



New Mexico Tax Policy Overview

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Outline

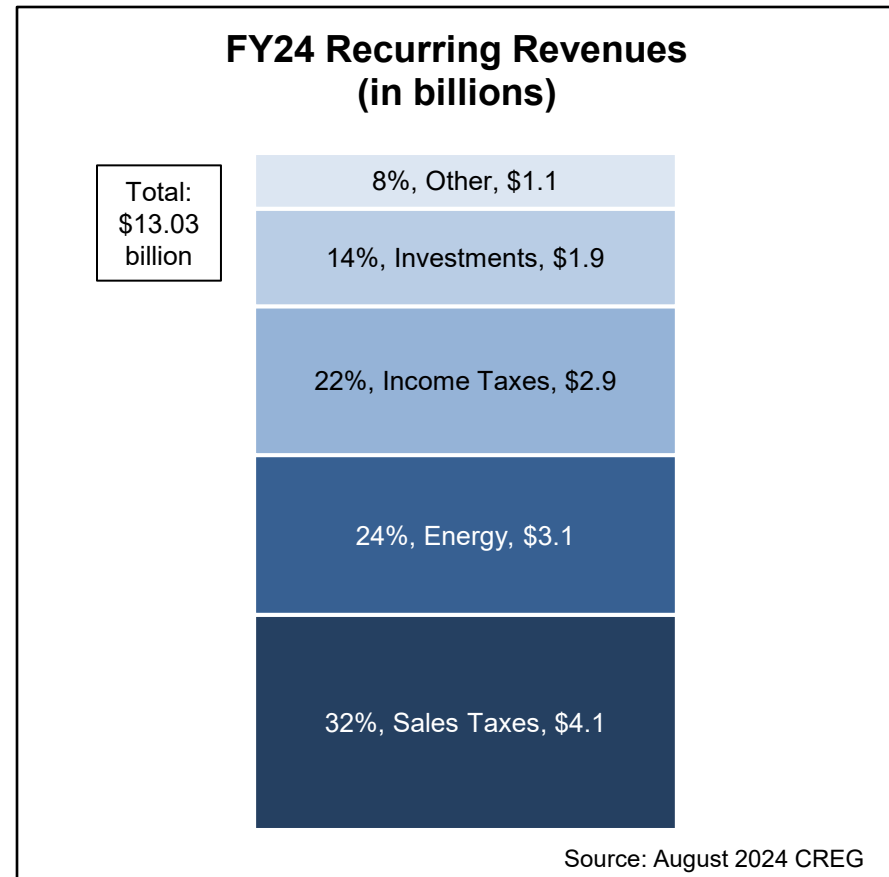
- Overview of New Mexico's Revenue Structure
- Tax Expenditure Budgeting and Evaluation
- Highlight of Tax Changes 2019 – 2024
- Tax Burden



NEW MEXICO REVENUE STRUCTURE

General Fund Revenue Sources

- Direct taxes on oil and gas total \$3.1 billion
- A significant share of sales and income taxes is attributed to the oil and gas industry
- The state's investment earnings contribute another \$1.9 billion
 - Permanent funds have allowed volatile oil and gas revenue to benefit the General Fund through stable, 5-year averaged distributions



Gross Receipts Tax

- General Fund's largest revenue source - \$4.1 billion in FY24
- Broad-based
 - Like a “sales” tax but imposed on the seller, not the buyer
 - Includes goods, services and intangibles
 - Allows indirect tax on federal government activities
- Total imposed rates include “local option” taxes imposed by counties, municipalities, tribal governments, and others (i.e. train and spaceport districts)
- State rate is 4.875%, 1.125% of that goes to municipalities in incorporated areas
- GRT rates range from 4.875% (out of state) to 9.4375% (Taos Ski Valley)
- State rate is competitive, local rates push higher

Gross Receipts Tax

- Taxpayers must source their receipts to a specific location so revenues can be distributed correctly between local and tribal governments
 - Since July 1, 2021, New Mexico has used “destination sourcing” – generally, the place goods or services are delivered/exchanged is the place to source the receipts
 - Exceptions to destination sourcing include professional services, construction, real estate commissions
- Pyramiding: Taxation of business-to-business services result in multiple layers of taxation. This pushes up the real rate of taxation
 - Anti-pyramiding GRT deductions for certain consumed services by manufacturers only

Compensating Tax

- Compensating Tax -
 - Tax rate is equal to the GRT rate (including now “local option” compensating)
 - Companion of the GRT – called the “use” tax in other states
 - Imposed on the purchaser (GRT is imposed on the seller)
 - Imposed on the value of property
 - manufactured in the state by the person using it
 - acquired outside NM that would have been subject to the GRT had it been acquired in NM
 - that becomes taxable because of subsequent use of the property or service (i.e. using something acquired for resale)
 - Product of services must be used in the state
 - Credit for sales tax paid to other state up to 5%
 - Exemptions & deductions mirror GRT where applicable
 - Distribution of state share:
 - 75% to the General Fund - \$83 million in FY24
 - 15% is distributed to small cities assistance fund, 10% to small counties assistance fund

Selective Sales Taxes – Tobacco

- Cigarette Tax
 - Rate is \$2.00 per pack of 20 cigarettes
 - NM tax rate is 19th highest in the nation – State rates range from \$0.17/pack in Missouri to \$4.50/pack in Washington, DC.
 - Exemptions
 - U.S. or any agency thereof
 - Governing body or enrolled member of any tribe for sale or use on that tribe or pueblo
 - Sales prohibited by N.M. or U.S. Constitution
 - Distributions include 79.81% General Fund and the remainder to various UNM and NMFA uses
- Tobacco Products Tax (snuff, cigars, e-cigarettes, etc.)
 - 25% of product value (not to exceed 50 cents/cigar)
 - Vaping: 12.5% of wholesale for e-liquids and 50 cents/closed system cartridge
 - 12.5% of wholesale is lower than most states that tax e-cigarettes
 - Exemptions
 - Products sold to or by the U.S. or N.M., or any of their agents or instrumentalities
 - Deductions
 - Interstate sales
 - Distribution is to the General Fund

Selective Sales Taxes – Liquor Excise Tax

- Tax is imposed on the wholesaler, not the final purchaser at retail
- Rates vary by type of liquor – NM is 24th highest of the 50 states*
 - Spirituous liquor - \$1.60/liter
 - Beer and cider - \$0.41/gallon
 - Wine - \$0.45/liter
 - Fortified Wine - \$1.50/liter
 - Microbrewers, small winegrowers and craft distillers have lower tax rates depending on volume produced
- Exemptions and Deductions
 - Sales to or by instrumentality of the armed forces engaged in resale; interstate sales
- Distributions
 - 50% to General Fund - \$24.3 million in FY24
 - 45% to local DWI Grant Fund
 - 5% to Drug Court Fund
 - \$249,000 per year to Farmington

*Source: Tax Foundation

Selective Sales Taxes – Insurance Premiums Tax

- Tax rate is 3.003%
 - Imposed on insurance premiums in lieu of all other state taxes except property taxes
 - Goes to General Fund (\$367 million in FY24), except:
 - 10% of premium tax from life, health, general casualty and title insurance distributed to the Law Enforcement Protection Fund
 - 100% premium tax from property and vehicle insurance distributed to the Fire Protection Fund
 - Starting July 1, 2025, 5% of premium tax from health insurance will be distributed to the Emergency Medical Services Fund
- Health Insurance Premium Surtax
 - Increased from 1% to 3.75% on January 1, 2022
 - Distribution: 55% to Health Care Affordability Fund, 45% General Fund
 - Imposed on only health insurance premiums

Selective Sales Taxes – Gaming Excise Tax

- Administered by the Gaming Control Board
- Tax rates are:
 - 10% of receipts from sale or lease or other transfer of game devices
 - Exception for transfer from manufacturers to distributors
 - 10% of the net take of a gaming operator that is a not-for-profit
 - 24.8% of the net take of other gaming operators
- Imposed in lieu of other state and local gross receipts taxes
- Gaming operator that is a racetrack
 - Administered by the Racing Commission
 - 26% of net take to purses (in addition to gaming excise tax)
- Distributed to the General Fund - \$68 million in FY24

Selective Sales Taxes – Cannabis Excise Tax

- Tax rate is scheduled to phase up:
 - From April 1, 2022 to June 30, 2025 rate is 12%
 - Phases up 1% each year from FY26-FY30, reaching 18%
- Imposed on the retail sales price
- Applies to adult-use recreational cannabis, not to medical cannabis
- Distribution:
 - 66.67% to the General Fund – \$32.7 million in FY24
 - 33.33% to the applicable local government

Selective Sales Taxes – Motor Vehicle Excise

- 4% tax on the sale of new and used vehicles
- NM rate is in the middle of the states – range from 0% to 8.25%
- Paid to Tax & Rev when the vehicle title is obtained
- Exemptions:
 - Manufactured homes
 - Certain vehicles with modifications needed due to disability
 - Vehicles of certain disabled veterans
- Distributions of MVX are:
 - 59.39% is distributed to the General Fund (\$167 million in FY24)
 - 21.86% is distributed to the State Road Fund
 - 18.75% to the local Transportation Project Fund

Personal Income Tax

- PIT estimated \$2.2 billion to the general fund revenue in FY24
- NM imposes PIT on residents and non-residents deriving income from New Mexico sources
- Paid by individuals as well as some businesses, such as sole proprietorships and LLCs
- NM conforms with the federal income tax, but makes adjustments through State law
- The NM PIT return starts with federal adjusted gross income (AGI), followed by additions and subtractions:
 - + NM additions (e.g., interest on federally tax-exempt bonds; itemized state income tax)
 - Federal standard or itemized deductions and exemptions (if any)
 - NM deductions, exemptions
 - = NM taxable income
 - NM credits and rebates

Personal Income Tax

- Graduated marginal PIT rates range from 1.5% to 5.9%
- 7 states have no PIT, 14 have flat PIT, and 30 have graduated rates
- NM's 5.9% top rate is moderate – range is 0% to 13.3%
- Credits, rebates, deductions and exemptions reduce tax due
- Credits may be refundable, carried forward, or transferrable
- Wage withholding and estimated payments are applied to taxpayer PIT accounts throughout the year to offset expected tax liability
- Returns typically due April 15, may request extension to file to October 15 from State or IRS
 - Receive a refund if withholding/estimated payments exceeded liability
 - Make a final settlement payment if withholding/estimated payments are short of liability

Corporate Income Tax

- Gross CIT estimated at \$535 million in FY24, less \$102 million credits
- 5.9% flat tax rate (effective tax year 2025) is moderate - 28th highest amongst the states
- 44 States have a CIT, rates range from 2.5% to 9.8%
- Pass-through entity tax also reported in CIT - \$190 million in FY24
- Paid by corporations, other entities taxed as corporations under federal income tax, certain partnerships, LLCs, non-profits (i.e. UBI), trusts
- Nexus: To be subject to tax by New Mexico, entity must:
 - Be employed or engaged in the transaction of business in, into, or from New Mexico; or
 - Derive any income from any property or employment within New Mexico
 - Must have more than “the slightest physical presence” for constitutional nexus
 - Can be established by agents

Corporate Income Tax

- Taxable income is as defined for federal income tax purposes, with certain additions and subtractions
 - Additions:
 - Interest on non-New Mexico state and local bonds
 - Federal Net Operating Losses (NOLs) (3-year carryback, 20-year carryforward)
 - Subtractions:
 - Interest on federal bonds and New Mexico state and local bonds subject to federal income tax
 - State NOLs (no carryback, 20-year carryforward)
 - Dividends from foreign corporations (not combined filers, and including “gross-up”; percentage based on ownership)
 - State credits

Corporate Income Tax

- Reporting Methods
 - Worldwide Combined Reporting
 - Default reporting method, unless taxpayer elects combined or consolidated
 - Water's Edge Combined Reporting
 - Can be elected by “unitary” corporations (determined by inter-relationships)
 - Once elected, cannot elect to other methods for seven years
 - Consolidated Reporting
 - Follows federal rules (requires 80% ownership by common parent)
 - Once elected, cannot elect another method for seven years

Corporate Income Tax

- Allocation and Apportionment
 - Corporations with income from outside New Mexico must allocate and apportion their income to New Mexico
 - NM follows Uniform Division of Income for Tax Purposes Act (UDITPA)
 - “Non-business” income is “allocated” to one state (source state)
 - “Business income” is “apportioned” between states by formula
 - NM apportionment formula uses 3- “factors” - property, payroll, and sales
 - Each factor is the percentage of the New Mexico amount to the “everywhere” amount, and the three percentages are then added and divided by 3 to get the corporation’s NM apportionment percentage
 - Manufacturers and corporate HQs (or some operations) can elect to use a single sales factor formula (which may benefit those who have property and payroll here but sell mostly outside the state)

Oil and Natural Gas Taxes

- Several taxes are reported on the same return at a combined rate of 8.27% on oil and 8.97% on natural gas
- Taxes are imposed on the value of natural resource products severed from the soil
- Oil and gas emergency school tax is distributed between General Fund (\$1.1 billion in FY24), Tax Stabilization Reserve, Early Childhood Education Trust Fund, and Severance Tax Permanent Fund
- Conservation tax is distributed to the General Fund - \$105 million in FY24
- Ad valorem taxes distributed to local governments and special tax districts
- Severance tax is distributed to the Severance Tax Bonding Fund

Oil and Natural Gas Tax Rates

| Taxes on Oil | Net Price of Oil (\$/bbl) | | |
|--|---------------------------|------------------|------------------|
| | Under \$15 | \$15 to \$18 | Over \$18 |
| Oil and Gas Emergency School Tax | 1.58% | 2.36% | 3.15% |
| Oil and Gas Severance Tax | 1.88% | 2.81% | 3.75% |
| Subtotal | 3.46% | 5.17% | 6.90% |
| Oil and Gas Conservation Tax | 0.19% - 0.24% | 0.19% - 0.24% | 0.19% - 0.24% |
| Production Ad Valorem Tax | 1.04% | 1.04% | 1.04% |
| Production Equipment Ad Valorem Tax | 0.14% | 0.14% | 0.14% |
| Total | 4.83% | 6.54% | 8.27% |

| Taxes on Natural Gas | Net Price of Natural Gas (\$/mcf) | | |
|--|-----------------------------------|------------------|-----------------------------|
| | Under \$1.15 | \$1.15 to \$1.35 | Over \$1.35 |
| Oil and Gas Emergency School Tax | 2.00% | 3.00% | 4.00% |
| Oil and Gas Severance Tax | 1.88% | 2.81% | 3.75% |
| Subtotal | 3.88% | 5.81% | 7.75% |
| Oil and Gas Conservation Tax | 0.19% | 0.19% | 0.19% |
| Production Ad Valorem Tax | 0.88% | 0.88% | 0.88% |
| Production Equipment Ad Valorem Tax | 0.15% | 0.15% | 0.15% |
| Total | 5.10% | 7.03% | 8.97% |
| Natural Gas Processor's Tax | | | <i>depends</i> ¹ |

Note: ad valorem rates vary by year and taxing district. The rates presented here are statewide averages.

Non-General Fund

- Other major recipients of New Mexico revenue include:
 - State Road Fund
 - Severance Tax Bonding Fund
 - Land Grant and Severance Tax Permanent Funds
 - Early Childhood Education and Care Trust Fund
 - Local and Tribal
 - School Districts
 - Unemployment Insurance trust fund
 - NMFA programs

Unemployment Insurance (UI) Tax

- The unemployment trust fund receives revenue through UI tax on employers
- The amount of tax an employer pays depends on:
 - its number of employees
 - the state-determined taxable wage base per employee
 - the contribution rate assigned to the employer based on number of former employees claiming UI
 - a multiplier based on the balance of the fund
- The balance of the unemployment trust fund fluctuates based on labor market conditions
- When UI taxes deposited in the fund exceed claims for unemployment, the fund balance grows and the tax rate may be decreased
- When unemployment claims exceed deposits, the trust fund may reach a deficit that must be replenished through higher tax rate or other funding sources

Local and Tribal Taxes

- Local GRT and compensating tax
 - Local option GRT and compensating taxes are imposed within limits set by Legislature
 - Main source of revenue for municipalities
 - Tax & Rev collects and distributes to each local government monthly
 - 3% admin fee Tax & Rev sends to the General Fund on local GRT and compensating tax distributions is phasing out. Will save locals/reduce General Fund by an estimated \$69m by FY29
- Cannabis Excise Tax – local governments receive 4% on cannabis sales sourced to the local government
- Property taxes
 - NM has relatively low property tax rates
 - Tax base is assessed by county assessors and Tax & Rev's Property Tax Division
 - Main revenue source for counties
 - Rates are imposed by each taxing authority – state, county, muni, school, special district
 - County treasurers collect and distribute the tax
 - Small portion is pledged to repay State General Obligation Bonds
- Tribal taxes
 - Tribal governments are sovereign and have their own taxing power
 - They do not have to align their tax with New Mexico's GRT. It is a matter of mutual convenience that they do.
 - Currently 21 tribal entities impose a GRT administered by the state under cooperative agreements to prevent dual taxation. \$34 million distributed to tribes by Tax & Rev in FY24



TAX EXPENDITURE EVALUATION AND REPORTING

What is the Tax Expenditure Budget (TEB)?

- Describes areas where the tax code provides for preferential tax treatment of a certain activity
- Tax & Rev has produced a TEB yearly since 2012
- 2023 Legislation requires the TEB to be published annually by November 15 (7-1-84 NMSA)
- Presented to RSTP annually
- The TEB includes an estimate of revenue foregone because of the preferential tax treatment due to:
 - Credits
 - Deductions
 - Exemptions
 - Preferential tax rates
- Every dollar of revenue foregone is a dollar that cannot be appropriated or added to reserves
- State appropriations are rigorously evaluated and reprioritized annually; tax expenditures should be similarly revisited
- TEB are important transparency tools that allow State policymakers, advocacy groups, and the public an opportunity to regularly evaluate the State's tax code
- Find them at www.tax.newmexico.gov, then under Forms & Publications, Publications, Tax Expenditure Reports

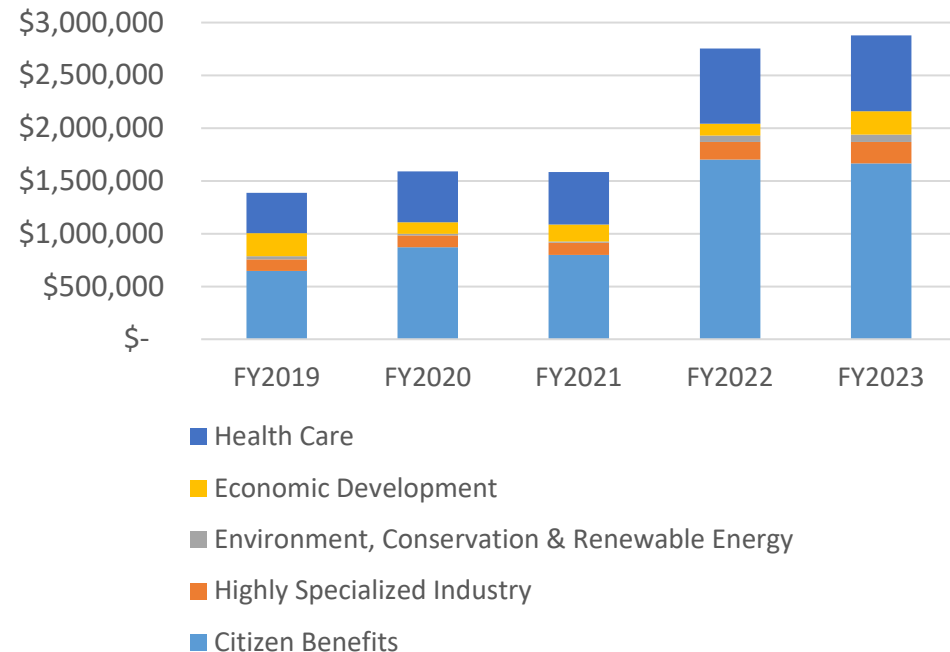
Exclusions, Exemptions, Credits, and Deductions

- **Exclusions** – amounts of gross receipts, gross income, or other amount that is removed to define the tax base
 - Taxpayers exclude certain amounts of their “base income” to derive “net income” on which tax is imposed. § 7-2-2(N)
 - The property tax excludes personal property and has a 3% limit on annual value growth on residential property
- **Exemptions** – often eliminate a taxpayer’s obligation to register, report, and/or pay
- TRD does not have visibility into income or receipts that are exempt because they are not reported on a tax return
- **Deductions** - reduce liability by eliminating certain transactions or income from amounts taxpayers are required to report on returns
- Deductions and Exemptions have the same effect on a taxpayer’s tax liability, but differ in taxpayer reporting obligations
- **Credits** – are dollar for dollar credits against the taxpayer’s tax liability due

Tax Expenditure Categories

- **Citizen Benefits:** benefit all taxpayers or specific population (low-income, disabled, etc.), lessen the burden of taxation
- **Economic Development:** stimulate investment, job creation or job retention, attract industries
- **Environment, Conservation, and Renewable Energy:** support environmental health, promote conservation and renewable energy
- **Health Care:** increase access to or lower costs of health care
- **Highly Specialized Industries:** target specific or highly specialized industries

Tax Expenditures by Category (\$ in thousands)



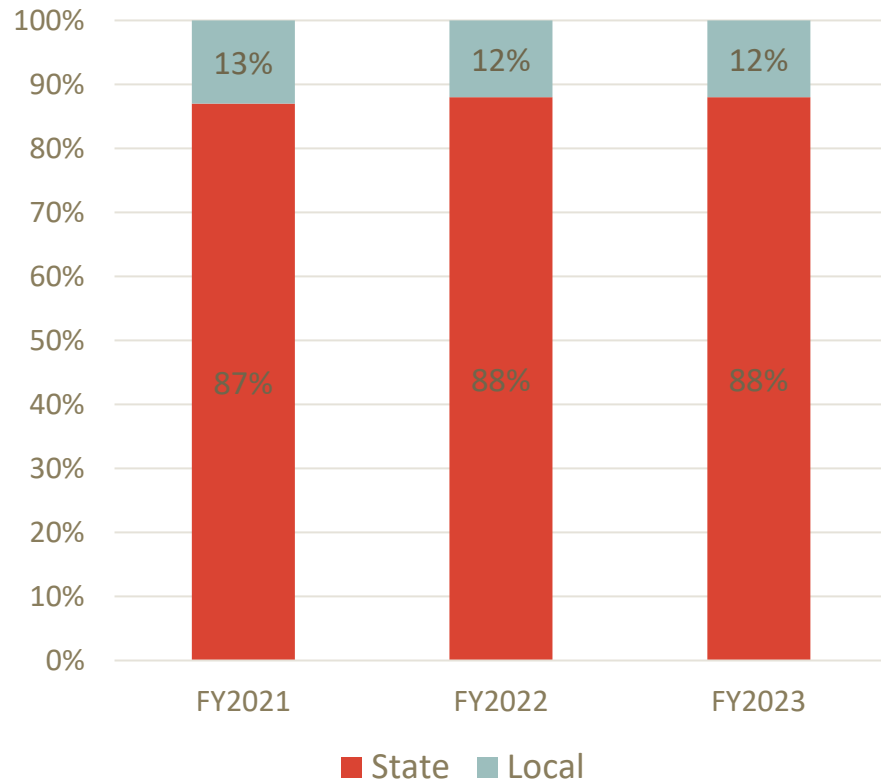
Top 10 2023 Tax Expenditures

| Tax Expenditure | Foregone State and Local \$ |
|---|-----------------------------|
| Additional Income Tax Rebate 2021 Tax Year | \$694,320 |
| Sale of Food at Retail Food Stores GRT Deduction and Hold Harmless Distribution | 443,918 |
| Prescription Drugs, Oxygen and Medical Cannabis GRT and GGRT Deduction | 392,500 |
| DOH-Licensed Hospitals 60 Percent GRT Deduction | 196,111 |
| Capital Gain Deduction From PIT | 114,533 |
| Film and Television Credit against PIT and CIT | 100,240 |
| Working Families Tax Credit against PIT | 93,802 |
| Health Care Practitioner Services GRT Deduction and Hold Harmless Distribution | 76,588 |
| Social Security Income Exemption from PIT | 71,480 |
| Low-Income Comprehensive Tax Rebate, +65 and older additional rebate | 60,363 |

State vs. Local Tax Expenditure Incidence

- GRT incidence for deductions and exemptions is shared between the State General Fund and local governments in most cases
- Tax expenditures for CIT, PIT, etc., generally impact only State General Fund directly
- Recent large rebates only impacted State General Fund

**FISCAL YEARS 2021-2023 EXPENDITURES
BY STATE AND LOCAL TAX INCIDENCE**



NOTE: DOES NOT INCLUDE PROPERTY TAX EXPENDITURES

LFC Tax Expenditure Policy Principles

- **Vetted:** The proposed new or expanded tax expenditure was vetted through interim legislative committees, such as LFC and the Revenue Stabilization and Tax Policy Committee, to review fiscal, legal, and general policy parameters.
- **Targeted:** The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals.
- **Transparent:** The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies.
- **Accountable:** The tax expenditure is set to expire unless legislative action is taken to review the tax expenditure and extend the expiration date. There are sufficient reporting requirements, which may require additional reporting above that reported in the annual, statutorily-required tax expenditure budget.
- **Effective:** The tax expenditure fulfills the stated purpose. If the tax expenditure is designed to alter behavior – for example, economic development incentives intended to increase economic growth – there are indicators the recipients would not have performed the desired actions “but for” the existence of the tax expenditure.
- **Efficient:** The tax expenditure is the most cost-effective way to achieve the desired results.

Tax Changes 2019

- Subjected online sales to GRT
- Created local option compensating tax, de-earmarked local option GRT
- Moved NM GRT to destination-based sourcing 7/1/21
- New 5.9% top income tax rate affecting top 3% of filers
- Hospital GRT reform to level playing field
- CIT mandatory combined filing and market sourcing
- Increased motor vehicle excise tax from 3 to 4%
- Expanded Working Families Tax Credit
- Reduced capital gain deduction from 50% to 40%
- Began to tax e-cigarettes and increased cigarette tax from \$1.66 to \$2.00 per pack
- Restored dependent deduction eliminated by feds in 2017 TCJA

Tax Changes 2020-2021

- Created tax credits for solar and technology transfer from national labs
- Penalty and interest grace period for pandemic relief
- Imposed the Cannabis Tax Act
- Ensured grocery GRT deduction applies to deliveries (pandemic)
- Expanded Working Families Tax Credit and included ITIN filers, younger childless workers
- Expanded Low-Income Comprehensive Tax Rebate and provided for future inflation adjustment
- Extensive tax code cleanup
- Conformance with federal partnership audit rules

Tax Changes 2022

- Created three PIT rebates
- Created one-time PIT credit to nurses
- Reduced the state GRT rate from 5.125% to 4.875%
- Anti-pyramiding GRT deductions for certain consumed services by manufacturers only
- Exempted Social Security benefits from PIT – income threshold
- Partial and temporary PIT exemption for military retirement pay
- Created child tax credit
- Created election for pass-through entities to pay tax directly
- Created motor vehicle excise credit for tribal excise tax paid (Tesla)
- Clarified disclosed agency in GRT

Tax Changes 2023

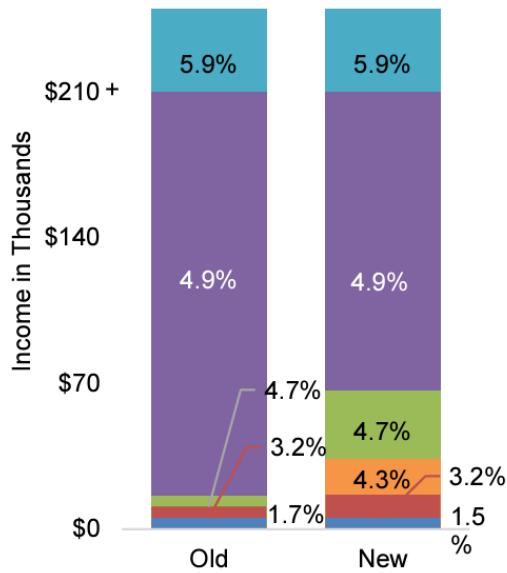
- Created additional TY2021 PIT rebate
- Expanded child tax credit for the lowest three income levels
- Expanded film tax credit
- Expanded health practitioner GRT deduction
- Removed cannabis excise tax from GRT (pyramiding)

Tax Changes 2024

- Reduced PIT rates and reformed brackets
- Created clean car and charging unit tax credits
- Created advanced energy equipment tax credit
- Increased cap on solar tax credit, one time cap for past year denials
- Created Health Care Delivery and Access Act
- Made \$30,000 PIT exemption for armed services retirement permanent
- Created various environmental incentives around energy storage facilities, geothermal heat pumps and electricity generation
- Created GRT deduction for for-profit child care providers
- GRT credits for wildfire victims – home reconstruction and legal fees
- CIT rate flattened to 5.9%
- Limited the capital gains deduction to \$2,500 except for sale of a NM business
- Phased out 3% admin fee on local GRT distributions

Changes to Personal Income Tax Rates and Brackets

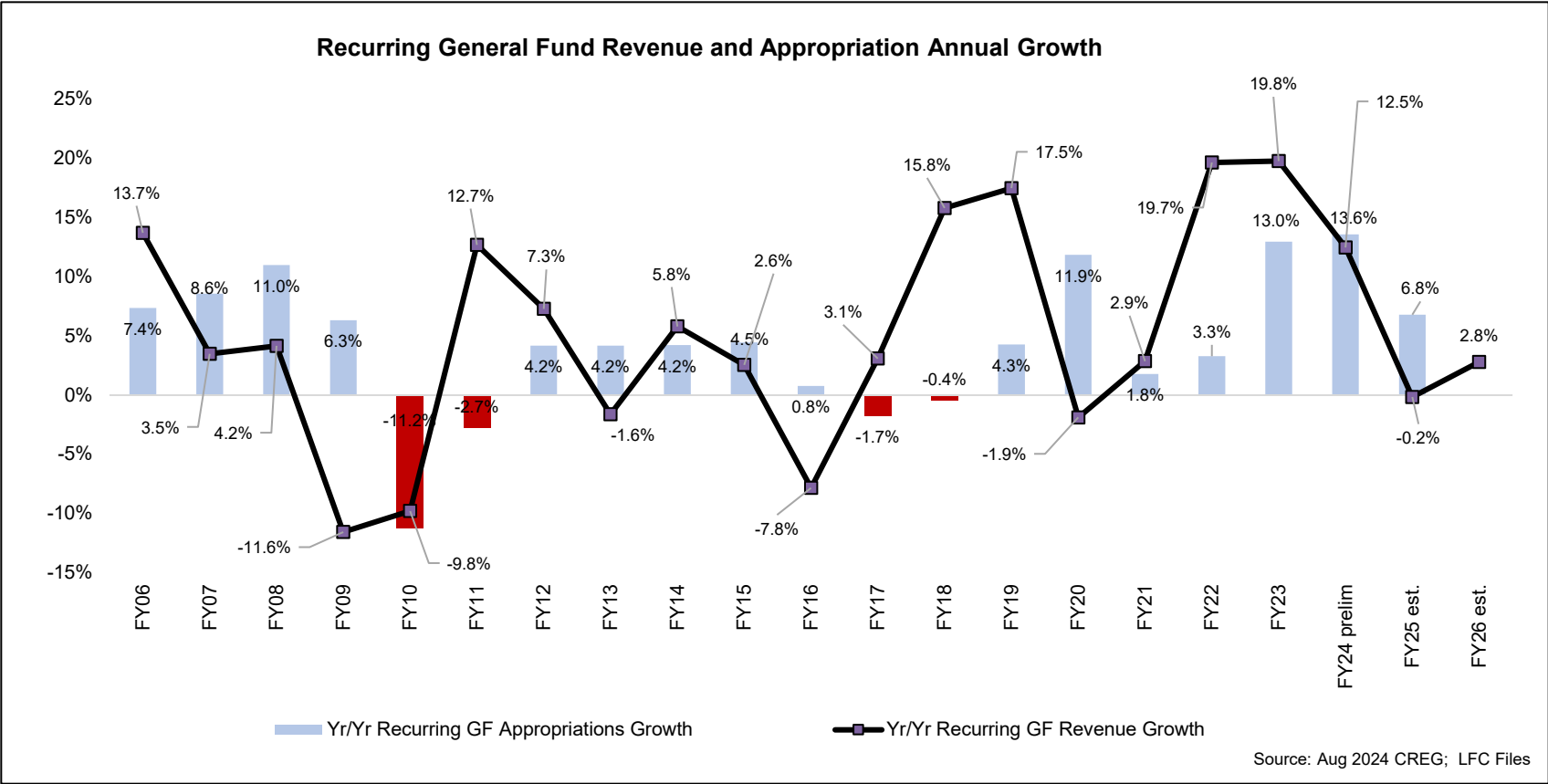
Old and New PIT Brackets, Single Filers



| Old Tax Bracket | New Tax Bracket | Estimated No. of Taxpayers | Estimated Fiscal Impact for FY2026 (\$ thousand) | Average Tax Relief Per Taxpayer |
|-----------------|-----------------|----------------------------|--|---------------------------------|
| 1 | 1 | 431,000 | (\$480) | (\$1.11) |
| 2 | 2 | 67,000 | (\$830) | (\$12.39) |
| 3 | 2 | 58,000 | (\$3,270) | (\$56.38) |
| 4 | 2 | 6,000 | (\$680) | (\$113.33) |
| 4 | 3 | 162,000 | (\$29,900) | (\$184.57) |
| 4 | 4 | 183,000 | (\$59,880) | (\$327.21) |
| 4 | 5 | 149,000 | (\$57,200) | (\$383.89) |
| 5 | 6 | 42,000 | (\$7,230) | (\$172.14) |

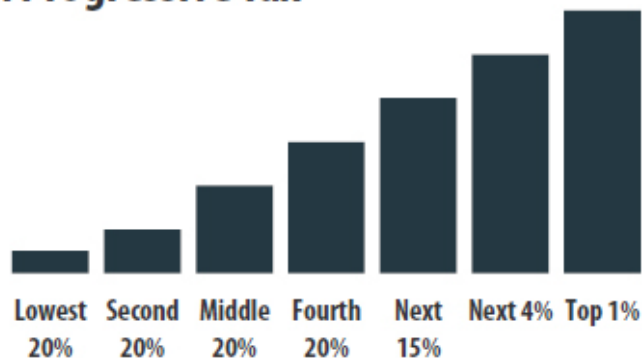
Source: Taxation & Revenue Department

Revenue Volatility over Two Decades



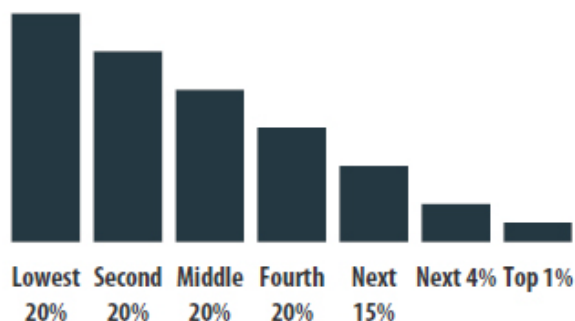
TAX BURDEN

A Progressive Tax



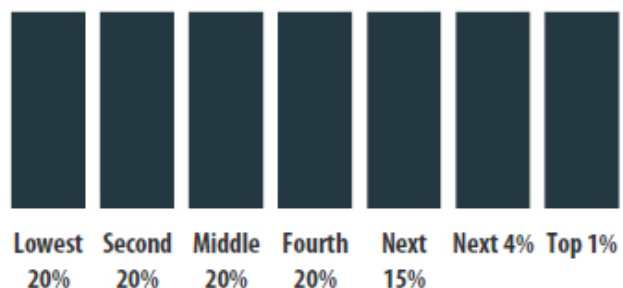
A **progressive tax** is one in which upper-income families pay a larger share of their incomes in tax than do those with lower incomes

A Regressive Tax



A **regressive tax** requires the poor and middle-income to pay a larger share of their incomes in taxes than the rich

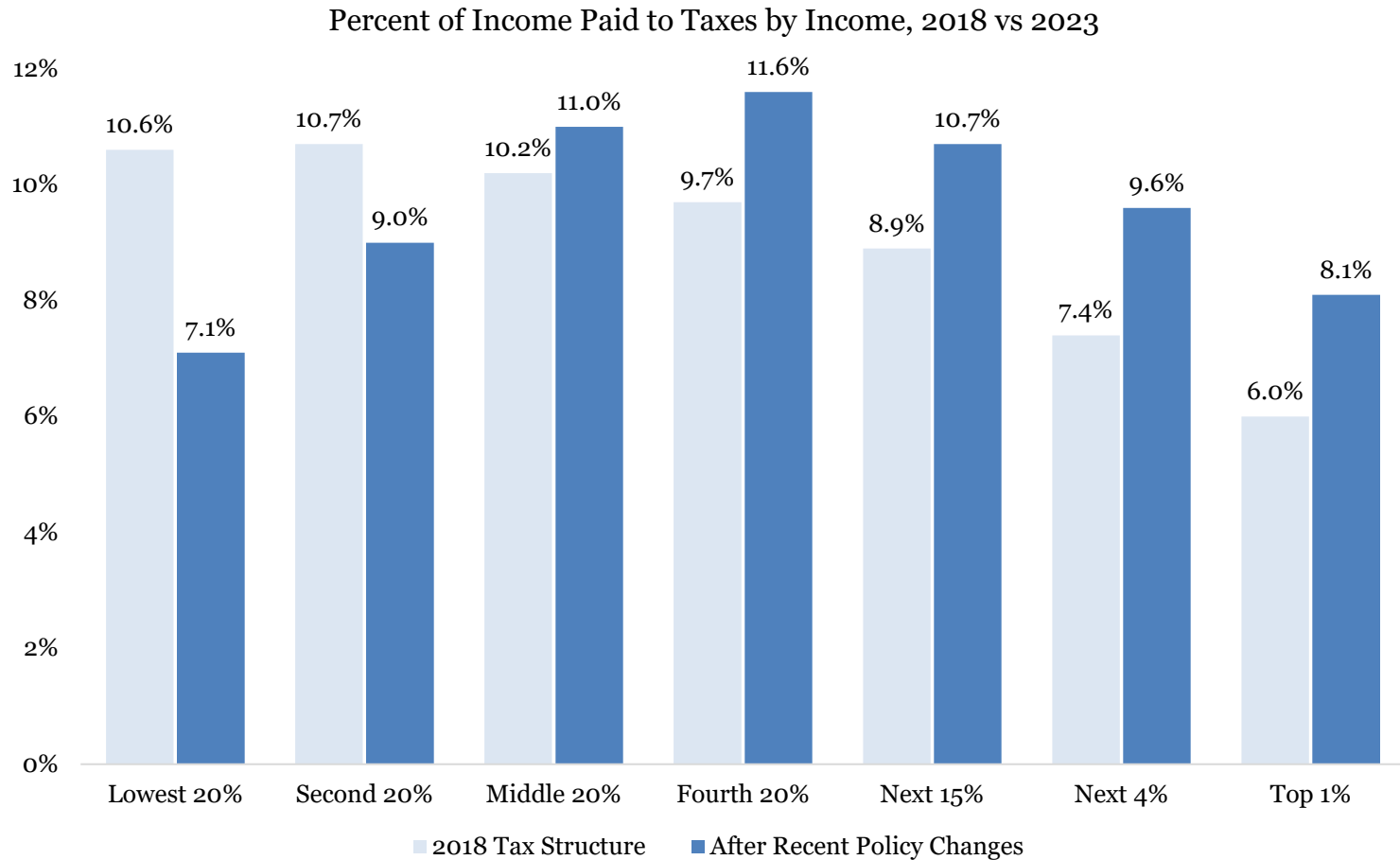
A Proportional Tax



A **proportional tax** takes the same percentage of income from everyone, regardless of how much or how little they earn.

Source: ITEP

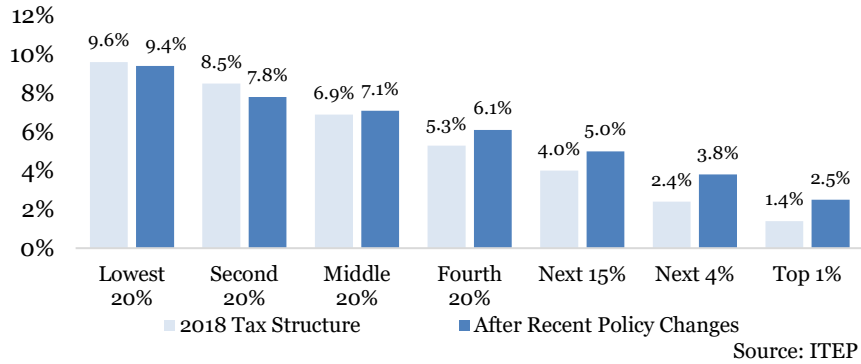
Taxation in New Mexico



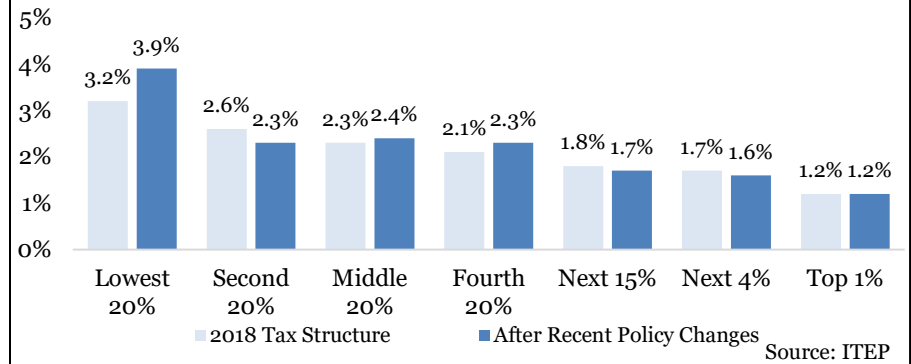
Source: ITEP

New Mexico State and Local Taxes

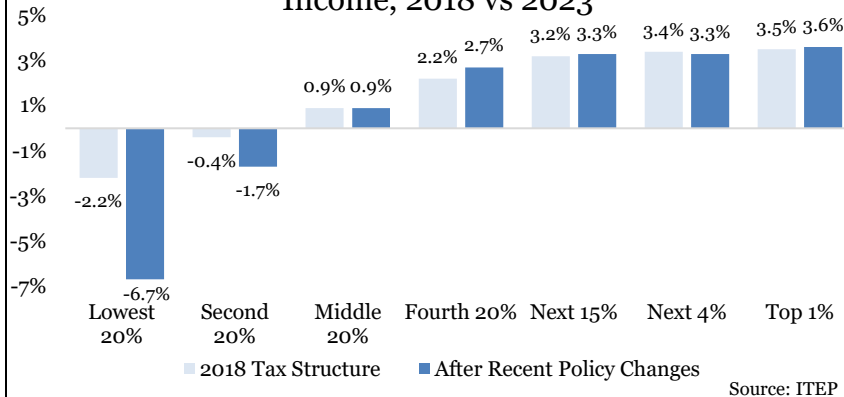
Percent of Income Paid to Gross Receipts Taxes by Income, 2018 vs 2023



Percent of Income Paid to Property Taxes by Income, 2018 vs 2023



Percent of Income Paid to Income Taxes by Income, 2018 vs 2023



Improving Tax Progressivity in New Mexico

- New Mexico jumped 18 spots from #27 to #9 in the Institute for Taxation & Economic Policy (ITEP) latest "Who Pays" progressivity ranking
- Since 2019, over \$910 million per year recurring tax cuts enacted benefitting working families and businesses.
 - PIT rate reform
 - ¼% GRT rate cut
 - Enhanced working families tax credit
 - Expanded LICTR
 - Child income tax credit
 - Dependent deduction
 - Most Social Security retirement benefits exempted
 - Up to \$30,000 of military pensions exempted



QUESTIONS

Earmarking

Earmarking occurs when statute (or the New Mexico Constitution) **directs certain revenues to a specific fund or agency**, and it often is accompanied by language stating the purpose for which the revenues are to be used

Advantages

- Can align a specific revenue with a specific benefit
- Helps ensure a steady flow of funding for a specific purpose
- Can be used to gain support and commitment from stakeholders, in some cases creating situations where taxpayers are willing to support increased taxes if used to benefit a specific cause

Disadvantages

- Reduces general fund revenues available for discretionary appropriation
- Increases difficulty to establish funding priorities and change those priorities over time as revenues and needs change
- During tough economic and budget times, reduced discretion leads to deeper cuts for general funded programs
- Needs change over time, but it is more difficult changing earmarks than appropriations
- Earmarks do not guarantee an increase in funding, as non-earmarked funding may be reduced (a common national example is earmarked lottery revenue for education partially offset by general fund budget cuts to education)
- It can be difficult to track earmarked funds and ensure they are being expended effectively and efficiently
- Earmarked funds often do not revert to the general fund, causing funds to sit unused
- Earmarks add complexity to tax distributions – making tax administration more costly and less agile

Earmarking cont.

- LFC budget guidelines instruct analysts to identify opportunities to eliminate earmarks
- Examples of earmarks:
 - petroleum products loading fee to the corrective action fund at NMED
 - fire protection fund revenues to fire districts, fire departments, and the fire protection grant fund
 - liquor excise taxes to the local DWI grant fund and a temporary earmark for the lottery scholarship fund
 - cigarette tax earmarks to a variety of sources
- No system-wide analysis in New Mexico of earmarked funds
- An NCSL survey found nearly one-half (49%) of the state's FY22 taxes were earmarked for distributions other than to the general fund

New Mexico State and Local Taxes

| Income Group | Lowest 20% | Second 20% | Middle 20% | Fourth 20% | Next 15% | Next 4% | Top 1% |
|---------------------------------|------------------------|------------------------|------------------------|-------------------------|--------------------------|--------------------------|----------------------|
| Income Range | Less than \$ 19,500 | \$ 19,500 \$ 37,000 | \$ 37,000 \$ 59,500 | \$ 59,500 \$ 115,400 | \$ 115,400 \$ 194,100 | \$ 194,100 \$ 399,400 | \$ 399,400 And up |
| Average Income in Group | \$ 10,200 | \$ 27,100 | \$ 47,300 | \$ 81,900 | \$ 143,900 | \$ 257,900 | \$ 648,700 |
| SALES & EXCISE TAXES | 9.4% | 7.8% | 7.1% | 6.1% | 5.0% | 3.8% | 2.5% |
| PROPERTY TAXES | 3.9% | 2.3% | 2.4% | 2.3% | 1.7% | 1.6% | 1.2% |
| INCOME TAXES | -6.7% | -1.7% | 0.9% | 2.7% | 3.3% | 3.3% | 3.6% |
| Total Taxes | 7.1% | 9.0% | 11.0% | 11.6% | 10.7% | 9.6% | 8.1% |

Source: ITEP