

NEW MEXICO *Petroleum Marketers Association Report*



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New Mexico's overall tax climate scores in the middle of states for its suitability for spurring economic growth, with New Mexico coming in as best for property taxes but among the worst for sales taxes, according to a taxation policy think tank.

In a brief on New Mexico tax policy presented to the committee in July, Legislative Finance Committee (LFC) staff says the Tax Foundation in its 2021 State Business Tax Climate Index ranks New Mexico 23rd for overall tax climate, but 41st for sales taxes — essentially the gross receipts tax.

Based on 120 variables in five major areas of taxation, the right-leaning foundation ranked the state best among all states for its property tax climate and in the top 10 for corporate income and unemployment insurances taxes. The foundation ranked New Mexico 31st for personal income taxes. *“High marginal tax rates can discourage work, saving, investment, and innovation,”* staff says in the brief. *“But low taxes can also slow long-run economic growth by reducing resources to provide critical government services, increasing government borrowing, and decreasing public infrastructure investments.”*

The Tax Policy Center, a nonpartisan tax research organization, concludes the size and skill of the workforce, infrastructure quality, and *“overall stock of knowledge and ideas”* have a greater influence on economic development than tax policy, staff reports.

The brief notes legislators have implemented a number of tax reform initiatives over the past three years, including broadening the gross receipts tax base by taxing previously untaxed goods and services, which would allow for a lower overall rate.

However, while the state Gross Receipts Tax (GRT) rate has remained fairly stable, local governments have raised their rates, driving up the total. The state GRT rate is 32nd among states but the combined rate is 15th highest, staff says. Businesses are particularly impacted by GRT “pyramiding,” the taxation of business-to-business transactions that creates an extra layer of taxation at each stage of production.

Lawmakers have adopted anti-pyramiding provisions for many goods, but services are still largely taxed. This can hit smaller business particularly hard because they often contract for services.

The new \$1 trillion federal infrastructure legislation will send an estimated \$3.7 billion to New Mexico over approximately five years, LFC staff report. In the November federal stimulus funds update, staff say the state will receive funds for road construction, public transportation, broadband, the electric grid, cybersecurity, and water systems through the Infrastructure Investment and Jobs Act.

The \$3.7 billion, an estimate that could change as more details about the act emerge, will be distributed through set formulas. The bill also provides for additional funding that will be distributed through competitive grants.

THE ESTIMATED BENEFITS TO THE STATE:

Roads, bridges and major projects:

The largest share will be federal aid for highways, roughly \$500 million a year for five years and a 25 percent increase in federal funds for highways. The nine different grant programs in the act have different state fund matching requirements, but federal funds will cover the majority of program costs, ranging from 80 percent to 100 percent.

Public transit:

New Mexico will receive up to \$372 million for urban and rural area projects, enhanced mobility, and buses and bus facilities.

Broadband:

In addition to \$100 million in grants to the state for broadband infrastructure, 785 thousand New Mexicans will be eligible for a benefit that helps pay for internet connections.

Power infrastructure:

New Mexico will receive an estimated \$38 million for energy efficiency projects, some of which must be used for loans and grants to businesses and homeowners.

The Weatherization Assistance Program would see an over 1,000 percent increase in funding with nearly \$30 million to help low-income New Mexicans reduce their energy bills by increasing the energy efficiency in their homes.

Upcoming Events

Good news! Looks like Sandia Resort and Casino will be the location of the 2022 NMPMA Convention and Trade Show on August 22-24, 2022. Please save the date.

