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FISCAL IMPACT REPORT

BILL NUMBER: Senate Bill 60

SHORT TITLE: Tax Changes

SPONSOR: Sharer

LAST UPDATE: ______ **ORIGINAL DATE:** 1/26/26 **ANALYST:** Graeser/Torres

REVENUE*
(dollars in thousands)

Type	FY26	FY27	FY28	FY29	FY30	Recurring or Nonrecurring	Fund Affected
Net Taxes		($135,230.0) to ($2,586,160.0)	($82,700.0) to ($2,549,600.0)	($87,820.0) to ($2,645,430.0)	($93,510.0) to ($2,716,520.0)	Recurring	General Fund
Net Taxes		$46,000.0 to $954,700.0	$94,580.0 to $2,080,460.0	$97,744.0 to 2,157,470.0	$99,962.0 to $2,219,810.0	Recurring	Local Governments
Net Taxes		($21,370.0) to ($117,000.0)	($66,130.0) to ($93,910.0)	($67,330.0) to ($96,290.0)	($69,100.0) to ($97,680.0)	Recurring	Other State Funds

Parentheses indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files
2022 U.S. Census Economic Census
2022 NMDA.2022 Agricultural Census and 2023, 2024, Annual Agricultural Reports
2022 & FY24 RP80 State Level GRT Reports by 3-digit NAICS codes
FY09-FY25 RP500
FY20-FY25 RP500 2-digit NAICS sectoral data

LFC has yet to receive analysis from state, education, or judicial agencies. This analysis could be updated if that analysis is received.

SUMMARY

Synopsis of Senate Bill 60

Senate Bill 60 (SB 60) proposes a comprehensive restructuring of New Mexico's tax system. The bill substantially broadens the gross receipts tax (GRT) base by repealing numerous exemptions, deductions, and credits; reduces state GRT rates while preserving local option rates; restructures personal and corporate income tax brackets and rates; and repeals several stand-alone excise and premium taxes, instead taxing those activities under the GRT. Collectively, the bill would convert the state's current hybrid system into a true gross receipts (turnover) tax while significantly altering the distribution of tax burdens across industries and taxpayers.

Key provisions:

- Reduces the state GRT and compensating tax rates from 4.875 percent to 2 percent;

- Reduces the governmental gross receipts tax (GGRT) rate from 5 percent to 2 percent and the leased vehicle GRT rate to 2 percent;
- Repeals the 1.225 percent municipal state share and makes conforming changes throughout statute;
- Preserves all local option GRT and compensating tax rates while applying them to a broadened base, allowing local governments to tax automobile dealer sales and insurance premiums;
- Repeals multiple tax acts and replaces them with GRT taxation, including the Insurance Premium Tax Act, Motor Vehicle Excise Tax Act, Boat Tax Act, Alternative Fuel Tax Act, County and Municipal Gasoline Tax Act, Railroad Car Company Tax Act, and Interstate Telecommunications Gross Receipts Tax Act, with conforming technical changes;
- Repeals numerous business and economic development credits, including the Rural Job Tax Credit, Investment Credit Act, Technology Jobs and R&D Credit, High-Wage Jobs Tax Credit, Affordable Housing Tax Credit, and related provisions;
- Repeals state participation in tax increment development districts (TIDDs) and metropolitan redevelopment area (MRA) districts, while allowing previously approved districts and bonds to continue until retirement;
- Replaces distributions from repealed taxes with fixed percentages of general fund GRT for several funds, including:
  - Law enforcement protection fund (0.03 percent of GRT),
  - Fire protection fund (0.21 percent of GRT),
  - Health care affordability fund (0.17 percent of GRT),
  - State road fund (0.12 percent), transportation projects fund (0.11 percent), and boat fund (0.54 percent);
- Revises personal income tax (PIT) brackets and rates to 2 percent, 4 percent, and a top marginal rate of 6 percent on taxable income above $60 thousand for married filers and $40 thousand for single filers; limits the capital gains deduction to $1,000 and repeals the business sale exclusion;
- Establishes new corporate income tax (CIT) brackets and rates of 2 percent, 4 percent, and a top marginal rate of 6 percent on taxable income above $500 thousand;
- Repeals numerous PIT and CIT credits and deductions, including credits for renewable energy, angel investments, rural health care practitioners, geothermal systems, agricultural biomass, cultural property preservation, and various estate and trust provisions;
- Adds annual registration fees of $650 for electric vehicles and $325 for plug-in hybrid vehicles;
- Reduces the manufacturers gaming tax rate from 10 percent to 2 percent, maintains the racino and nonprofit gaming tax at 10 percent, and increases the bingo and raffle tax from 0.5 percent to 2 percent;
- Sunsets Local Economic Development Act (LEDA) authority in 2035 and sunsets several manufacturing-related GRT and compensating tax deductions in 2035;
- Repeals food and medical services hold-harmless payments to municipalities and counties;
- Repeals numerous GRT exemptions and deductions, including those for livestock feed, nonprofit receipts, interest and dividends, and most resale provisions, while retaining limited interstate commerce and negotiated economic development deductions;
- Provides that repeal of taxes and credits shall not impair outstanding bonds or loan guarantees.

The bill represents a broad, systemic reconfiguration of the state's revenue structure, incentives framework, and tax-increment financing mechanisms. The effective dates of most sections of the bill is January 1, 2027, though some property and special increment area (TIDDs and MRAs) changes take effect July 1, 2026.

FISCAL IMPLICATIONS

SB60 would have enormous and complex fiscal impacts across virtually every major state and local revenue stream. While some provisions reduce tax rates and repeal revenue sources, others repeal tax expenditures and eliminate incentive programs, offsetting revenue losses. The net fiscal impact is impossible to determine with certainty, and the possible range of outcomes are disparate, before even considering the potential economic and structural shifts in the state's tax base.

The fiscal estimate prepared for SB38 in 2023 by the Taxation and Revenue Department (TRD) and LFC staff represents, at best, an order-of-magnitude approximation. TRD noted that numerous interactions among bill provisions were not fully modeled and that a comprehensive static estimate was not feasible with available tools and data. Given the complexity of the proposal and its repeated introduction in 2019, 2023, and 2025, it remains uncertain whether either TRD or LFC economists could produce a reliable static estimate. As noted in the 2023 fiscal impact report (FIR), "due to the complexity of the bill, more time and review would be recommended by economists across the executive and legislative bodies."

The revenue impact table presented above reflects only partial estimates from TRD and LFC for selected provisions. A complete fiscal analysis would require thousands of staff hours and would remain highly uncertain due to substantial data limitations and the lack of detailed taxpayer-level information.

In addition to these static uncertainties, the bill would generate significant dynamic effects. These effects would include behavioral responses from affected industries and taxpayers, including nonprofit hospitals, other nonprofit organizations, current recipients of tax expenditures, and taxpayers in sectors such as railroads, agriculture, and certain federal contractors that view existing tax provisions as negotiated components of prior economic development policy.

Because TRD has since published the FY24 *Tax Expenditure Report*, which includes detailed estimates of GRT and compensating tax deductions, exemptions, and credits and PIT and CIT provisions, LFC analysts prepared a base-year estimate. This estimate was then grown using forecast assumptions. For purposes of this FIR, the fiscal impacts are organized into losses and gains affecting the general fund, other state funds, and local governments.

Losses to the General Fund, Other State Funds, and Local Governments

1. Revenue losses from reducing the state gross receipts and compensating tax rate from 4.875 percent to zero (with the 2 percent rate estimated separately), reducing the governmental gross receipts tax and leased vehicle gross receipts tax rates from 5 percent to zero, and repealing the 1.225 percent municipal state share.

2. Revenue losses from repealing the Alternative Fuel Tax Act, Estate Tax Act, Interstate Telecommunications Gross Receipts Tax Act, Motor Vehicle Excise Tax Act, Boat Tax Act, Railroad Car Company Tax Act, and Insurance Premium Tax Act.
3. Losses to counties and municipalities from repealing food and medical services hold-harmless distributions, which would eliminate payments for large counties and municipalities and approximately one-third of smaller jurisdictions by FY29.

Gains to the General Fund, Other State Funds, and Local Governments

1. Base broadening from repeal of the Investment Credit Act, Rural Job Tax Credit, Laboratory Partnership with Small Business Tax Credit, Technology Jobs and Research and Development Tax Credit, Film Production Tax Credit, Affordable Housing Tax Credit, and High-Wage Jobs Tax Credit.
2. Gains or losses to other state funds from new fractional distributions of an expanded GRT base.
3. Base expansion from repeal of GRT and compensating tax exemptions and deductions, based on estimates from the Tax Expenditure Report and supplemental LFC analysis.
4. Net revenue gains to the general fund and local governments from imposing a 2 percent turnover tax, including retained deductions and proposed percentage make-up distributions.
5. Gains to local governments from expanding the GRT base to include insurance premiums and dealer vehicle sales.
6. Net PIT effects from bracket restructuring and the cap on capital gains deductions, which may offset higher top marginal rates.
7. Net CIT effects from bracket restructuring and repeal of selected credits, with the film production tax credit remaining in effect until 2035.
8. Additional PIT and CIT gains from repealing exemptions, deductions, and credits related to trusts, conservation conveyances, renewable energy, rural health care practitioners, geothermal systems, agricultural biomass, cultural property preservation, and estate and trust distributions.
9. Fiscal impacts from repealing state participation in tax increment development districts and metropolitan redevelopment areas.

Although the bill repeals or sunsets numerous tax expenditures, many of the associated fiscal impacts cannot be reliably estimated. LFC has serious concerns regarding the significant risk to state revenues and the potential increase in revenue volatility from erosion of the tax base. Given the scale, complexity, and uncertainty of the proposal, LFC staff recommends that consideration of this bill be deferred until the fiscal implications can be more fully evaluated.

SB60 would impose extraordinary administrative burdens on TRD, the Motor Vehicle Division, Department of Finance and Administration, and local governments, on a timeline unlikely to be possible to meet.

TRD would need to:

- Reprogram nearly all major tax systems;
- Decommission entire tax programs;
- Implement new exemptions and fee systems;
- Modify withholding, estimated payment, and filing structures; and
- Provide extensive taxpayer guidance and audit rulemaking.

Transition errors, refund disputes, and litigation risk could be substantial.

TRD's past analysis noted:

> The fiscal impact for the proposed bill contains many unknowns and thus [TRD's] table does not produce a grand total of the impact to the general fund, local governments or other funds impacted by the bill. There are numerous interactions between sections of the bill that have not been thoroughly modeled to provide a reliable, comprehensive revenue impact. For example, the combined effect of rate changes and the impact of distributions changes and additions for the different funds to local governments is complex to model.

The lower bound estimate in the revenue table is reproduced from TRD's analysis from 2023.

SIGNIFICANT ISSUES

In 2023, the Taxation and Revenue Department (TRD) identified several policy issues that remain substantially applicable to SB60.

The bill proposes a comprehensive restructuring of the state's three primary revenue sources—gross receipts taxes, personal income taxes, and corporate income taxes—which together account for nearly 60 percent of general fund revenues. Although general fund revenues from the GRT would decline from a rate reduction, the repeal of numerous business credits, deductions, and exemptions is intended to offset these losses. However, given the number of assumptions required and the complex interactions among provisions, it is highly uncertain whether the revenue losses would be fully compensated.

In proposals of this scope—where multiple major tax programs are reformed simultaneously—TRD recommends phased implementation to allow policymakers to observe and evaluate taxpayer and economic responses to each change individually. TRD further noted that the scale of system changes, public outreach, and administrative preparation required would likely necessitate delaying the effective date.

At the same time, the bill seeks to align the tax system more closely with principles of simplicity and efficiency. By repealing most deductions and exemptions, administration and compliance may become less complex for both TRD and taxpayers. Broadening the base would also reduce differential treatment across industries and taxpayers, limiting market distortions. Retention of certain manufacturing-related deductions would continue to mitigate tax pyramiding (when multiple steps are taxed, resulting in taxes on taxes) in a labor-intensive and economically significant sector.

The bill repeals several long-standing structural credits that support targeted industries and policy goals. For example, the film production tax credit has become a central component of the state's economic diversification strategy and workforce development efforts. Recognizing this role, the bill delays repeal of the film production credit until 2035.

Personal Income Tax (PIT). The PIT bracket structure proposed in SB60 increases the minimum marginal rate from 1.7 percent to 2 percent and raises the top marginal rate from 5.9 percent to 6 percent. Under the revised brackets, approximately 50 percent of taxpayers would fall in the 2 percent bracket, 22 percent in the 4 percent bracket, and 28 percent in the 6 percent

bracket. Although the distribution across brackets becomes more balanced, a substantial share of total PIT liability would continue to be borne by taxpayers in the top bracket, while taxpayers with incomes below $40 thousand would experience relatively modest liability.

TRD noted the personal income tax remains one of the state's most stable and responsive revenue sources, expanding with economic growth and contracting during downturns. New Mexico is one of 42 states and the District of Columbia that impose a broad-based PIT. The PIT plays an important role in advancing both horizontal equity—ensuring similar treatment across taxpayers—and vertical equity—aligning tax burdens with taxpayers' ability to pay.

However, the proposed bracket changes retain the so-called "marriage penalty." As defined by the Tax Foundation, a marriage penalty exists when income brackets for married filers are less than double those for single filers. As of tax year 2022, New Mexico is among 15 states with a built-in marriage penalty.

Gross Receipts Tax (GRT). As with the income tax changes, TRD noted that, although reductions in the state GRT rate are intended to be offset through repeal of deductions and credits, it remains uncertain whether the revenue losses would be fully recovered. Given the number of interacting provisions, TRD again recommended staged implementation and delaying the effective date to allow sufficient time for system changes, education, and evaluation of economic impacts.

TRD also noted that base broadening and repeal of exemptions would improve simplicity and neutrality by taxing a wider range of activities uniformly. The proposed services-to-manufacturing deduction would continue to reduce pyramiding in an important production sector.

Economic Considerations. Lower statutory tax rates may generate positive dynamic fiscal effects that are not reflected in this analysis. Reduced tax burdens could stimulate aggregate demand and business investment, with spillover effects on employment, wages, and economic activity that may partially offset static revenue losses through higher long-run tax collections.

The bill repeals several long-standing structural credits that support targeted industries and social policy objectives. For example, the Rural Job Tax Credit has been used to encourage employment growth in rural areas that face persistent barriers to economic development. Repealing these incentives may have unintended consequences because many businesses and investors have incorporated them into long-term planning and investment decisions.

Tourism Impacts. The Tourism Department raised concerns in its review of the 2023 bill that reducing the state GRT rate from 5 percent to 2 percent would substantially lower state tax collections from visitor spending. In 2021, visitors generated $7.2 billion in direct spending, producing approximately $472 million in state taxes. Under the proposed rate reduction, this contribution could decline by roughly 60 percent, significantly reducing one of the state's major export-based revenue sources.

Tax Policy. In general, the bill advances the tax policy principles of efficiency, simplicity, and equity. By repealing most deductions, exemptions, and special taxes, administration and compliance may become less complex for both the Taxation and Revenue Department and taxpayers. Broadening the base would subject nearly all business receipts to taxation and treat

similar activities uniformly, reducing market distortions and aligning the tax code more closely with the presumption that all receipts of persons engaged in business in New Mexico are taxable unless expressly exempted.

PERFORMANCE IMPLICATIONS

TRD would need to make extensive information system changes and update nearly all its forms and publications, as well as many regulations. These changes would be too great to incorporate into annual tax year implementation and represent additional workload and contractual costs for the Information Technology Division (ITD) and Motor Vehicle Division (MVD).

TRD would need to do an immense amount of outreach for awareness to inform the public of these changes and their obligations. For example, just changing certain GRT exemptions to deductions would cause taxpayers that do not currently register to register and file returns to obtain the deductions.

Policy and administrative process decisions would be made on phasing out prior documents and processes. A phased, in-depth approach by tax program would be suggested. This would allow time for TRD to make changes and provide taxpayer education. It would also allow taxpayers to make the necessary changes for their business and personal filings.

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