FISCAL IMPACT REPORT

LAST UPDATED

SPONSOR Sharer **ORIGINAL DATE** 2/14/24

SHORT TITLE Repeal Taxes **BILL NUMBER** Senate Bill 105

ANALYST Graeser

REVENUE*
(dollars in thousands)

FY24	FY25	FY26	FY27	FY28	R or NR**	Fund(s) Affected
--	($2,900)	($3,000)	($3,100)	($3,100)	R	Section 19 – Law Enforcement Protection Fund
--	($106,300)	($109,300)	($112,300)	($115,400)	R	Section 19 – Fire Protection Fund
--	($4,100)	($4,200)	($4,300)	($4,500)	R	Section 19 – General Fund – Distribution to Funds
--	($96,100)	($98,200)	($101,600)	($103,700)	R	Section 20 – Health Care Affordability Fund
--	($2,900)	($3,000)	($3,100)	($3,200)	R	Section 20 – General Fund – Distribution to Fund
--	($1,200)	($1,300)	($1,300)	($1,300)	R	Section 21 – Land Grant-Merced Assistance Fund
--	($900)	($900)	($900)	($900)	R	Section 21 – General Fund – Distribution to Fund
--	$2,000	$2,100	$2,200	$2,200	R	Section 22 – State Road Fund
--	$1,900	$1,900	$2,000	$2,000	R	Section 22 – Transportation Project Fund
--	$9,200	$9,400	$9,700	$10,000	R	Section 22 – Boat Fund
--	($13,100)	($13,400)	($13,900)	($14,200)	R	Section 22 – General Fund – Distribution to Funds
--	($88,000)	($91,000)	($94,000)	(98,000)	R	Section 28 – General Fund – PIT Brackets
--	$60,000	$61,000	$64,000	$65,000	R	Section 29 – General Fund – Capital Gains deduction
--	--	($5,000 to $40,000)	($5,000 to $40,000)	($5,000 to $40,000)	R	Section 30 – General Fund – CIT Brackets
--	($2,450,900)	($2,510,800)	($2,587,700)	($2,667,800)	R	Section 31 – General Fund – 2% GRT rate
--	($56,700)	($58,100)	($59,900)	($61,700)	R	Section 33 – General Fund – 2% CMP rate
--	(Unknown)	(Unknown)	(Unknown)	(Unknown)	R	Section 48 – General Fund – GRT Exemption of Donations to Certain Nonprofits
--	($1,162)	($1,160)	($1,210)	($1,220)	R	Section 73 – General Fund – 2% Gaming Tax
--	$4,336	$6,621	$10,138	$15,557	R	Section 75 – State Road Fund – Distribution Additional Registration Fee for Electric Vehicles
--	$4,336	$6,621	$10,138	$15,557	R	Section 75 – Transportation Project Fund - Distribution Additional Registration Fee for Electric Vehicles
--	$764,300	$783,000	$806,800	$831,700	R	Section 87 – General Fund – 7-1-6.4 NMSA 1978
--	($764,300)	($783,000)	($806,800)	($831,700)	R	Section 87 –Municipalities – 7-1-6.4 NMSA 1978
--	$54,944	$56,285	$57,997	$59,785	R	Section 87 – General Fund – Sections 7-1-6.46 & 7-1-6.47 NMSA 1978
--	($54,944)	($56,285)	($57,997)	($59,785)	R	Section 87 – Local Governments – Sections 7-1-6.46 & 7-1-6.47 NMSA 1978
--	$0	$0	$0	$0	R	Section 87 – General Fund – 7-1-6.60 NMSA 1978
--	$0	$0	$0	$0	R	Section 87 – General Fund – 7-1-6.66 NMSA 1978

--	--	$0	$0	$0	R	Section 89 – General Fund – 7-2-18.11; 7- 2A-17.1 NMSA 1978
--	--	$1,100	$1,100	$1,100	R	Section 89 – General Fund – 7-2-18.17 NMSA 1978
--	--	$6,770	$6,650	$6,540	R	Section 89 – General Fund – 7-2-18.22 NMSA 1978
--	--	$194	$187	$180	R	Section 89 – General Fund – 7-2-18.2; 7-2A-8.6 NMSA 1978
--	$929	$951	$980	$1,010	R	Section 90 – General Fund - Rural Job Tax Credit
--	Unknown	Unknown	Unknown	Unknown	R	Section 93 – Section 7-9-13.1 NMSA 1978
--	$1,570	$1,609	$1,658	$1,709	R	Section 93 – General Fund - Section 7-9-13.4 NMSA 1978
--	$1,047	$1,072	$1,105	$1,139	R	Section 93 – Local Governments - Section 7-9-13.4 NMSA 1978
--	Unknown	Unknown	Unknown	Unknown	R	Section 93 – General Gund - Section 7-9-26.1 NMSA 1978
--	Unknown	Unknown	Unknown	Unknown	R	Section 93 – Local Governments - Section 7-9-26.1 NMSA 1978
--	$18,582	$19,035	$19,614	$20,219	R	Section 93 – General Fund - Section 7-9-29 NMSA 1978
--	$11,882	$12,172	$12,542	$12,929	R	Section 93 – Local Governments - Section 7-9-29 NMSA 1978
--	$149	$152	$157	$162	R	Section 93 – General Fund - Section 7-9-39 NMSA 1978
--	$96	$99	$102	$105	R	Section 93 – Local Governments - Section 7-9-39 NMSA 1978
--	$121	$124	$128	$132	R	Section 93 – General Fund - Section 7-9- 40(A) NMSA 1978
--	$79	$80	$83	$85	R	Section 93 – Local Governments - Section 7-9-40(A) NMSA 1978
--	$86	$88	$91	$93	R	Section 93 – General Fund - Section 7-9-41.4 NMSA 1978
--	$58	$59	$61	$63	R	Section 93 – Local Governments - Section 7-9-41.4 NMSA 1978
--	$733	$751	$774	$797	R	Section 93 – General Fund - Section 7-9- 41.6(A) NMSA 1978
--	$523	$536	$553	$570	R	Section 93 – Local Governments - Section 7-9-41.6(A) NMSA 1978
--	$3,036	$3,110	$3,205	$3,303	R	Section 93 – General Fund - Section 7-9- 41.6(B) NMSA 1978
--	$1,884	$1,930	$1,989	$2,050	R	Section 93 – Local Governments - Section 7-9-41.6(B) NMSA 1978
--	$10,141	$10,388	$10,704	$11,034	R	Section 93 – General Fund - Section 7-9-54.1
--	$1,115	$1,142	$1,177	$1,213	R	Section 93 – Local Governments - Section 7-9-62.1 NMSA 1978
--	$134	$137	$141	$146	R	Section 93 – General Fund - Section 7-9-63 NMSA 1978
--	$86	$88	$91	$93	R	Section 93 – Local Governments - Section 7-9-63 NMSA 1978
--	$198	$203	$209	$215	R	Section 93 – General Fund - Section 7-9-64 NMSA 1978
--	$129	$132	$136	$140	R	Section 93 – Local Governments - Section 7-9-64 NMSA 1978
--	$526	$538	$555	$572	R	Section 93 – General Fund - Section 7-9-66.1 NMSA 1978
--	$336	$344	$355	$366	R	Section 93 – Local Governments - Section 7-9-66.1 NMSA 1978
--	$179,620	$184,002	$189,602	$195,446	R	Section 93 – General Fund - Section 7-9-73.1 NMSA 1978
--	$25,679	$26,306	$27,106	$27,942	R	Section 93 – Local Governments - Section 7-9-73.1 NMSA 1978
--	$246,534	$252,549	$260,235	$268,256	R	Section 93 – General Fund - Section 7-9-73.2 NMSA 1978
--	$164,356	$168,366	$173,490	$178,837	R	Section 93 – Local Governments - Section 7-9-73.2 NMSA 1978

--	$5,862	$6,005	$6,188	$6,379	R	Section 93 – General Fund - Section 7-9-73.3 NMSA 1978
--	$3,769	$3,861	$3,978	$4,101	R	Section 93 – Local Governments - Section 7-9-73.3 NMSA 1978
--	$23,928	$24,512	$25,258	$26,036	R	Section 93 – General Fund - Section 7-9-77.1 NMSA 1978
--	$15,299	$15,672	$16,149	$16,647	R	Section 93 – Local Governments - Section 7-9-77.1 NMSA 1978
--	$0	$0	$0	$0	R	Section 93 – General Fund - Section 7-9-79.2 NMSA 1978
--	$0	$0	$0	$0	R	Section 93 – Local Governments - Section 7-9-79.2 NMSA 1978
--	$1,603	$1,642	$1,692	$1,744	R	Section 93 – General Fund - Sections 7-9-83 & 7-9-84 NMSA 1978
--	$1,025	$1,050	$1,082	$1,115	R	Section 93 – Local Governments - Sections 7-9-83 & 7-9-84 NMSA 1978
--	$42	$43	$44	$46	R	Section 93 – General Fund - Section 7-9-85 NMSA 1978
--	$21	$21	$22	$23	R	Section 93 – Local Governments - Section 7-9-85 NMSA 1978
--	Unknown	Unknown	Unknown	Unknown	R	Section 93 – General Fund - Section 7-9-86 NMSA 1978
--	Unknown	Unknown	Unknown	Unknown	R	Section 93 – Local Governments - Section 7-9-86 NMSA 1978
--	$6,285	$6,439	$6,635	$6,839	R	Section 93 – General Fund - Section 7-9-87 NMSA 1978
--	$4,018	$4,116	$4,241	$4,372	R	Section 93 – Local Governments - Section 7-9-87 NMSA 1978
--	$618	$633	$652	$672	R	Section 93 – General Fund - Section 7-9-94 NMSA 1978
--	$396	$405	$418	$431	R	Section 93 – Local Governments - Section 7-9-94 NMSA 1978
--	$289	$296	$305	$314	R	Section 93 – General Fund - Section 7-9-95 NMSA 1978
--	$184	$189	$194	$200	R	Section 93 – Local Governments - Section 7-9-95 NMSA 1978
--	$0	$0	$0	$0	R	Section 93 – General Fund - Section 7-9-99 NMSA 1978
--	$0	$0	$0	$0	R	Section 93 – Local Governments - Section 7-9-99 NMSA 1978
--	Unknown	Unknown	Unknown	Unknown	R	Section 93 – General Fund - Sections 7-9- 101 & 7-9-102 NMSA 1978
--	Unknown	Unknown	Unknown	Unknown	R	Section 93 – Local Governments - Sections 7-9-101 & 7-9-102 NMSA 1978
--	Unknown	Unknown	Unknown	Unknown	R	Section 93 – General Fund - Section 7-9-103 NMSA 1978
--	Unknown	Unknown	Unknown	Unknown	R	Section 93 – Local Governments - Section 7-9-103 NMSA 1978
--	$1,178	$1,206	$1,243	$1,281	R	Section 93 – General Fund - Section 7-9-103.1 NMSA 1978
--	$763	$782	$806	$830	R	Section 93 – Local Governments - Section 7-9-103.1 NMSA 1978
--	$4,534	$4,645	$4,786	$4,933	R	Section 93 – General Fund - Section 7-9-103.2 NMSA 1978
--	$2,972	$3,045	$3,137	$3,234	R	Section 93 – Local Governments - Section 7-9-103.2 NMSA 1978
--	$108	$110	$114	$117	R	Section 93 – General Fund - Section 7-9-107 NMSA 1978
--	$68	$70	$72	$74	R	Section 93 – Local Governments - Section 7-9-107 NMSA 1978
--	$733	$751	$774	$797	R	Section 93 – General Fund - Section 7-9-108 NMSA 1978
--	$419	$429	$442	$456	R	Section 93 – Local Governments - Section 7-9-108 NMSA 1978
--	$14,193	$14,540	$14,982	$15,444	R	Section 93 – General Fund - Section 7-9-110.2 NMSA 1978

--	$9,074	$9,296	$9,578	$9,874	R	Section 93 – Local Governments - Section 7-9-110.2 NMSA 1978
--	$2,124	$2,176	$2,242	$2,311	R	Section 93 – General Fund - Section 7-9-112 NMSA 1978
--	$1,414	$1,449	$1,493	$1,539	R	Section 93 – Local Governments - Section 7-9-112 NMSA 1978
--	$263	$269	$277	$286	R	Section 93 – General Fund - Section 7-9-118 NMSA 1978
--	$150	$153	$158	$163	R	Section 93 – Local Governments - Section 7-9-118 NMSA 1978
--	$9,933	$10,175	$10,485	$10,808	R	Section 94 – General Fund – Investment Credit Act
--	$4,763	$4,879	$5,028	$5,183	R	Section 96 – General Fund – Laboratory Partnership with Small Business Credit
--	$5,198	$5,324	$5,486	$5,656	R	Section 97 – General Fund – Technology Jobs and Research and Development Credit
--	$4,336	$4,442	$4,577	$4,718	R	Section 98 – General Fund – High-Wage Jobs Credit
--	$470	$482	$496	$511	R	Section 99 – General Fund – Affordable Housing Tax Credit
--	$0	$0	$0	$0	R	Section 101 – General Fund - Railroad Car Company Tax Act
--	($172,443)	($176,650)	($182,026)	($187,636)	R	Section 102 – General Fund - Motor Vehicle Excise Tax Act
--	($63,472)	($65,020)	($66,999)	($69,064)	R	Section 102 – State Road Fund - Motor Vehicle Excise Tax Act
--	($54,442)	($55,770)	($57,467)	($59,239)	R	Section 102 – Transportation Project Fund - Motor Vehicle Excise Tax Act
--	($134,900)	($136,800)	($137,100)	($139,500)	R	Section 103 – State Road Fund - Alternative Fuel Tax Act
--	($14,120)	($14,320)	($14,350)	($14,600)	R	Section 103 – Local Road Fund - Alternative Fuel Tax Act
--	($81,900)	($82,500)	($85,500)	($88,600)	R	Section 106 – General Fund - Repeal Insurance Premium Tax Act

* In thousands of dollars. Parentheses ( ) indicate a revenue loss. ** Recurring (R) or Non-Recurring (NR).

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY24	FY25	FY26	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
TRD	$264.50	$1266.90	$541.30	$2,522.70	NR	General Fund
TRD	$93.3	$186.6	$186.6	$466.5	R	General Fund

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

Conflicts with many other bills introduced in this session. (See list in "Conflicts" section below)

Sources of Information

LFC Files

Agency Analysis Received From
Taxation and Revenue Department (TRD)

Agency Analysis was Solicited but Not Received From
Department of Transportation (DOT)
Department of Finance& Administration/Local Government Division (DFA/LGD)
New Mexico Municipal League (NMML)
New Mexico Counties (NMC)

SUMMARY

Synopsis of Senate Bill 105

Senate Bill 105 makes numerous repeals and amendments to many tax acts. It amends the tax brackets for income tax and corporate income tax, reduces the rates for gross receipts tax and compensating tax and other tax programs, repeals various other tax acts, repeals several credits, repeals deductions and exemptions for income tax, corporate income tax, and gross receipts tax, and makes changes to fees within the motor vehicle code.

Virtually all of this fiscal impact report, including the description, has been generated by TRD.

Key changes are listed below:

- Repeals the Estate Tax Act, Art Acceptance Act, Interstate Telecommunications Gross Receipts Tax Act, Railroad Car Company Tax Act, the Motor Vehicle Excise Tax Act, the Alternative Fuel Tax Act, the County and Municipal Gasoline Tax Act and the Insurance Premium Tax Act.
- Repeals the rural job tax credit, investment credit, laboratory partnership with small business tax credit, technology jobs and research and development tax credit, high-wage jobs tax credit, advanced energy combined reporting tax credit, affordable housing tax credit, alternative energy product manufacturers tax credit and provides sunset dates for other credits that may be applied to income tax and corporate income tax. It also provides a delayed repeal of the film production tax credit.
- Makes various changes to deductions and exemptions pursuant to the income tax act, corporate income and franchise tax act and gross receipts and compensating tax act and provides sunset dates for some deductions.
- Changes tax brackets for personal income tax (PIT), corporate income tax (CIT), gross receipts tax (GRT) and compensating tax (CMP), governmental gross receipts tax (GGRT), and leased vehicle gross receipts tax.
- Reduces the capital gains deduction for income tax.
- Enacts a gross receipts tax exemption for donations to nonprofit organizations.
- Imposes additional registration fees for electric and plug-in hybrid electric vehicles.
- Repeals certain gross receipts tax distributions to municipalities.
- Removes authorization for a tax increment development district to dedicate an increment of the state gross receipts tax.
- Removes authorization for the use of a state gross receipts tax increment to fund a metropolitan redevelopment project.

Effective Date: July 1, 2024 for Sections 3 through 5; January 1, 2025 for sections 1, 2 and 6 through 107. The provisions of Sections 27 through 29 apply to taxable years beginning on or after January 1, 2025.

FISCAL IMPLICATIONS

The bill does not include a recurring appropriation, but diverts or “earmarks” revenue, representing a recurring loss from the general fund. LFC has concerns with including continuing distribution language in the statutory provisions for funds because earmarking reduces the ability of the Legislature to establish spending priorities.

TRD has prepared the entire fiscal impact estimates:

The fiscal impact for the proposed bill is not a comprehensive review of the bill and thus the table above 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 comprehensive revenue impact. For example, the combined effect of rates drops and new distributions on the different assistance funds to local governments is complex to model.

[Sections 19-22]: The new distributions' fiscal impact was assessed after estimating the revenue flow from GRT to the general fund under the new tax rate. The proposed percentages in each section were applied to evaluate the lost revenue vis-à-vis the current law.

[Section 28]: The impact of the proposed changes to the income tax brackets was estimated using tax year 2022 tax return data for New Mexico taxpayers. Using the University of New Mexico's Bureau of Business and Economic Research (BBER) January 2024 forecast, the Taxation and Revenue Department (TRD) indexed the data to tax year 2024 and then grew the estimate annually by BBER's New Mexico's wage and salary growth. The fiscal impact is independent of proposed repeals of PIT credits, listed separately above where possible.

[Section 29]: Using tax return data for New Mexico taxpayers claiming the capital gains deduction, TRD estimated a four-year average for tax years 2019 through 2022 of the impact of decreasing the capital gains deduction to a maximum amount per taxpayer of $1,000. Capital gains can fluctuate, and this average is assumed flat through tax years 2023 and 2024 with modest national forecasts for stock growth and real estate investment. For tax year 2025, the effective tax year for this change, the average capital deduction impact is grown by Standard & Poor's October 2023 S&P 500 stock index forecast. This assumes a modest growth in capital gains and therefore an annual increase in general fund revenue from PIT.

[Section 30]: The range impact of the proposed changes to the corporate income tax brackets was modeled using tax years 2018 through 2020 tax return data for New Mexico corporate taxpayers. The fiscal impact of corporate tax year returns stretch across numerous fiscal years as corporate tax filers file extensions and amend returns more readily than PIT filers. This routinely challenges the forecast of CIT for the Consensus Revenue Estimating Group (CREG), but all state revenue estimators note this challenge. The range impact demonstrates the uncertainty of how the bracket changes will impact revenue. The fiscal impact is independent of proposed repeals of CIT credits, listed separately above where possible. The repeal of CIT credits, in particular the film credit, will interact with the future forecast of CIT revenue as film production companies may move activities out of state without the film credit incentive, reducing the CIT tax base.

[Section 31]: Using the December 2023 CREG forecast for GRT to the General Fund, the revenue loss was estimated, employing the proposed GRT rate of 2 percent.

[Section 33]: Using the December 2023 CREG forecast for compensating tax (CMP) to the General Fund, the revenue loss was estimated, employing the proposed CMP rate of 2 percent.

[Section 73]: TRD used the December 2023 CREG forecast for Gaming Tax revenue to determine the impact of the changes in the bill. TRD isolated the portion of gaming tax which would be subject to 2 percent of the gross receipts which covers manufacturer licenses and estimates this is about 2.5 percent of total gaming tax. TRD grew the impact by the CREG's growth rate for Gaming in the December 2023 forecast.

[Section 75]: Electric vehicle demand projection: The electric vehicle (EV) market in New Mexico is undergoing remarkable growth. Between 2016 and 2022, electric vehicles saw an average year-to-year growth rate of an impressive 57 percent, surpassing the national average of 44 percent. Plug-in hybrids (PHEV) also showed strong growth, with an average year-to-year increase of 38 percent, compared to the national average of 21 percent.

It is assumed that the EV market in New Mexico will continue to thrive for at least the next five years. Additionally, an assumption is made that the year-to-year growth rate will remain constant at 57 percent, which was calculated from the data of the last seven years. New Mexico's EV market is still far from reaching maturity. The estimation also includes the calculation of the yearly percentage of EVs out of the total number of vehicles in New Mexico. The number of registered vehicles in New Mexico increases by roughly 2 percent annually. With the assumed annual growth rate of 57 percent for electric cars, the market share of EVs is projected to be approximately 7 percent of the total registered vehicles in New Mexico by 2028.

In 2023, Tesla sold 2,698 vehicles in New Mexico, which accounted for approximately 40 percent of the total EVs registered in the state during that year. Furthermore, in 2023, Teslas made up 65 percent of all EVs in New Mexico. According to S&P Global Mobility, the number of available EV models in the US is predicted to increase from 48 to 159 by 2025. Multiple reports indicate that Tesla currently dominates the EV market and is expected to further expand its market share in the next decade. TRD assumes that Tesla will continue to increase its market share in New Mexico by 2.5 percent for the next five years.

The plug-in hybrid electric vehicle (PHEV) market has experienced an average growth rate of 26 percent over the past seven years. In 2022, automakers achieved a record-breaking sales figure of 176,000 PHEVs, a significant increase from 69,000 in 2020. Despite an overall decrease in the new-car market to 14.4 million from the previous year's 15.3 million, sales of plug-in hybrids are projected to reach 180,000 in 2023. TRD assumes the number of PHEVs will continue to grow at an annual rate of 26 percent until 2028.

Electric vehicle weights: The weight of electric vehicles (EVs) can vary depending on several factors, including the type of vehicle, battery capacity, and additional features or components. Here is an overview of the weight ranges for different types of EVs:

1. Electric Cars (Compact to Midsize):
   - Compact electric cars typically weigh between 2,000 to 3,500 pounds.
   - Midsize electric cars generally weigh between 3,500 to 4,500 pounds.
2. Electric SUVs and Crossovers:
   - Electric SUVs and crossovers typically have a weight range of 4,000 to 6,000 pounds.
   - Larger, more luxurious electric SUVs can weigh even more, approaching 7,000 pounds or more.
3. Electric Pickup Trucks:
   - Electric pickup trucks have varying weight ranges, depending on their size and payload capacity.
   - Light-duty electric pickups can weigh between 5,000 to 8,000 pounds.
   - Heavy-duty electric pickups designed for towing and carrying larger loads can weigh over 8,000 pounds.
4. Electric Vans:
   - Electric vans, especially those designed for commercial use, can have a weight range of 5,000 to 10 thousand pounds or more, depending on their size and cargo capacity.

Under the proposed bill, nearly all electric vehicles would be subject to higher registration fees.

These weight ranges are general approximations, and specific models may have variations. Additionally, as technology advances, new materials and designs may help reduce the weight of EVs while maintaining their structural integrity.

[Sections 90, 93-94, 96-99]: These sections repeal several PIT, CIT, GRT and CMP exemptions, deductions, and credits. TRD used the estimations reported in the Tax Expenditure Report to calculate the revenue gain from these repeals. TRD grew those revenue gains using the December 2023 CREG forecast for PIT, CIT, and GRT growth.

[Section 106]: This section repeals the insurance premium tax act. Hence, the taxpayer would now be subject to the proposed 2 percent gross receipts tax rate. TRD applied this rate to the gross premiums, including health insurance premiums, to estimate the revenue loss to the general fund.

SIGNIFICANT ISSUES

As with the FISCAL IMPLICATIONS section, TRD has prepared the following policy notes:

The bill proposes a complete overhaul for Gross Receipts and Personal and Corporate Income Taxes, which provide over 60 percent of General Fund revenue. The bill's purpose appears to be a redistribution of the contributions of these three main components without substantially reducing revenue to the General Fund. For example, although the GRT contributions to the general fund are expected to decline due to the drop in the GRT rate, the repeal of various tax incentives in the form of business credits, exemptions, and deductions seeks to compensate for this revenue loss. However, it is difficult to know whether the losses are fully compensated due to the number of assumptions that must be made when evaluating the fiscal impact of each section. In cases like this, where the bill attempts to reform different tax programs simultaneously, TRD supports an implementation in stages to observe and assess how taxpayers and the economy respond to each reform, one at a time. Additionally, the amount of preparation and education needed to prepare TRD and the public would require the implementation date to be pushed out beyond January 1, 2025, as an effective date for this legislation.

In general, this bill supports efficiency, simplicity, and equity principles of tax policy. By repealing most of the deductions and exemptions, administering and filing will be potentially easier for TRD and taxpayers. In addition, without deductions, exemptions and special taxes, almost all activities will be taxed and treated the same way, reducing market distortions and aligning the tax code with the general presumption that all receipts of a person engaged in business in New Mexico are subject to GRT without exemption of categories of sales.

The bill seeks to simultaneously lower the tax rates and expand the tax base. This combination of policies might have an impact on tax pyramiding. In its most general form, the base of GRT is the dollar value of receipts from the sale of goods and services with no omission of transactions and no allowance for costs incurred by sellers. Taxpayers apply the GRT rate to those receipts to determine the amount of tax owed. This causes the GRT rate to accumulate along the different transactions, which yields higher prices. Ideally, to reduce pyramiding, a taxing jurisdiction implements either a low GRT tax on the whole tax base to reduce the tax rate incidence or a higher GRT rate with base-narrowing measures to withdraw some inputs from the tax base. Anti-pyramiding policies imply a trade-off between tax collections and curtailing pyramiding. Thus, the bill seems to favor the former option.

The bill repeals several structural credits that aid in supporting and incentivizing specific industries in the state or social policy initiatives in the state. For example, credits that help support rural areas in the state that struggle to bring more economic growth and jobs, such as the rural job credit. There may be unforeseen consequences to having an abrupt repeal of tax incentives that have slowly been built up.

The changes to the GRT and repealing of certain local government distributions will result in major changes to revenue streams for local governments. As with the impact to the state General Fund, local governments need time to assess the potential changes to revenue to assess budget outlays and planning. An implementation date of January 1, 2025 would place an enormous burden on the various local governments as well. Both TRD, taxpayers and local governments need a longer timeline to implement and understand the implications of the overhaul to the GRT tax base.

There are positive dynamic fiscal effects associated with lowering the tax rate that have not been contemplated here. Lower tax rates might induce a rise in aggregate demand with positive spillover effects on employment, wages, business activity, and, ultimately, tax collections.

While an estimate of the total revenue impact is not calculated above, on whole the bill appears to reduce a significant portion of revenue to the state General Fund and to local governments. Such a tremendous shift in revenue will have negative impacts to spending by all levels of governments. These significant changes to revenue and to spending could have negative dynamic fiscal impacts in the economy at the local and state levels.

[Section 28]: Personal income tax (PIT) represents a consistent source of revenue for many states. For New Mexico, PIT is approximately 25 percent of the state's recurring general fund revenue. While this revenue source is susceptible to economic downturns, it is also positively responsive to economic expansions. New Mexico is one of 41 states, along with the District of Columbia, which impose a broad-based PIT (New Hampshire and Washington do not tax wage and salary income). Like several states, New Mexico computes its income tax based on the federal definition of taxable income and ties to other statues in the federal tax code. This is referred to as "conformity" to the federal tax code. The PIT is an important tax policy tool that has the potential to further both horizontal equity, by ensuring the same statutes apply to all taxpayers, and vertical equity, by ensuring the tax burden is based on taxpayers' ability to pay.

The last substantial amendment to the PIT brackets was passed in 2005, though the changes made by that amendment were not fully implemented until tax year 2008. (In 2019, an amendment was passed adding an additional 5.9 percent income bracket to each filing status, effective from tax year 2021.) As New Mexico PIT brackets are not indexed to inflation, taxpayers have gradually moved into higher tax brackets, described as "bracket creep," even though their "real income," or the purchasing power of their income, has not changed. Over time, the effective PIT rate, which is the average tax rate paid by a taxpayer on their total gross income, has increased. The federal personal income tax indexes both the standard deduction and tax brackets.

Taxpayers in the lowest tax bracket income range would see an increase in their tax rate from 1.7 percent to 2.0 percent while those in the top bracket also would see a small increase in their tax rate, from 5.9 percent to 6.0 percent.

Table 1

Current Tax Bracket	Taxable Income Range	Rate	Proposed Tax Bracket	Taxable Income Range	Rate
Married Filing Separate					

1	Not over $4,000	1.7%	1	Not over $10,000	2.0%
2	$4,000 -- not over $8,000	3.2%	2	$10,000 -- not over $30,000	4.0%
3	$8,000 -- not over $12,000	4.7%	3	Over $30,000	6.0%
4	$12,000 -- not over $157,500	4.9%			
5	Over $157,500	5.9%			
Married Filing Joint, Heads of Household					
1	Not over $8,000	1.7%	1	Not over $20,000	2.0%
2	$8,000 -- not over $16,000	3.2%	2	$20,000 -- not over $60,000	4.0%
3	$16,000 -- not over $24,000	4.7%	3	Over $60,000	6.0%
4	$24,000 -- not over $315,000	4.9%			
5	Over $315,000	5.9%			
Single					
1	Not over $5,500	1.7%	1	Not over $13,500	2.0%
2	$5,500 -- not over $11,000	3.2%	2	$13,500 -- not over $40,000	4.0%
3	$11,000 -- not over $16,000	4.7%	3	Over $40,000	6.0%
4	$16,000 -- not over $210,000	4.9%			
5	Over $210,000	5.9%			

This proposal collapses the five current brackets into three tax brackets, and creates more of a flat, proportional tax for taxpayers. The aggregate effect of the proposal reduces tax liability (see Table 2), but not for all tax brackets.

Table 2

Current Tax Bracket	Proposed Tax Bracket	Estimated No. of Taxpayers	Estimated Fiscal Impact for FY2026 ($ thousand)	Average Tax Relief Per Taxpayer
1	1	409,127	$800	$1.96
2	1	65,309	($1,400)	($21.44)
3	1	29,923	($3,300)	($110.28)
3	2	28,621	($4,900)	($171.20)
4	2	263,669	($88,500)	($335.65)
4	3	224,023	($29,500)	($131.68)
5	3	41,539	$34,500	$830.54

The table above shows that taxpayers in the current brackets 3 and 4 see the most individual benefit at a tax decrease of up to $335.65 per taxpayer. Tax brackets 1 and 5 will see an increase in their liability with a greater percentage effect on bracket one than bracket 5. For example, a married couple with an income of $8,000 currently pays 1.7 percent, for a tax liability of $136 annually. This proposal would increase tax due to $160, an increase of $24 or 18 percent. Conversely, a wealthier couple with an income of $400,000 would currently owe $20,042, versus $22,400 under this proposal. The higher-income couple owes $2,358 more, representing an increase of 12 percent. This change decreases the progressivity of PIT, progressivity being where higher-earning taxpayers pay a larger share of their income in tax compared to lower-earning taxpayers reducing vertical equity. Horizontal equity would also fall since tax brackets 2 through 4 would lower their tax burden while the tax burden would rise for taxpayers in tax brackets 1 and 5.

The proposed bracket changes maintain the so-called “marriage penalty.” As defined by the Tax

Foundation, a marriage penalty exists when a state's income brackets for married taxpayers filing jointly are less than double the bracket widths for single filers. As of tax year 2023, New Mexico is one of 15 states which has a "marriage penalty" built into its income tax brackets.

[Section 29]: While any taxpayer may apply for the capital gains deduction, most of the financial benefit is realized by high wealth individuals who have passive income derived from investments. The proposed changes to the capital gains deduction will increase the amount of income for high wealth individuals that is subject to New Mexico PIT. First enacted in 1999 and expanded in 2003, this deduction is meant to encourage taxpayers to put their income to productive use through investing, and to appeal to individuals earning investment income to invest it in New Mexico. The proposed changes may lessen these incentives, to the extent the deduction is currently effective (TRD cannot assess the effectiveness of the current deduction). Conversely the state will see an increase in PIT revenue as investment income performs well and more is subject to PIT.

[Section 73]: Maintaining a lower rate on gaming manufacturing licensee taxpayers will permanently lower recurring revenue to the General Fund. In FY2023, Gaming Excise Tax was 0.6 percent of recurring General Fund revenue.

[Section 75]: Gasoline taxes play a crucial role in funding transportation infrastructure, such as roads and bridges. However, electric vehicles, as they do not consume gasoline, do not contribute to gasoline tax revenue. As a result, policymakers have explored alternative methods to generate revenue for the maintenance and improvement of transportation infrastructure. One such approach is the introduction of registration fees specifically for electric vehicles.

Registration fees play a crucial role in ensuring that all vehicles, regardless of their fuel source, contribute their fair share towards road maintenance. With the increasing number of electric vehicles entering the market, it is essential to establish a sustainable funding mechanism for maintaining roads and bridges. By implementing registration fees, the loss of gasoline tax revenue can be offset, helping to maintain the necessary funding for infrastructure maintenance.

Imposing higher registration fees on electric vehicles could discourage their adoption and hinder efforts to reduce greenhouse gas emissions. Some may contend that electric vehicles are already subject to other fees and taxes, such as sales taxes and electricity taxes, and imposing additional fees may disincentivize people from transitioning to cleaner transportation options. A higher registration fee for vehicles which promote clean energy use, may seem to contradict efforts for Executive Order 2019-003[1] on Climate Change and Waste Prevention.

[1] The key provisions of Executive Order 2019-003 include:

1. Climate Change Task Force: The order establishes a Climate Change Task Force to develop recommendations and strategies for mitigating climate change impacts in New Mexico. The task force consists of various state agency representatives, experts, and stakeholders who collaborate to develop policies and initiatives.
2. Renewable Energy Portfolio Standards: The order directs the New Mexico Energy, Minerals, and Natural Resources Department to propose an increase in the state's renewable energy portfolio standards (RPS). The RPS mandates that a certain percentage of electricity consumed in the state comes from renewable sources such as wind, solar, and geothermal energy.
3. Methane Emissions Reduction: The order calls for the development and implementation of regulations to reduce methane emissions from oil and gas operations in New Mexico. It aims to address methane leakage, a potent greenhouse gas, and promote responsible energy production.
4. Energy Efficiency and Conservation: The order emphasizes the importance of energy efficiency and conservation measures. It directs state agencies to prioritize energy efficiency projects, reduce energy waste, and promote energy-saving practices in government buildings and operations.
5. Clean Energy Innovation Fund: The order establishes the Clean Energy Innovation Fund to support research, development, and commercialization of clean energy technologies in New Mexico. The fund aims to accelerate the transition to a clean energy economy and attract investment in renewable energy projects.

Executive Order 2019-003 demonstrates Gov. Michelle Lujan Grisham's commitment to addressing climate change, promoting renewable energy, and

HB252 in the 2024 session incentivizes the purchase of electric vehicles and plug-in electric hybrid vehicles by creating tax credits for those vehicles and their associated charging units. New Mexico has also recently adopted clean car rules that require vehicle manufacturers to deliver a certain percentage of electric vehicles to New Mexico in coming years. These efforts will increase New Mexico's share of electric vehicles and decrease combustion-powered vehicles, the need to find alternative sources of road funding will also increase.

PERFORMANCE IMPLICATIONS

With a substantial number of existing tax expenditures eliminated in the provisions of this bill, the LFC tax policy of accountability will be far less important that at present, although not all tax expenditures would be eliminated at the effective date of the bill.

ADMINISTRATIVE IMPLICATIONS

TRD points out the difficulties and expense of a transition from the administrative environment to the proposed tax reform.

The various changes, repeals to different tax acts, and tax credits proposed will interfere with tax credits with existing carryforwards that can extend for up to 20 years. Staff that is dedicated to business credit updates will be used where resources are needed for other tax programs. The implementation of this bill will require major changes to GenTax and TriTech.

Implementation would be a considerable task for TRD and the public to learn how all the new deductions, rebates, and rates interact with each other. The time needed to prepare the department and the public will require the implementation date to postpone for fiscal year 2026 as an effective date for this legislation.

TRD will make extensive information system changes and update nearly all its forms and publications, as well as many regulations. These changes will 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).

The changes proposed are also so extensive that TRD would require additional operating budget to expand its call center capacity to handle taxpayer inquiries.

TRD's Revenue Processing Division (RPD) will require two new full-time employees (FTE) to implement the bill. In addition, RPD will need contractors for return processing. TRD's Administrative Services Division (ASD) anticipates this bill will take approximately 560 hours for a dedicated Subject Matter Expert (SME) to test the new distribution sections to be implemented in the bill. An additional 60 hours of ASD staff workload costs will need to test all new processes and revenue reports.

TRD's ITD estimates that due to the nature and complexity of the effort required to implement the proposed changes in this bill, a contract with the GenTax vendor, FAST Enterprises, LLC is required. The estimate for FAST to implement the changes is $660,000 and approximately 19 months of implementation time. In addition to the contract with FAST, a full-time contract project

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reducing energy waste in New Mexico. The order establishes various initiatives and task forces to develop strategies and regulations that align with these objectives.

manager will be required at approximately $338,483. In addition to the contract with FAST, there will be a need for a full- time contract project manager and Independent Verification and Validation (IV&V) contract services would also be necessary at a cost of $105,252. The staff workload costs require one state development resource and one state business analyst for the project's duration at an estimated cost of $365,560 of staff workload. Additionally, to implement the changes that apply to taxable years beginning on and after January 1, 2025, state development resources are needed for 440 hours and $24,420. Finally, the implementation of this bill will have a high impact on the ITD's DSVS systems for the Motor Vehicle Division (MVD) and changes to the motor vehicle code. The estimated time to develop, test and implement the changes is approximately 920 hours or 6 months and approximately $264,480.00.

Estimated Additional Operating Budget Impact*				R or NR**	Fund(s) or Agency Affected
FY24	FY25	FY26	3 Year Total Cost		
$150	$300	$300	$750	NR	TRD – RPD - Contractors
--	$39	--	$39	NR	TRD – ASD – Staff workload
--	$697.1	$406.6	$1,103.7	NR	TRD – ITD – Contractual costs
--	$230.8	$134.7	$365.5	NR	TRD – ITD – Staff workload
$211.2	--	--	$211.2	NR	TRD – MVD – Contractual costs
$53.3	--	--	$53.3	NR	TRD – MVD – Staff Workload
$264.50	$1266.90	$541.30	$2,522.70	NR	
$93.3	$186.6	$186.6	$466.5	R	TRD – RPD - FTE

* In thousands of dollars. Parentheses ( ) indicate a cost saving. ** Recurring (R) or Non-Recurring (NR).

TECHNICAL ISSUES

TRD points out a number of technical issues,

[Section 75]: The definitions of "electric vehicle" and "plug-in hybrid vehicle" conflict with the definitions of these terms in HB252SA, the omnibus tax package. In this bill, an "electric vehicle" is defined as having a capacity of six kilowatt hours (kwh) and a range of 40 miles, whereas in HB252 those requirements are 25 kwh and 100 miles. For plug-in vehicles, the difference is that this bill requires a range of 40 miles whereas HB140 requires only 30 miles. If both bills become law, confusion may result. Some vehicles might also be subject to both the credit and increased fees, while some would only be eligible for the credit, creating further distortions in the market for electric vehicles.

[Section 84]: This section allows taxpayers to continue to apply for tax credits to the department and claim if approved by the department by the repeal date. Some of the tax credits repealed are not approved by the department. As an example, 7-2-18.22 NMSA 1978, Rural health care practitioner tax credit, is approved by the department of health and the claim is applied on the tax return by the department.

OTHER SUBSTANTIVE ISSUES

In assessing all tax legislation, LFC staff considers whether the proposal is aligned with committee-adopted tax policy principles. Those five principles:

- **Adequacy**: Revenue should be adequate to fund needed government services.
- **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
- **Equity**: Different taxpayers should be treated fairly.
- **Simplicity**: Collection should be simple and easily understood.

- **Accountability**: Preferences should be easy to monitor and evaluate.

Generally, the provisions of this bill improve equity and simplicity. Whether adequacy is preserved is questionable, despite the valiant efforts of TRD staff to estimate the fiscal impacts. Most economists would argue that efficiency will be degraded because the tax will resemble a turnover tax more than a value-added tax. A turnover tax will pyramid and the more complex the economic sector, the more pyramiding will occur.

LG/rl