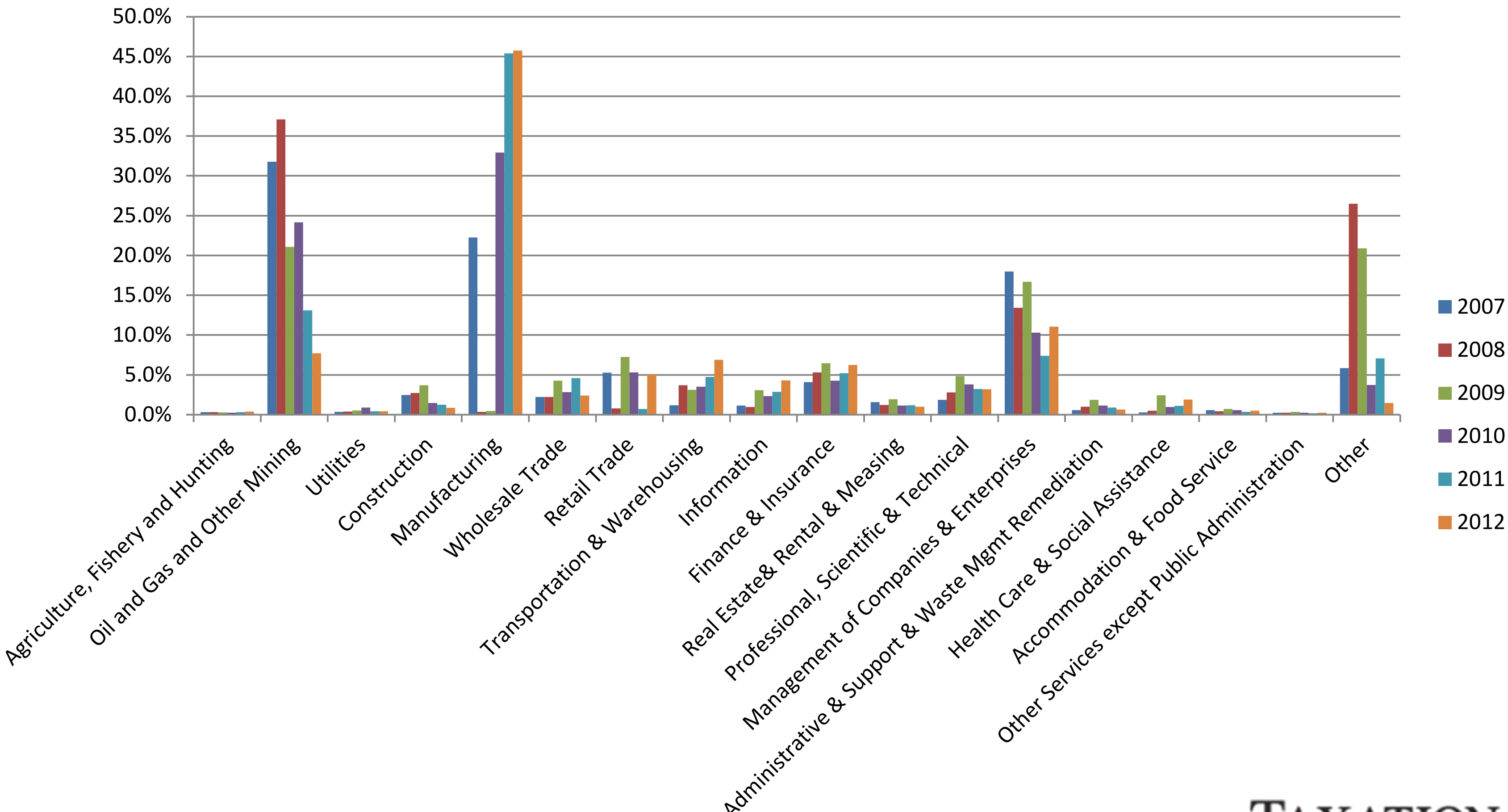
* 2014 is the same option in the old law.

CIT Returns by Industry Sector



TAXATION & REVENUE NEW MEXICO

CIT Revenues by Industry Sector



TAXATION & REVENUE NEW MEXICO

Fiscal Impact of Single Sales Factor Phase-In

- Single sales factor could apply to 10% of return filers, who collectively generate a significant portion of total CIT revenues.

Fiscal Impact of Single Sales Factor Phase-In Assumptions

- In 2013, only TY2010 NM CIT data was used in the fiscal impact analysis.
- This analysis is based on averaged detail taxpayer data for TY2010-TY2012.
- The 2013 FIR used the December 2012 consensus forecast estimates to estimate the fiscal impacts from FY14 through FY17.
- This analysis uses the August 2015 consensus forecast to estimate the fiscal impacts from FY15 through FY20.
- This analysis used the NM CIT data for manufacturing corporations (NAICS code 31 through 33), although it is recognized that the definition provided in the bill has a potentially broader scope than businesses defined as manufacturers under NAICS codes – i.e. approximately 2,200 corporations with a total average gross NM CIT between TY2010-TY2012 of $110 million.

Fiscal Impact of Single Sales Factor Phase-In Assumptions

- This analysis assumes that all manufacturing corporations whose sales factor is less than their three-factor average will make the election.
- In 2013 FIR, the fiscal impact was reduced by 10% on the assumption that not all eligible corporations would make the election due to the 3-year election requirement.
- This analysis does not make that reduction.
- These estimated effects assume the modified tax rates in the bill are in effect.

Fiscal Impact of Single Sales Factor Phase-in

Original 2013 Fiscal Impact							
	FY2014	**FY2015**	**FY2016**	**FY2017**	**FY2018**	**FY2019**	**FY2020**
Dec 2012 Forecast Gross CIT Revenues	377,000	433,000	450,000	460,000			
HB 641 2013	-80	-10,949	-28,761	-45,313			
% of Total	0%	-3%	-6%	-10%			

Updated Impact Analysis Based on Revised Forecast							
	FY2014	**FY2015**	**FY2016**	**FY2017**	**FY2018**	**FY2019**	**FY2020**
Aug 2015 Forecast Gross CIT Revenues	303,347	339,000	336,000	389,000	386,000	377,000	392,000
New Impact	-60	-8,433	-30,003	-46,379	-54,223	-78,247	-81,360
% of Total	0%	-6%	-9%	-12%	-14%	-21%	-21%

TAXATION & REVENUE NEW MEXICO

Takeaways: Single Sales Factor

- Percentage change between the 2013 FIR and the current impact analysis remains in line.
- The bill does have an impact on revenue collections over time because the largest taxpayers are in the manufacturing industry.
- Single Sales Factor critical in remaining competitive, especially with southwestern states.

States with SSF for Manufacturers

Arizona (phase-in)	California	Colorado
Connecticut	Georgia	Illinois
Indiana	Iowa	Louisiana
Maine	Michigan	Minnesota
Missouri	Nebraska	New Jersey
New York	Oregon	South Carolina
Texas	Utah	Wisconsin

HB 641 Combined Reporting for Retailers

- Effective for tax years beginning from and after January 1, 2014 (§ 7-2A-8.3)
- Requires mandatory combined reporting by retailers that sell goods in facilities in NM that exceed 30,000 square feet
- Provides an exclusion for retailers that have facilities in NM that: (1) do not make retail sales; and (2) employ at least 750 people.

Fiscal Impact of Combined Reporting for Retailers

- Combined reporting could apply to approximately 6-7% of filers, who represent approximately 5% of CIT revenues.
- Note: assuming all retailers meet the criteria for combined reporting.

Fiscal Impact of Combined Reporting

- This estimate reflects the mid-point of a range derived from a **review of several studies of combined reporting**, but the range of estimates in general is very wide, from 0% (no increase in revenue) to 20%.
- The estimate assumes that mandatory combined reporting for the entire retail population would increase corporate income tax revenues before credits by roughly one-third of the amount collected.

Fiscal Impact of Combined Reporting

Original 2013 Fiscal Impact				
	FY2014	**FY2015**	**FY2016**	**FY2017**
Dec 2012 Forecast Gross CIT Revenues	377,000	433,000	450,000	460,000
HB 641 2013 Impact	1,200	7,500	5,800	4,200
% of Total	0.3%	1.7%	1.3%	0.9%

Updated Impact Analysis Based on Revised Forecast				
	FY2014	**FY2015**	**FY2016**	**FY2017**
Aug 2015 Forecast Gross CIT Revenues	303,347	339,000	336,000	389,000
New Impact	1,054	6,584	5,092	3,687
% of Total	0.3%	1.9%	1.5%	0.9%

Takeaways: Combined Reporting for Retailers

- This impact needs, and will receive, further study as taxpayer detail becomes available.

TAXATION & REVENUE
NEW MEXICO

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.

http://www.tax.newmexico.gov/

TAXATION & REVENUE
NEW MEXICO