Tax Expenditure Assessment - Economic Development Tax Expenditures

May 2026

Contents

Summary

New Mexico economic development tax expenditures are costly and have mixed return on investment.

In FY25, New Mexico spent $520 million on 24 economic development tax expenditures. Over the last five years, economic development tax expenditures increased nearly fourfold. Despite its significant investment, the state has lacked comprehensive estimates on the impact of economic development tax expenditures.

Key Findings

- The total net impact of economic development tax expenditures on the New Mexico economy is narrowly positive. The net economic return on investment (ROI) is positive and is estimated to be 1.4 percent, meaning for every $1 spent, the state economy grows by 1.4 cents.
- While the net economic ROI is positive, some expenditures have a *negative* economic ROI. The economic ROI is negative because they cost more than the amount that they grow the economy. The state spent $176 million on expenditures estimated to have a negative economic ROI.
- All economic development expenditures cost more than they generate in new tax revenue. On average, for every $1 spent on economic development tax expenditures, the state forgoes 91 cents and recaptures 9 cents in new tax revenue.
- No economic development tax expenditures met the six best practice design criteria used in this report. Most expenditures lack spending caps and expiration dates, creating general fund risks and limiting legislative oversight.

Key Recommendations

The Legislature should:

- Consider prioritizing expenditures with higher economic returns and limiting or restructuring expenditures with low or negative economic returns;
- Require separate reporting requirements for the six expenditures that are not separately reported;
- Modify expenditures to match best practices, including adding expenditure caps, expiration dates, and effective targeting.

Chart 1. Economic Development Tax Expenditures have Grown Rapidly
(in thousands)

Source: LFC Files

Tax expenditures are revenue losses resulting from special tax provisions, like exemptions, deductions, or credits. These are alternatives to other policy instruments, like state spending. **Economic development tax expenditures**—sometimes referred to as economic development tax incentives—are tax expenditures identified by the Taxation and Revenue Department (TRD) or the LFC as being related to the overarching policy goal of promoting economic activity through location or expansion of businesses.

Economic ROI (return on investment) measures an expenditure's impact on the New Mexico economy, measured through gross domestic product (GDP).

Economic Development Overview

New Mexico residents are among the poorest in the country. In 2024, New Mexico's per capita income was the 47th lowest in the United States, little changed from a decade earlier. Outside of increasing benefit payments, the state can increase per capita income by fostering a healthy economy that creates jobs with higher wages and salaries. On that measure, too, New Mexico struggles. Over the last decade, New Mexico private employment grew by 9.9 percent, nearly 11 percentage points slower than the five-state Southwest average.

New Mexico's lagging economic growth has many causes but is partially driven by the state's overreliance on industries with little employment growth opportunities. One measure of such overreliance is the state's industry concentration, which measures the degree to which New Mexico specializes in an industry. The concentration score can be used to identify economic development strategies.

Comparing New Mexico's industry concentration to Arizona and Colorado reveals many of the state's underlying challenges. New Mexico's natural resources and mining industry is over three times more concentrated than the U.S. average. Outside of that industry, construction and leisure and hospitality are all slightly more concentrated in New Mexico than they are nationally. In contrast, Arizona and Colorado both have a higher employment concentration in multiple high-wage and high-growth industries than the national average. Colorado's information sector and Arizona's financial activities sector are examples of economic engines that have contributed to strong employment growth in these states.

Economic development policies in New Mexico attempt to reverse these trends, diversifying the economy into other industries and creating jobs with higher wages and salaries. These efforts include property tax abatements, workforce training programs, discretionary "closing funds," and a range of tax incentives. This report analyzes the 24 economic development tax incentives the state provides. These economic development tax incentives are designed to encourage businesses to locate or expand their operations in the state. These incentives are referred to as tax expenditures because they are special tax provisions representing revenue losses. Tax expenditures are an alternative policy tool from state spending, and prior to this report, lacked the performance measures and evaluations of many state spending programs.

Table 1. New Mexico Industry Concentration Lags Neighboring States

Super Sector	NM	AZ	CO
Natural resources & mining	3.18	0.97	1.14
Construction	1.18	1.34	1.23
Manufacturing	0.40	0.73	0.63
Trade, transportation, & utilities	0.90	1.04	0.94
Information	0.66	0.84	1.36
Financial activities	0.67	1.27	1.04
Professional & business services	0.97	1.00	1.17
Education & health services	0.97	1.01	0.79
Leisure & hospitality	1.07	1.05	1.13
Other services	0.82	0.90	1.05

Note: Value over 1 indicates industry is more concentrated in that state than in the United States.

Source: US BLS QCEW

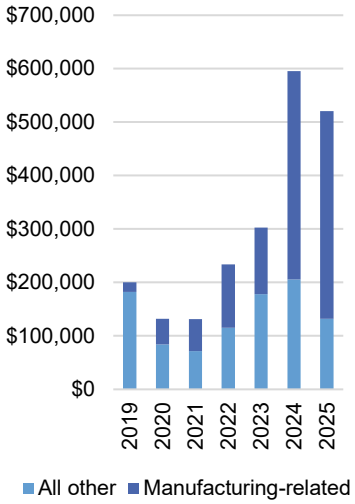
This report defines **tax expenditures** as deviations from a baseline tax system created by specific tax law provisions. This definition matches the definition used by the Taxation and Revenue Department in the annual *Tax Expenditure Report*, from which most of this data originates. However, this report classifies the provision provided by Section 7-9-46 NMSA 1978, the sales to manufacturers deduction from the gross receipts tax, as an expenditure, while TRD does not. See "Methodology" for additional discussion.

New Mexico has spent $1.7 billion on economic development tax incentives over the last five years.

Annual expenditures on economic development tax incentives have grown dramatically. In FY21, the state spent $131 million on these expenditures. By FY25, that amount grew to $520 million. Overall, spending on economic development through the tax code has averaged 3 percent of recurring general fund revenue.

Spending is narrowly concentrated among industries. The largest incentive over the three-year period was the GRT deduction for sales to manufacturers (7-9-46 NMSA 1978), which received $270 million in spending in FY25, up from $201 million in FY24 and nearly triple FY23 spending of $91 million. Tax expenditures for the manufacturing industry makes up most of overall economic development tax incentive spending. In FY25, about 75 percent of spending went to the manufacturing industry, and from FY23 to FY25, 64 percent of spending went to the manufacturing industry.

Chart 2. Manufacturing Industry Incentives Have Driven Growth
(in thousands)



Source: LFC Files

The rapid increase in tax expenditure spending was entirely driven by manufacturing industry incentives, which grew from a reported $17.9 million in FY19 to $388 million in FY25. If manufacturing industry incentives were excluded, economic development expenditures would have remained flat between FY19 and FY25. The two largest manufacturing expenditures are intended to reduce the GRT burden on manufacturers. The state also allows manufacturers the option of using sales factor apportionment when calculating corporate income tax liability instead of the three-factor apportionment factor (sales, property, and payroll) all other industries must apply. Despite the rapid growth of manufacturing tax expenditures, New Mexico manufacturing employment has remained flat since 2019, although output has increased.

The next largest industry beneficiary was the film industry, receiving 17 percent of spending from FY23 to FY25. The film

Table 2. Economic Development Tax Expenditure Spending FY25
(in millions)

Expenditure	Statutory Basis	FY25 Amount	Percent of Total
Sales to Manufacturers Deduction	7-9-46	$270	51.8%
Apportionment Election for Manufacturers	7-4-10(B)	$81	15.6%
Sales of Services to Manufacturers Deduction	7-9-46.1	$37	7.2%
Film Production Tax Credit	7-2F	$34	6.5%
Sale of Software Development Services Deduction	7-9-57.2	$17	3.2%
DoD Directed Energy & Satellites Deduction	7-9-115	$11	2.1%
LEDA GRT Distributions	7-1-6.67	$11	2.0%
Durable Medical Equipment Deduction	7-9-73.3	$10	2.0%
High-Wage Jobs Tax Credit	7-9G-1	$9	1.8%
Apportionment election of CIT for Headquarters	7-4-10(C)	$8	1.6%
Lab Partnership with Small Business	7-9E-1	$7	1.3%
Technology Jobs and R&D Credit	7-9F-1	$7	1.3%
Aircraft Sales or Services Deduction	7-9-62.1	$5	<1%
Investment Credit	7-9A-1	$3	<1%
Sales to Credit Unions	7-9-61.2	$2	<1%
Technology Readiness Credit	7-9-96.3	$2	<1%
Investment Management Deduction	7-9-108	$2	<1%
Hosting World Wide Web Sites Deduction	7-9-56.2	$2	<1%
Jet Fuel Deduction	7-9-83	$1	<1%
Angel Investment Credit	7-2-18.17	$1	<1%
Rural Job Tax Credit	7-2E-1.1	$1	<1%
Small Business Saturday Deduction	7-9-116	$1	<1%
Vehicle within 10-miles of Border exemption	7-15-3.2	$1	<1%
Border Zone Trade Support Company Deduction	7-9-56.3	<$1	<1%

Source: LFC Files

production tax credit provides an incentive for film production companies equal to between 25 percent and 40 percent of qualified expenditures. It is fully refundable, meaning taxes paid by other taxpayers are used to support the industry's activity.

Impact Analysis Indicates Mixed Results Across Expenditures

This report includes an economic impact analysis (EIA) for each tax expenditure. The analysis considered the economic return on investment (ROI) and the return in revenue (RIR) for each expenditure. The economic ROI considers the impact on the New Mexico economy, measured through gross domestic product (GDP), which is the value of all goods and services produced in the state. The RIR considers state tax revenue collections attributable to the expenditure. Details of the measures are discussed in "Methodology."

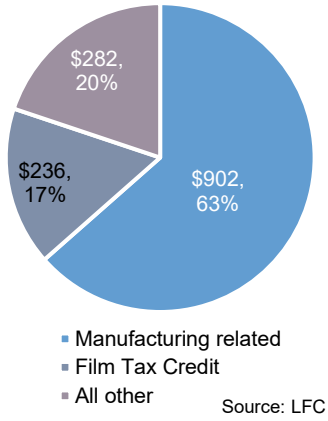
All economic development expenditures cost more than they generate in new tax revenue. All 24 economic development tax expenditures had negative RIR, meaning the state spent more on the expenditure than it collected in new revenues. The return in revenue ranged from negative 99 percent to negative 84 percent. A RIR of negative 84 percent means that for every $1 spent, the state forgoes 84 cents and recaptures 16 cents in state tax revenue.

The state spent $176 million on expenditures with negative economic ROI. For 14 expenditures, the economic ROI was negative, meaning for every $1 spent, state economy shrinks because of forgone government investment. In effect, for every $1 the state spent on these incentives, the overall state economy contracted relative to the alternative use of those funds through other forms of public investment or spending. In FY25, the state spent $176 million on economic development tax expenditures with a negative economic ROI, about 33 percent of the total.

For the remainder, the economic ROI was positive, meaning the state economy grew because of the expenditure. Among these expenditures, the economic ROI ranged from 8 percent to 139 percent. An economic ROI of 139 percent means that for every $1 spent, the state economy grows by an additional $1.39.

In general, gross receipts tax deductions, especially those benefiting retail industries and other nontraded industries, had the lowest economic ROI. Expenditures benefiting investment, high-technology industries, and other traded industries had the highest economic ROI. The table below summarizes the RIR and economic ROI for each expenditure.

Chart 3. FY23-FY25 Economic Development Expenditures by Beneficiary Type
(dollars in millions)



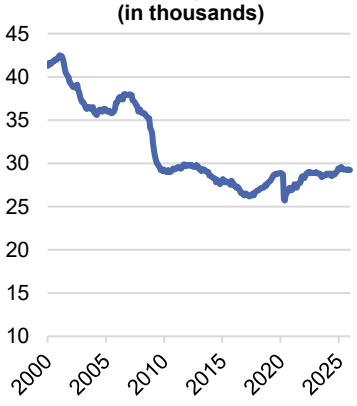
Source: LFC

Table 3. Economic Development Tax Expenditure Spending

FY	Amount (millions)
2021	$131
2022	$234
2023	$302
2024	$595
2025	$520

Source: LFC Analysis

Manufacturing Employment
(in thousands)



Source: BLS

Table 4. Summary of Economic and Revenue Impacts of Economic Development Tax Expenditures

Expenditure	Economic ROI	Return in Revenue
Investment Credit	139%	-84%
Lab Partnership with Small Business	97%	-89%
Investment Management Deduction	54%	-92%
Angel Investment Credit	50%	-91%
High-Wage Jobs Tax Credit	33%	-92%
Sales to Manufacturers Deduction	25%	-92%
Technology Jobs and R&D Credit	23%	-93%
Technology Readiness Credit	17%	-93%
LEDA GRT Distributions	9%	-93%
Film Production Tax Credit	8%	-94%
Sale of Software Dev. Services Deduction	-6%	-96%
Hosting World Wide Web Sites Deduction	-24%	-96%
Apportionment election of CIT for Headquarters	-36%	-96%
Sales of Services to Manufacturers Deduction	-36%	-96%
Commercial Vehicle Near Border Exemption	-37%	-95%
DoD Directed Energy & Satellites Deduction	-37%	-96%
Rural Job Tax Credit	-42%	-96%
Apportionment Election for Manufacturers	-42%	-96%
Border Zone Trade Support Company Deduction	-57%	-96%
Durable Medical Equipment Deduction	-63%	-98%
Jet Fuel Deduction	-73%	-98%
Aircraft Sales or Services Deduction	-73%	-98%
Sales to Credit Unions	-79%	-99%
Small Business Saturday Deduction	-86%	-99%

Economic ROI represents the impact an expenditure has on the New Mexico economy, measure through the GDP increase. An economic ROI of 50% means for every $1 spent, the New Mexico economy grows by 50 cents. An economic ROI of negative 50% means for every $1 spent, the New Mexico economy shrinks by 50 cents. The return in revenue is calculated as the impact to tax revenues. A return in revenue of negative 95% means that for every $1 spent, the state forgoes 95 cents and recaptures 5 cents in new tax revenue. See “Methodology” for additional information on modeling and assumptions.

Source: LFC Analysis

In total, the 24 economic development tax expenditures have an estimated average GDP impact of $392 million in present value terms. The expenditures cost a present value of $386 million, on average. The net present value impact on GDP is $5.4 million, on average. The economic ROI is estimated to be 1.4 percent for the total spending, meaning for every $1 spent, the state economy grows by 1.4 cents.

Together, all economic development tax expenditures are estimated to induce $37 million in tax revenues, on average in present value terms. The present value cost of these expenditures is $386 million, on average. Therefore, the net present value impact on revenues is a net cost or loss of $350 million, on average. The return in revenue is estimated to be negative 91 percent, meaning for every $1 spent, the state forgoes 91 cents and recaptures 9 cents in state tax revenue.

Spending is not well-targeted to high-impact expenditures. To maximize economic impact, the state should invest more in expenditures with higher economic ROI. This report finds that the state does not target investments to expenditures with the highest impact. For example, the investment credit (7-9A et seq. NMSA 1978) has the largest economic ROI at 139 percent, meaning for every $1 of cost for the expenditure the New Mexico economy grows by $1.39. The investment credit cost the state $2.8 million in FY25. In contrast, the sales to manufacturers deduction (7-9-46 NMSA 1978) cost the state $270 million in FY25, which had an economic ROI of 25 percent, meaning for every $1 spent on the expenditure the New Mexico economy grows by 25 cents.

Expenditures targeting traded industries have higher economic ROI, but the state spent $14.6 million on nontraded industries. Seventeen economic development expenditures target traded industries. Of these, six have a negative economic ROI. In contrast, all six of the expenditures benefiting nontraded industries have a negative economic ROI. This finding aligns with research indicating traded industries have larger economic multipliers.

Five economic development expenditures benefit nontraded industries and have among the lowest economic ROI. The state spent $14.6 million on these expenditures in FY25, about 3 percent of the total spent on economic development expenditures. The analysis suggests these expenditures redirect economic activity or subsidize activity that would have occurred regardless of the incentive, creating a cannibalizing effect that moves activity to one business by reducing activity at another business. Because the activity is not newly generated, the cost associated with these expenditures simultaneously reduces the state's ability to fund other investments with potentially larger economic multipliers or long-term economic benefits, costing the economy in potential economic output.

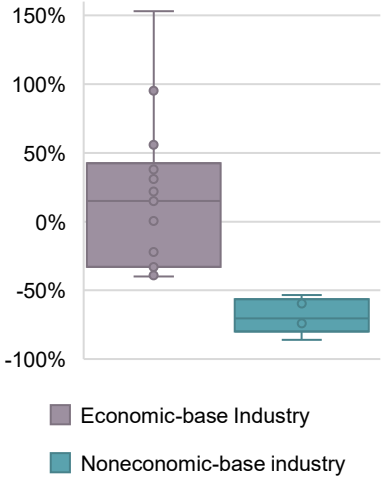
Table 5. Nontraded Industries Tax Expenditures
(dollars in thousands)

Expenditure	Economic ROI	Return in Revenue	FY25 Cost
Durable Medical Equipment Deduction	-60%	-97%	$10,200
Sales to Credit Unions	-74%	-98%	$2,362
Jet Fuel Deduction	-70%	-97%	$1,101
Small Business Saturday Deduction	-86%	-99%	$518
Border Zone Trade Support Company Deduction	-57%	-96%	$420

Source: LFC Analysis

Credits typically have higher ROI compared with deductions. This is partially because many deductions and exemptions benefit nontraded industries, which typically have lower multipliers. However, excluding nontraded industries, credits have had larger economic ROI because they tend to target specific high-return activity and generally have lower

Chart 5. Economic Base Industry Expenditures have Higher Economic ROI



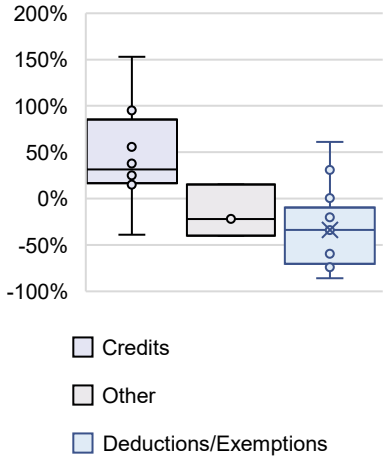
Traded industries—sometimes referred to as "economic base" or "export-based" industries—sell goods and services both locally and nationally, meaning they generate wealth for the state economy by bringing in money from outside the state. Local industries—sometimes referred to as "noneconomic base" or "nonexport-based" industries—mostly sell goods and services locally, meaning they cycle wealth through the state economy instead of adding to it. Economic development incentives should generally be targeted toward traded industries because they have larger economic multipliers and generate a better return on investment. This analysis uses definitions of traded and local from "Defining clusters of related industries," *Journal of Economic Geography*, vol 16(1), pages 1-38.

expenditures per claim. Deductions have relatively high expenditures per claim and tend to benefit all businesses in an industry instead of incentivizing a specific desired behavior within an industry.

Despite rapid growth, manufacturing-industry tax expenditures have mixed economic impacts. Of the three expenditures benefiting the manufacturing industry, two had a negative economic ROI. The design and targeting of the expenditures likely reduces the economic impact. The sales of services to manufacturers expenditure (7-9-46.1 NMSA 1978) primarily benefits industries with lower multipliers, like legal services and accounting. The corporate income tax apportionment election expenditure (7-4-10(B) - 7-4-10(E) NMSA 1978) primarily benefits taxpayers through a corporate income tax reduction, which makes up a relatively small share of manufacturers' business expenses. Additionally, the apportionment election only benefits firms with positive incomes, which tend to be larger businesses with longer tenures. Finally, apportionment election benefits take-home profits of corporations, which, if the corporation is owned in some part by out-of-state shareholders, may translate into dollars leaving the state, which reduces the economic impact of the tax expenditure.

In contrast, the sales to manufacturers deduction expenditure (7-9-46 NMSA 1978) had a positive economic ROI. This expenditure offers a GRT deduction for all firms selling intermediate consumable products to manufacturers. Most firms selling to manufacturers are part of the local economic base, meaning the expenditure has a relatively high multiplier. GRT on inputs makes up a higher share of business expenses, so offsetting those costs provides significant cost reductions for businesses.

Chart 6. Credits Have Highest Economic ROI



Deductions reduce a taxpayer's taxable income or taxable receipts, reducing the tax they owe. **Credits** allow eligible taxpayers to subtract the amount of the credit from the tax they owe. Credits can reduce the amount a taxpayer owes below zero, resulting in a refund.

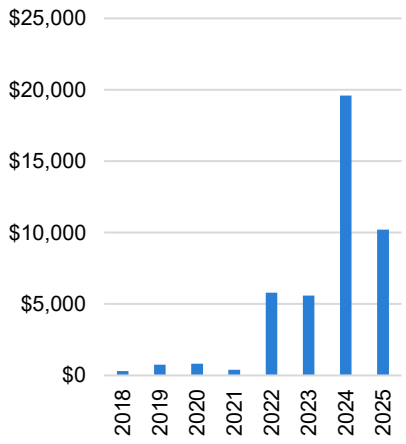
Many Expenditures Have a High Cost per Job

Not all expenditures are intended to create jobs, but economic development expenditures are particularly focused on generating economic activity to increase economic prosperity for New Mexicans. Job creation is the primary mechanism by which the state can increase per capita income without directly increasing benefit payments, so this analysis considers employment impacts as a measure of impact.

In total, economic development tax expenditures are estimated to have a cost per job of $137 thousand, on average. The cost per job varies significantly, ranging from $42 thousand for the investment management or advisory services GRT deduction (7-9-108 NMSA 1978) to $724 thousand for the small business Saturday deduction (7-9-116 NMSA 1978). Some cost-per-job estimates are very high because the expenditures are estimated to support almost no new job growth.

The average cost per job of $137 thousand for all economic development tax expenditures is significantly higher than the median New Mexico

Chart 7. Durable Medical Equipment GRT Deduction Expenditures
(in thousands)



Source: LFC Analysis

annual wage of around $46 thousand. Some industries have higher annual wages, but very few industries offer annual salaries of $137 thousand. Furthermore, the cost per job may be significantly higher than other economic development programs like the Local Economic Development Act Program or the Job Training Incentive Program. In FY25, cost per job for JTIP was $12.4 thousand, and the cost per job for LEDA was $7,400 thousand.

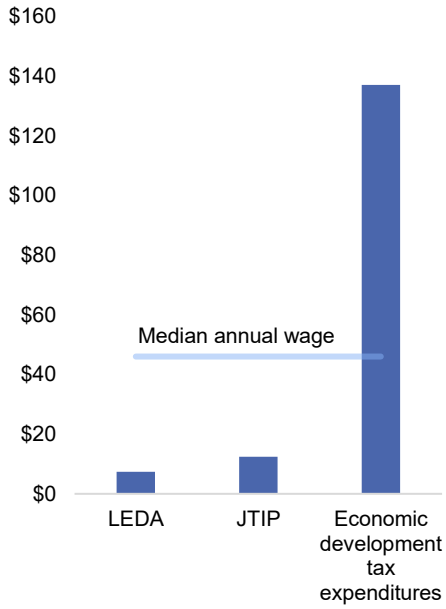
Table 7. Cost per Job of Economic Development Tax Expenditures
(in thousands)

Expenditure	Average Cost per Job
Investment Management Deduction	$42
Investment Credit	$53
Angel Investment Credit	$73
Lab Partnership with Small Business	$76
Technology Jobs and R&D Credit	$99
High-Wage Jobs Tax Credit	$103
Technology Readiness Credit	$108
Sales to Manufacturers Deduction	$112
LEDA GRT Distributions	$118
Film Production Tax Credit	$131
Hosting World Wide Web Sites Deduction	$155
Vehicle within 10-miles of Border exemption	$167
Apportionment election of CIT for Headquarters	$182
DoD Directed Energy & Satellites Deduction	$188
Sales of Services to Manufacturers Deduction	$203
Rural Job Tax Credit	$223
Border Zone Trade Support Company Deduction	$239
Apportionment Election for Manufacturers	$246
Sale of Software Development Services Deduction	$247
Durable Medical Equipment Deduction	$425
Sales to Credit Unions	$570
Jet Fuel Deduction	$574
Aircraft Sales or Services Deduction	$575
Small Business Saturday Deduction	$724

Note: Cost per job is calculated as the average nominal cost of the expenditure divided by the average employment impact.

Source: LFC Analysis

Chart 8. Average Cost per Job of Select Economic Development Programs
(in thousands)



Source: LFC Analysis

Break-Even Analysis Shows Some Expenditures Are Never Revenue Positive

For large expenditures, the analysis reports a "break-even" analysis following the work of other states.[1] The break-even framework allows policymakers to evaluate program performance under varying assumptions about additionality, or the extent to which economic activity supported by

[1] A similar analysis is conducted in *Economic Development Tax Incentives Evaluation Act: Evaluation of Jobs Development Act.* 2023, September 28. Rhode Island Department of Revenue.

an incentive would not have occurred "but for" the availability of that incentive.

All economic development impact analysis make an assumption about how an incentive influences a business's decisions to engage in new economic activity—like adding jobs or increasing investment. Consider an expanding New Mexico business. In some cases, an incentive is the deciding factor in that business decision. In others, a business may have already planned an expansion, so the incentive is not attributable to the associated new activity. The additionality percentage is the average of these decisions statewide.

Additionality is the amount of economic activity that would not have taken place in the absence of state support. Sometimes referred to as "but for" test or "but for" percentage. Additionality is important to consider in impact analysis. See the "Methodology" section for additional discussion of additionality assumptions.

The true additionality percentage varies by business, industry, location, and timing. Moreover, surveys are likely not reliable, because all businesses likely want their incentives to continue and could face criticism if it were revealed that they received unnecessary support.

To address this issue, the break-even analysis identifies the additionality percentage that must be attributable to the expenditure for state revenue gains to equal the cost of the expenditure. In some cases, expenditures break even under plausible assumptions about additionality. In others, expenditures fail to break even regardless of the assumed additionality. In these cases, the state should not expect to recover more in additional revenue than is forgone through the expenditure.

Two break-even analyses were conducted. First, the report considered the three large expenditures benefiting the manufacturing industry. The benefit measure used was total manufacturing employment, about 28 thousand jobs in 2024. Manufacturing accounted for about 3 percent of the state's GDP in that year. The break-even analysis evaluates outcomes for between 10 percent and 60 percent of manufacturing employment attributable to the three tax expenditures.

The break-even point for manufacturing expenditures is between 40 percent and 50 percent additionality. In other words, the expenditures would generate more revenue than they cost only if more than 40 percent of manufacturing employment is attributable to tax incentives alone. If less than 40 percent of manufacturing employment is attributable to the tax incentives alone, then the expenditures fail to generate more revenue than they cost the state. A review of the economic development literature estimates that incentives of this size typically produce additionality rates between 2 percent and 25 percent on average. Based on that range, it is unlikely the manufacturing incentives evaluated in this report generate positive net fiscal returns to the state.

Abbreviated Economic Development Tax Incentives Logic Model

Inputs
Tax incentive funding and design

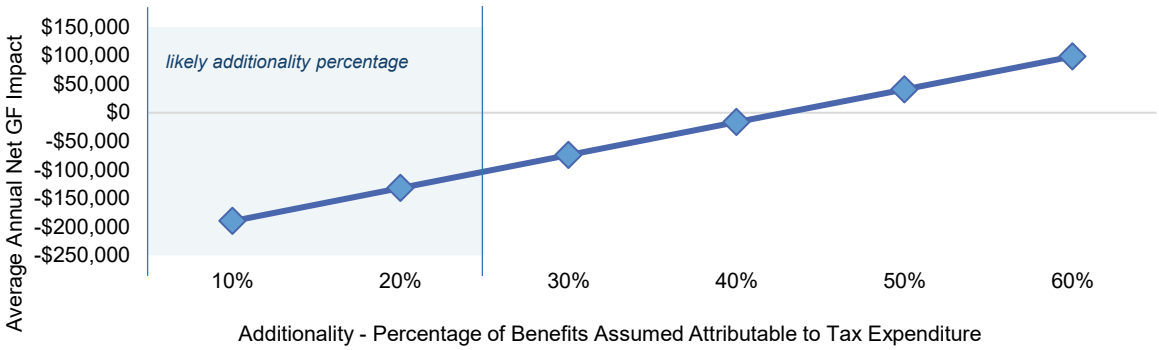
⇩

Outputs
New economic activity:
- New jobs
- Better sales
- More R&D
- Higher Investment
- Increased business creation, expansion, or relocation

⇩

Outcomes/Impact
Improved measures:
- GDP
- Employment
- Wages

Chart 9. Manufacturing Industry Tax Expenditures Breakeven Analysis
(dollars in thousands)

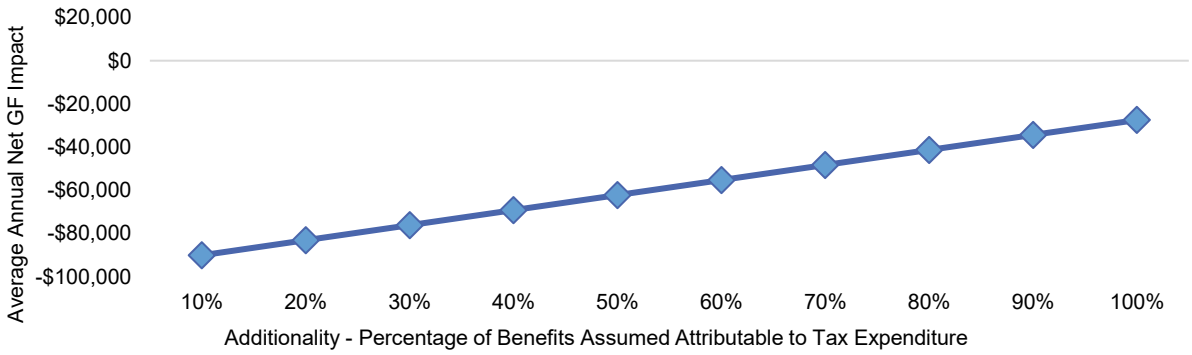


Note: The shaded area reflects the "but for" percentage suggested by the literature; the average annual net general fund impact is the average of the sum of present value of increased revenues minus the sum of the present value of expenditure costs; increased revenues include direct and indirect effects in addition to the cost expenditure.

Source: LFC Analysis

The break-even analysis shows different results for the film production tax credit, the largest state tax expenditure intended to support the New Mexico film industry. The benefit measure used was total film industry employment, which has fluctuated between 1,500 and 3,500 from 2023 to 2025. The film industry accounted for about 0.3 percent of the state's GDP in 2024. The break-even analysis assumed that between 10 percent and 100 percent of film employment is attributable to the tax credit. This range is plausible because the credit is refundable and equals 25 percent of eligible expenditures, which represents roughly 18 percent of total production spending. Research notes higher incentive values can support higher additionality rates. As shown in the figure below, the film production tax expenditure fails to break-even at all assumed additionality levels.

Chart 10. Film Production Tax Credit Break even Analysis
(dollars in thousands)



Note: The average annual net general fund impact is calculated as a sum of present value of increased revenues minus the sum of the present value of expenditure costs divided by the number of years in the period. Increased revenues include direct and indirect effects in addition to the cost of the direct expenditure.

Source: LFC Analysis

Expenditures' Adherence to Best Practices and Policy Principles

In addition to the economic and fiscal impact analysis, this report evaluated six design and implementation elements of economic development tax expenditures against LFC tax policy principles and national best practices. The analysis considers whether each expenditure:

1. Has an expiration date,
2. Has an expenditure cap,
3. Targets economically distressed areas,
4. Targets traded industries,
5. Meets statutory reporting requirements, and
6. Provides reliable data for monitoring.

These design elements are intended to support legislative oversight and improve the effectiveness, accountability, and transparency of economic development incentives. (The finding for each design element for each expenditure is included in Appendix C.)

Few economic development incentives meet best-practice design standards.

No expenditure met all six design element standards. The angel investment credit (7-2-18.17 NMSA 1978) and technology readiness credit (7-9-96.3 NMSA 1978) met five of six criteria but neither target economically distressed areas. The laboratory partnership with small business credit met or partially met all criteria except for the expiration date, which the expenditure lacks. All 24 tax expenditures met statutory reporting requirements, except for the film production tax credit. The Economic Development Department is required to report film industry expenditures by county but has failed to meet this requirement.

Six expenditures lack a statutory requirement for taxpayers to report deductions, limiting legislative oversight and analysis. For most GRT deductions, a taxpayer is required to report the deduction amount in monthly submissions. For six expenditures, however, taxpayers lack this minimal requirement, preventing the department from ensuring compliance. TRD must also estimate the cost of the expenditures because it lacks actual data. Estimation is subject to an unavoidable level of error, limiting legislative oversight.

Most expenditures lack an expiration date, preventing routine legislative review of spending through the tax code. Sixteen tax expenditures lacked an expiration date, including each of the state's largest

Design Element
Has expiration date
Justification
Expiration dates allow the Legislature to review expenditures and ensure the spending is appropriate.

Design Element
Has expenditure cap
Justification
Expenditure caps limit general fund risk. Without a cap, the Legislature may find itself with significantly reduced capacity for other fiscal priorities.

Design Element
Targets distressed areas
Justification
Research suggests economic development incentives are most effective when they supports areas with weak underlying economic conditions.

Design Element
Targets traded industries
Justification
Traded industries bring new money into the local economy, create more jobs, and create more tax revenue because of high economic multiplier effects.

Design Element
Reporting requirements met
Justification
Taxpayers and state agencies should follow statutory reporting requirements to ensure appropriate legislative oversight.

Design Element
Data availability
Justification
Taxpayers should be required to report sufficient information for legislative oversight of spending.

economic development tax incentives. In total, the state spent $486 million on expenditures that lacked an expiration date, 93 percent of total spending.

Most expenditures lack a cap, creating significant general fund risk. Nearly all tax expenditures—20 out of 24—lack an expenditure cap. Expenditure usage can fluctuate significantly. For example, the GRT deduction for sales to manufacturers (7-9-46 NMSA 1978) more than doubled in two years. The lack of expenditure cap puts the general fund at risk and could leave policymakers with constrained appropriation capacity quickly and unexpectedly. Expenditure caps are difficult or potentially impossible for GRT deductions because taxpayers claim the benefit in monthly GRT filings. An expenditure cap would be administratively difficult or impossible. Caps are easier to implement via credits because taxpayers can apply for eligibility based on availability.

No expenditure targets spending to economically distressed areas. While four expenditures provide additional state support for beneficiaries in rural areas, no expenditure explicitly ties state support to an area's actual economic conditions, like unemployment rate or employment to population ratio. Targeting distressed areas is recommended because it generates a better return on investment. Some places benefit more from job creation than others. In distressed labor markets–where rates of employment are relatively low–it is easier for employers to find new workers locally than in places where more people already have jobs. As a result, job creation in distressed places produces greater increases in local employment rates than job creation in non-distressed places does. For more review of the benefit cost of job creation in distressed places, see Bartik 2023.

The state spent $14 million in economic development tax expenditures benefiting local industries. While most economic development tax incentives target traded industries, five expenditures provide support for nontraded industries. Traded, or export-based industries have larger economic multipliers and generate a better return on investment.

Recommendations

The Legislature should:

- Consider prioritizing expenditures with higher economic returns and limiting or restructuring expenditures with low or negative economic returns,
- Require separate reporting requirements for the six expenditures that are not separately reported,
- Add expiration dates to the 16 expenditures that currently lack them,
- Add expenditure caps to the five expenditures with no cap or with partial caps,
- Add purpose statements to the 10 expenditures that lack them, and
- Add statutory or budget language directing state agencies to standardize, compile, and publish measures of economic distress to better target economic development investment to areas with weaker labor market conditions and greater economic need.

Appendix A. Economic Development Tax Expenditures Impact and Design Analysis

Expenditure	Statutory Basis	FY25 Expenditure (millions)	Economic ROI	Return in Revenue	Meets Purpose	Has expiration date	Has expenditure cap	Targets distressed areas	Targets traded industry	Data Availability	Data Reliability
Investment Credit	7-9A.	$3	139%	-84%	◑	●	○	○	●	●	●
Lab Partnership with Small Business	7-9E.	$7	97%	-89%	●	○	●	◑	●	●	●
Investment Mgmt. of Advisory Services Deduction	7-9-108	$2	54%	-92%	No purpose	○	○	○	●	●	○
Angel Investment Credit	7-2-18.17	$1	50%	-91%	●	●	●	○	●	●	●
High-Wage Jobs Tax Credit	7-9G-1	$9	33%	-92%	●	●	○	◑	●	●	●
Sales to Manufacturers Deduction	7-9-46	$270	25%	-92%	◑	○	○	○	●	●	●
Technology Jobs and R&D Credit	7-9F.	$7	23%	-93%	●	○	○	◑	●	●	●
Technology Readiness Credit	7-9-96.3	$2	17%	-93%	◑	●	●	○	●	●	●
LEDA GRT Distributions	7-1-6.67	$11	9%	-93%	No purpose	○	○	○	●	●	●
Film Production Tax Credit	7-2F.	$34	8%	-94%	◑	○	◑	◑	●	○	●
Sale of Software Development Services Deduction	7-9-57.2	$17	-6%	-96%	◑	○	○	◑	●	●	○
Hosting World Wide Web Sites Deduction	7-9-56.2	$2	-24%	-96%	No purpose	○	○	○	●	●	○
Apportionment election of CIT for Headquarters	7-4-10(C)	$8	-36%	-96%	No purpose	○	○	○	◑	●	●
Sales of Services to Manufacturers Deduction	7-9-46.1	$37	-36%	-96%	◑	○	○	○	◑	●	◑
Vehicle within 10-miles of Border exemption	7-15-3.2	$1	-37%	-95%	No purpose	○	○	○	●	●	○
DoD Directed Energy & Satellites Deduction	7-9-115	$11	-37%	-96%	●	●	○	○	●	●	●
Rural Job Tax Credit	7-2E-1.1	$1	-42%	-96%	◑	○	○	◑	●	●	●
Apportionment Election for Manufacturers	7-4-10(B)	$81	-42%	-96%	No purpose	○	○	○	●	●	●
Border Zone Trade Support Company Deduction	7-9-56.3	$0.4	-57%	-96%	No purpose	●	○	○	○	●	◑
Durable Medical Equipment Deduction	7-9-73.3	$10	-63%	-98%	●	●	○	○	○	●	●
Jet Fuel Deduction	7-9-83	$1	-73%	-98%	No purpose	○	○	○	○	●	○
Aircraft Sales or Services Deduction	7-9-62.1	$5	-73%	-98%	No purpose	○	○	○	●	●	●
Sales to Credit Unions	7-9-61.2	$2	-79%	-99%	No purpose	○	○	○	○	●	○
Small Business Saturday Deduction	7-9-116	$1	-86%	-99%	○	●	○	○	○	●	◑

Economic ROI represents the impact an expenditure has on the New Mexico economy, measure through the GDP increase. An economic ROI of 50% means for every $1 spent, the New Mexico economy grows by 50 cents. An economic ROI of -50% means for every $1 spent, the New Mexico economy shrinks by 50 cents. The return in revenue is calculated as the impact to tax revenues. A return in revenue of -95% means that for every $1 spent, the state forgoes 95 cents and recaptures 5 cents in new tax revenue. See methodology for additional information on modeling and assumptions.

Key

- ● Yes
- ◑ Partial
- ○ No

Appendix B. Methodology

Each impact analysis employs a New Mexico-specific version of the Regional Economic Models, Inc Tax-PI model (REMI Model). The REMI Model is calibrated with state revenue and expenditure data along with data on New Mexico industrial composition. The REMI Model is a macroeconometric forecasting model that represents the entire economy using relationships among major economic variables, such as consumption, investment, and trade. Unlike simpler input–output models, REMI combines these economy-wide relationships with detailed industry-level analysis. The model includes 70 economic sectors, allowing it to estimate how policy changes affect specific industries and how those effects ripple through the broader economy. The model combines different contemporary regional economic modeling methods such as input-output analysis and econometric modeling to characterize the mechanics and path of a regional economy. The model has been extensively peer-reviewed and is widely used elsewhere in the nation to model economic and tax revenue impacts of tax expenditures, including economic development tax expenditures.

The model captures traditional multiplier effects across industries while also accounting for changes in prices, wages, and competitiveness. It reflects how businesses and households respond to price signals and changing market conditions, including substitution between inputs and shifts in supply and demand. These features allow the model to estimate more realistic economic responses than models that assume fixed prices or production relationships.

The REMI Model also incorporates labor and capital markets, interstate and international trade, and population migration. The labor market component links employment and wages to demographic changes, including in- and out-migration. The model accounts for labor availability, wage determination, and differences in industry access to workers across regions.

The econometric foundation of the REMI model is based on statistical estimation using historical time-series and cross-regional data. This allows the model not only to estimate current economic impacts but also to project how the New Mexico economy may evolve over time in response to policy changes.

For this analysis, the REMI Model includes two geographic regions: New Mexico and the rest of the United States. The model is calibrated using historical data for both regions through 2023. Policy impacts are entered into the model by translating estimated direct effects into specific REMI inputs, referred to as model "levers." Appendix B summarizes how these direct effects are mapped to the relevant model components and indicates the expected direction of each impact.

The analysis reports two measures. First, for all expenditures, the analysis reports the ratio of gross domestic product (GDP) increases and the present value of direct costs to the state, referred to as economic return on investment (ROI). Economic ROI is calculated as the increase in state GDP because of the growth in consumption expenditures, private investment, government expenditures, and net exports after accounting for the costs of the expenditure. Both GDP impacts and costs are calculated on a net present value (NPV) basis over a 35-year period using a 5 percent discount rate.

$$Economic\ ROI = \frac{(Increased\ GDP - Total\ Cost)}{Total\ Cost} \times 100\%$$

The economic ROI value can be interpreted as the growth in the New Mexico economy that results from the state's investment in a tax expenditure. For example, and economic ROI of 90% means that for every $1 spent on a tax expenditure, the New Mexico economy increased by 90 cents.

Second, for all expenditures, the analysis reports the ratio of increased tax revenue and direct costs, referred to as the return in revenue (RIR). The RIR measures the increase in state tax revenue attributable to the economic activity generated by the expenditure after accounting for its cost. The value can be expressed as a percentage or a ratio that is calculated by subtracting the expenditure's total cost from the increase in state

revenue and dividing that value by the expenditure's total cost. The values are calculated on an NPV basis over a 35-year period using a 5 percent discount rate.

The analysis reflects structural simulations of the economic and fiscal effects of changes in economic conditions resulting from state action through tax exemptions, deductions, or credits. This report employs publicly available administrative data from the Taxation and Revenue Department (TRD) from 2012 to 2024 on the actual total expenditures, claims, and other relevant administrative data. The report also uses state revenue data from the Department of Finance and Administration and analyzes data from the U.S. Bureau of Labor Statistics and Bureau of Economic Analysis. Outcome variables examined include total employment, state gross domestic product (GDP), personal income, and sources of major state revenue. These are reported as the change in average annual increase over a 20-year simulation period compared with the baseline scenario.

$$Return\ in\ Revenue = \frac{(Increased\ Tax\ Revenue - Total\ Cost)}{Total\ Cost} \times 100\%$$

The return in revenue value can be interpreted as the growth in New Mexico revenue that results from the state's investment in a tax expenditure. For example, a return in revenue of -25% can be interpreted to mean that for every $1 spent on a tax expenditure, New Mexico state revenues decrease by 25 cents. Typically, this value is expressed as the return per $1 spent. In this example, the finding may be interpreted as for each $1 spent on a tax expenditure, the state recoups 75 cents.

For maximum specificity, the analysis links tax expenditures to industries to best capture the collective economic impacts of each tax expenditure. The economic impact of different types of tax expenditures across industries impacted by the selected programs is modeled to encompass all the potential gains from a selected tax incentive for the selected period. This allows for a broader economic return on investment measure and an estimated return in revenue the state receives.

Additionality

A common question in evaluating economic development investments is the extent to which the economic activity simulated in the analysis would have taken place in the absence of state funding. Additionality—often referred to as the "but for" test or "but for" percentage—has been subject to research. Bartik 2018a, an analysis of the economic development literature, suggests typical incentives of this size could have additionality percentages of between 2 percent and 25 percent, on average. The estimates include a range of economic development incentives, including tax incentives.

Often, economic development analysts assume 100 percent of the benefits would not have occurred but for state funding. While sometimes accurate, applying this assumption to all incentive spending can produce implausible results. The literature generally finds that the correct additionality percentage likely increases proportionally to incentive's share of total business costs. It's less likely that an incentive will tip a business decision if it makes up a small part of business costs. Other factors—like labor and transporting final goods—would likely matter more. On the other hand, an incentive that makes up a large share of costs is more likely to tip a business decision. Incentives that are large relative to business costs might be greater than any other cost differences between locations.

In general, simulations of tax incentives in this report do not include an assumption of additionality. Most expenditures represent a reduction in production costs for firms, which is best modeled without an additionality assumption. Instead, the impact of additionality is best explored through a "break-even" analysis, which models the impact of different assumptions.

However, some expenditures specifically incentivize economic activity, like the investment credit, which provides a partially refundable credit against gross receipts taxes for new investment by manufacturers. In these cases, modeling the economic effects requires an assumption regarding additionality because the

policy's effectiveness depends on the extent to which the incentive changes investment decisions that otherwise would not have occurred. These are defined in Appendix B.

Defining Tax Expenditures

This report defines tax expenditures as deviations from a baseline tax system created by specific tax law provisions. This definition matches the definition used by TRD in the annual Tax Expenditure Report, from which most of this data originates. However, TRD classifies the provision created by 7-9-46 NMSA 1978—sales to manufacturers deduction from GRT—as "not a tax expenditure" because it reduces the effects of tax pyramiding.

Tax pyramiding occurs when the cost of a tax is included in the tax base of a subsequent tax. Under a gross receipts tax, like New Mexico, pyramiding occurs absent a deduction, exemption, or credit. TRD does not classify any anti-pyramiding statutes as tax expenditures. Anti-pyramiding is considered by many economists to be sound tax policy. Implicitly, the agency asserts a tax system with less pyramiding is the baseline tax system against which provisions should be compared.

However, the beneficial tax treatment provided by 7-9-46 NMSA 1978 only benefits manufacturing firms, even though all industries face the effects of tax pyramiding under GRT. If the Legislature extended the same benefit to all taxpayers, there would be a better case for classifying it as "not a tax expenditure" because it would represent the baseline tax system. Under current law, GRT constitutes the New Mexico baseline tax regime as established by tax laws. While pyramiding may be viewed by some policymakers and analysts as a negative feature of the tax system, efforts to reduce it for specific industries are still "deviations from a baseline tax system." Accordingly, it is classified as a tax expenditures in this report.

Appendix C. REMI Model Policy Variables

Expenditure	REMI model policy variables	Modeling Description
Apportionment election of CIT for Headquarters DoD Directed Energy & Satellites Deduction Film Production Tax Credit High-Wage Jobs Tax Credit Hosting World Wide Web Sites Deduction Investment Mgmt. of Advisory Services Deduction Rural Job Tax Credit Sale of Software Development Services Deduction Sales of Services to Manufacturers Deduction Sales to Manufacturers Deduction Vehicle within 10-miles of Border exemption	Compensation and Prices > Production Costs > Capital Costs	Model economic impact based on reduced capital cost equal to the expenditure. Assign REMI industry based on industry impacted based on statutory provisions.
Apportionment Election for Manufacturers	(1) Compensation and Prices > Production Costs > Capital Costs (2) Compensation and Prices > Production Costs > Capital Costs > Corporate Profit Tax Rate	(1) Model economic impact based on reduced capital cost equal to the expenditure. Assign REMI industry based on industry impacted based on statutory provisions. (2) Model corporate profit tax rate reduction based on simulated election scenarios.
Investment Credit LEDA GRT Distributions Technology Jobs and R&D Credit Technology Readiness Credit Lab Partnership with Small Business	(1) Compensation and Prices > Production Costs > Capital Costs (2) Output and Demand > Investment Spending (structures & nonstructures)	(1) Model economic impact based on reduced capital cost equal to the expenditure. Assign REMI industry based on industry impacted based on statutory provisions. (2) Model investment spending based on a 25% additionality factor.
Sales to Credit Unions	Output and Demand > Investment Spending (structures & nonstructures)	Model investment spending based on a 100% additionality factor.
Angel Investment Credit	(1) Compensation and Prices > Disposable Personal Income > Personal Income > Personal Taxes (2) Output and Demand > Investment	(1) Model economic impact based on reduced personal taxes equal to the expenditure. (2) Model investment spending based on a 100% additionality factor.

Expenditure	REMI model policy variables	Modeling Description
	Spending (structures & nonstructures)	
Aircraft Sales or Services Deduction Durable Medical Equipment Deduction Jet Fuel Deduction Small Business Saturday Deduction	Output > Domestic Supply > Market Shares > Firm Sales	Model economic impact based on increased firm sales equal to the expenditure. These firm sales compete locally.
Border Zone Trade Support Company Deduction	Output > Industry Sales (Exogenous Production)	Model economic impact based on increased industry sales equal to the expenditure. These sales are exogenous.

Appendix D. Expenditure-by-Expenditure Reports

The following pages contain individual reports on economic development tax expenditures. They contain a background of the credit, legislative history, and an impact analysis. The first page for each expenditure contains a brief background of the credit and the impact analysis. The second page includes a legislative overview, usage trends, and a design analysis. All information on the individual reports reflects the same methodology as used in the report above.

Tax·E Tax Expenditure Assessment

Analysis of key state tax credits, exemptions, and deductions by the Legislative Finance Committee

Aircraft Sales or Services GRT Deduction

Background

Brief Description. State Businesses that sell aircrafts or sell services to maintain, refurbish, remodel, or otherwise modify a commercial aircraft may deduct those receipts from GRT.

Created: 2000 and amended in 2005, 2014, and 2025.

Expires: No expiration date.

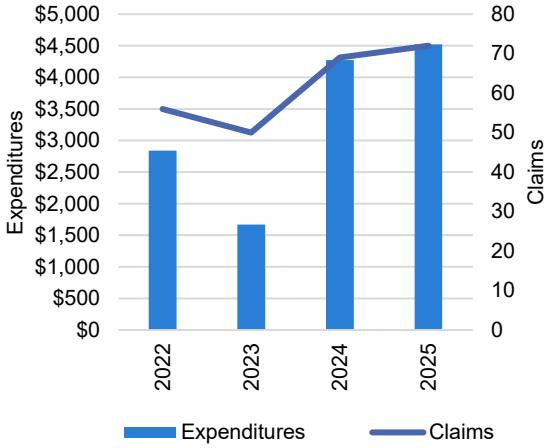
Impact Analysis Summary

In FY25, businesses received $4.5 million in state support through the deduction. Over the last three years, businesses received an average of $3.5 million in state support through the deduction each year. The deduction is estimated to increase statewide employment by 10 jobs per year on average because of lower business costs that encourage job creation. The estimated present value of the annual state GDP impact attributable to the program is $742 thousand. The economic return on investment (ROI) is estimated to be -73 percent, meaning for every $1 spent on the deduction, the New Mexico economy shrinks by 70 cents. The estimated annual return in revenue is -98 percent, meaning that for every $1 spent, the state forgoes 98 cents and recaptures 2 cents of state tax revenue.

Economic Impact Analysis Summary

FY25 Expenditure	***FY25 Claims***
$4.5 M	*72*
Economic ROI	***Return in Revenue***
-73%	*-98%*
For every $1 spent, the state economy shrinks by 73 cents.	For every $1 spent, the state forgoes 98 cents and recaptures 2 cents in state tax revenue.

Aircraft Sales or Services GRT Deduction Expenditures and Claims
dollars in thousands



Source: LFC Analysis

Credit Overview and Legislative History. Enacted in 2000, the aircraft sales or services GRT deduction allows receipts from the sale of aircrafts or the maintenance, refurbishing, remodeling, or "otherwise modifying" aircraft to be deducted from GRT. The aircraft must have a gross landing weight of over 10 thousand pounds, which is a typical classification for larger aircraft.

In 2005, the Legislature changed the deduction to allow aircrafts over 10 thousand pounds landing weight. Previously, the aircraft needed to be over 65 thousand pounds landing weight. In 2014, the Legislature amended the deduction to include the sales of aircraft. In 2025, the Legislature added streamlined reporting requirements to align with other tax expenditures.

Usage Trends. Usage of the deduction increased sharply in FY24 compared with FY23 and FY22. Expenditures remained about the same in FY25 compared with FY24. Prior to FY22, data on expenditures were limited because fewer than three taxpayers claimed the deduction, creating potential confidentiality concerns.

Design Analysis. The deduction does not have an expiration date nor an expenditure cap. The deduction does not target distressed areas. The deduction targets an export-based industry.

Meets Purpose. Statute does not provide a purpose for the deduction.

Summary

FY25 Tax Expenditure	$4.5 M
FY25 Number of Claims	72
Jobs Created	10
Economic ROI	-73%
Return in Revenue	-98%
Usage Trends	
1-Year Change	+5.8%
Meets Purpose	No purpose
Design Elements	
Has expiration date	○
Has expenditure cap	○
Targets distressed areas	○
Targets export-based industry	●
Data Availability *Are requirements being met?*	●
Data Reliability *Is data reported separately?*	●

Key
● Yes
◑ Partial
○ No

Note: Criteria based on LFC tax policy principles or other design, purpose, or statutory measures. See methodology for more details.

Future research opportunities for this tax credit include:
- Comparing the economic impacts to other tax expenditures and forms of spending
- Understanding how this credit impacts different regions of New Mexico
- Understanding the changes in claims and expenditures over time.
-

Tax·E Tax Expenditure Assessment

Analysis of key state tax credits, exemptions, and deductions by the Legislative Finance Committee

Angel Investment Credit

Background

Brief Description. The Angel Investment Credit Against PIT provides a tax credit to individuals who make qualified investments in New Mexico research or manufacturing activities, equal to up to 25 percent of the investment or $62 thousand.

Created: 2007, with amendments in 2012, 2015, 2020, 2024, and 2025.

Expires: December 31, 2030.

Statutory Basis: 7-2-18.17 NMSA 1978

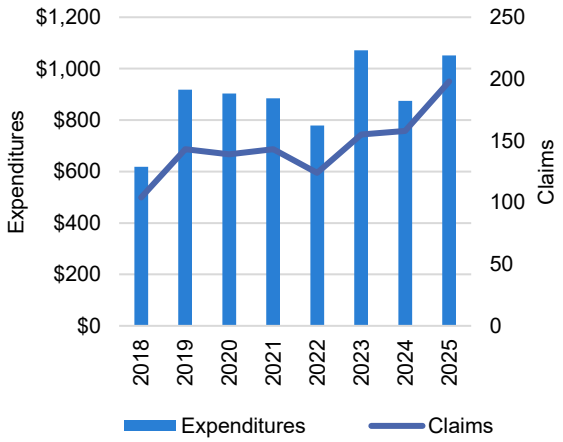
Impact Analysis Summary

In FY25, businesses received $1.1 million in state support through the credit. Over the last three years, businesses received an average of $1 million in state support through the credit each year. The credit is estimated to increase statewide employment by 20 jobs per year on average because of lower business costs that encourage job creation. The credit is estimated to increase state personal income by a present value of $1.5 million, on average, because of higher wage earnings, increased business profits, and increased property income. The estimated present value of the annual state GDP impact attributable to the program is $910 thousand. The economic return on investment (ROI) is estimated to be 50 percent, meaning for every $1 spent on the credit, the New Mexico economy grows by 50 cents. The estimated annual return in revenue is -91 percent, meaning that for every $1 spent, the state forgoes 91 cents and recaptures 9 cents of state tax revenue.

Economic Impact Analysis Summary

FY25 Expenditure	***FY25 Claims***
$1.1 M	*198*
Economic ROI	***Return in Revenue***
50%	*-91%*
For every $1 spent, the state economy grows by 50 cents.	For every $1 spent, the state forgoes 91 cents and recaptures 9 cents in state tax revenue.

Angel Investment Credit Expenditures and Claims
dollars in thousands



Source: LFC Analysis

Credit Overview and Legislative History. A taxpayer who makes a qualified investment may claim a credit in an amount not to exceed 25 percent of the qualified investment, up to $62 thousand. For an investment to qualify, it must be made in a business that maintains its principal place of business in New Mexico and engages in high-technology research or manufacturing activities in the state. A taxpayer may make up to five qualified investments per tax year. The aggregate annual cap is $2 million. The purpose of the credit is to incentivize investment in qualified research and manufacturing activities in New Mexico by angel investors.

Originally enacted in 2007, the credit's sunset was first extended in 2012. The Legislature extended the credit again in 2015 and changed the allowable investment amounts. The 2020 amendment transferred review and approval responsibilities from the Economic Development Department to the Taxation and Revenue Department. In 2024, the Legislature extended the sunset. In 2025, the Legislature streamlined reporting requirements to align with other tax expenditures.

Usage Trends. Usage has generally increased over time. Claims rose from 104 in FY18 to 198 in FY25, with a brief dip in FY22 before reaching their highest level in FY24 and FY25. Expenditures show a similar pattern, increasing from $618 thousand in FY18 to more than $1 million in FY23 where they have remained about flat since.

Design Analysis. The credit has an expiration date, and an expenditure cap. It targets export-based industries, but it does not target distressed areas.

Meets Purpose. Statute does not provide a purpose for this expenditure.

Summary

FY25 Tax Expenditure	$1.1 M
FY25 Number of Claims	198
Jobs Created	20
Economic ROI	50%
Return in Revenue	-91%
Usage Trends	
1-Year Change	+20%
3-Year Average Change	+17%
Meets Purpose	No purpose
Design Elements	
Has expiration date	●
Has expenditure cap	●
Targets distressed areas	○
Targets export-based industry	●
Data Availability *Are requirements being met?*	●
Data Reliability *Is data reported separately?*	●

Key
● Yes
◑ Partial
○ No

Note: Criteria based on LFC tax policy principles or other design, purpose, or statutory measures. See methodology for more details.

Future research opportunities for this tax credit include:
- Comparing the economic impacts to other tax expenditures and forms of spending
- Understanding how this credit impacts different regions of New Mexico
- Understanding the changes in claims and expenditures over time.
-

Tax·E Tax Expenditure Assessment

Analysis of key state tax credits, exemptions, and deductions by the Legislative Finance Committee

Apportionment Election of CIT for Manufacturers

Background

Brief Description. The apportionment election of CIT for manufacturers allows manufacturers to elect to apportion their business income using a single sales factor instead of the three-factor apportionment used by other corporations.

Created: 1993 and amended in 2001, 2002, 2009, 2013, 2015, 2019, 2020, and 2024.

Expires: No expiration date.

Statutory Basis: 7-4-10(C), 7-4-10(D) and 7-4-10(E) NMSA 1978

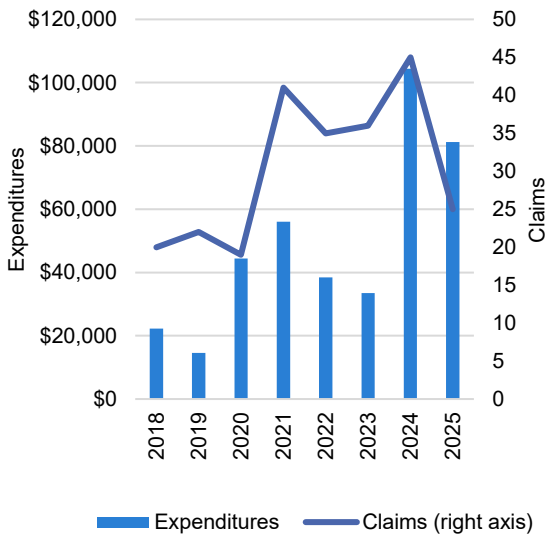
Impact Analysis Summary

In FY25, New Mexico manufacturing businesses with taxable business income received $81.2 million in state support through the tax expenditure. Over the last seven years, manufacturers received an average of $53 million in state support through the tax expenditure. The tax expenditure is estimated to increase statewide employment by 500 jobs per year on average because of lower business costs. The expenditure is estimated to increase state personal income by a present value of $40 million, on average, because of higher wage earnings, increased business profits, and increased property income. The estimated present value of the annual state GDP impact attributable to the program is $32 million. The economic return on investment (ROI) is estimated to be -42 percent, meaning for every $1 spent on the expenditure, the New Mexico economy shrinks by 42 cents because the economy does not grow by more than the cost of the tax expenditure. The estimated annual return in revenue is -96 percent, meaning that for every $1 spent, the state forgoes 96 cents and recaptures 4 cents of state tax revenue.

Economic Impact Analysis Summary

FY25 Expenditure	***FY25 Claims***
$81.2 M	*26*
Economic ROI	***Return in Revenue***
-42%	*-96%*
For every $1 spent, the state economy shrinks by 42 cents.	For every $1 spent, the state forgoes 96 cents and recaptures 4 cents in state tax revenue.

Apportionment Election for Manufacturers Expenditures and Claims
dollars in thousands



Source: LFC Analysis

Expenditure Overview and Legislative History. The apportionment election of CIT for manufacturers was created in 1993. Under the election, a filing group or taxpayer who has eighty percent of more of their property or payroll factors in manufacturing or computer processing may elect to have its business income apportioned to New Mexico by using a single sales factor and not the three-factor formula other corporations must use. Although a purpose for the expenditure is not provided in statute, the Taxation and Revenue Department's Tax Expenditure Report states the expenditure is intended to encourage investment and revenue in New Mexico by manufacturers who do not anticipate substantial sales revenue within the state

The election has been amended eight times since 1993. The 2013 amendment phased in the use of a single sales factor by certain taxpayers by apportioning income over five years. The 2019 and 2020 amendments allowed for computer processing facilities to use the sales apportionment, and the 2024 amendment removed a sunset to permit certain electrical energy generators to use a single sales factor in calculating the amount of business income tax.

Usage Trends. Claims have been relatively steady, averaging between 25 and 45 between FY21 and FY25, with a spike in FY24 and a slowdown in FY25. Expenditures have been slightly more variable, with total costs tripling in FY24 compared with FY23. Expenditures receded 22 percent in FY25 but remain well above levels seen in FY23 and before, indicating the increase may be permanent.

Design Analysis. The expenditure does not have an expiration date nor an expenditure cap. It does not target distressed areas. The expenditure targets the manufacturing industry, which is export-based.

Meets Purpose. The statute that creates this expenditure, 7-4-10 NMSA, does not include a purpose.

Summary

FY25 Tax Expenditure	$81.2 M
FY25 Number of Claims	25
Jobs Created	500
Economic ROI	-42%
Return in Revenue	-96%
Usage Trends	
1-Year Change	-22%
3-Year Average Change	+58%
Meets Purpose	No purpose
Design Elements	
Has expiration date	○
Has expenditure cap	○
Targets distressed areas	○
Targets export-based industry	●
Data Availability *Are requirements being met?*	●
Data Reliability *Is data reported separately?*	●

Key
● Yes
◑ Partial
○ No

Note: Criteria based on LFC tax policy principles or other design, purpose, or statutory measures. See methodology for more details.

Future research opportunities for this tax expenditure include:
- Comparing the economic impacts to other tax expenditures and forms of spending
- Understanding how this expenditure impacts different regions of New Mexico
- Understanding the changes in claims and expenditures over time.
-

Tax·E Tax Expenditure Assessment

Analysis of key state tax credits, exemptions, and deductions by the Legislative Finance Committee

Apportionment Election of CIT for Headquarters

Background

Brief Description. The apportionment election of CIT for headquarters allows a business headquartered in New Mexico elect to have its income apportioned to New Mexico by using a single sales factor.

Created: 2015

Expires: No expiration date.

Statutory Basis: 7-4-10(B), 7-4-10(D) and 7-4-10(E) NMSA 1978

Impact Analysis Summary

In FY25, businesses received $8.3 million in state support through the expenditure. Over the last three years, businesses received an average of $7.3 million in state support each year. The expenditure is estimated to increase statewide employment by 50 jobs per year on average because of lower business costs that encourage job creation. The expenditure is estimated to increase annual state personal income by a present value of $3.5 million, on average, because of higher wage earnings, increased business profits, and increased property income. The estimated present value of the annual state GDP impact attributable to the program is $2.4 million. The economic return on investment (ROI) is estimated to be -36 percent, meaning for every $1 spent on the expenditure, the New Mexico economy shrinks by 36 cents. The estimated annual return in revenue is -96 percent, meaning that for every $1 spent, the state forgoes 96 cents and recaptures 4 cents of state tax revenue.

Economic Impact Analysis Summary

FY25 Expenditure	***FY25 Claims***
$8.3 M	*69*
Economic ROI	***Return in Revenue***
-36%	*-96%*
For every $1 spent, the state economy shrinks by 36 cents.	For every $1 spent, the state forgoes 96 cents and recaptures 4 cents in state tax revenue.

Apportionment Election of CIT for Headquarters Expenditures and Claims

dollars in thousands

Source: LFC Analysis

Expenditure Overview and Legislative History. revenue The apportionment election of CIT for headquarters allows a business headquartered in New Mexico elect to have its income apportioned to New Mexico by using a single sales factor and not the three-factor formula other corporations must use. The expenditure election allows businesses to reduce their tax liability based on their corporate structure. Although a purpose for the expenditure is not provided in statute, the Taxation and Revenue Department's Tax Expenditure Report states the expenditure is intended to encourage companies to locate their headquarters in New Mexico to increase employment and economic activity.

Usage Trends. Expenditures for the election decreased sharply in over the last several years while claims remained about the same. Expenditures spiked in FY23 and increased again sharply in FY25. This likely indicates the shifting tax liability for these taxpayers, especially as claims have remained flat.

Design Analysis. The expenditure does not have an expiration date or an expenditure cap. The expenditure does not target distressed areas. The expenditure does not target export-based industries.

Meets Purpose. The expenditure does not have a purposed established in statute.

Summary

FY25 Tax Expenditure	$8.3 M
FY25 Number of Claims	69
Jobs Created	50
Economic ROI	-36%
Return in Revenue	-96%
Usage Trends	
1-Year Change	+5x
3-Year Average Change	+11x
Meets Purpose	No purpose
Design Elements	
Has expiration date	○
Has expenditure cap	○
Targets distressed areas	○
Targets export-based industry	○
Data Availability *Are requirements being met?*	●
Data Reliability *Is data reported separately?*	●

Key
● Yes
◑ Partial
○ No

Note: Criteria based on LFC tax policy principles or other design, purpose, or statutory measures. See methodology for more details.

Future research opportunities for this tax expenditure include:
- Comparing the economic impacts to other tax expenditures and forms of spending
- Understanding how this expenditure impacts different regions of New Mexico
- Understanding the changes in claims and expenditures over time.
-

Tax·E Tax Expenditure Assessment

Analysis of key state tax credits, exemptions, and deductions by the Legislative Finance Committee

Border-Zone Trade-Support Company GRT Deduction

Background

Brief Description. The border-zone trade-support company GRT deduction is a deduction offered to customs brokerage firms and freight forwarder companies. The receipts are deductible if they occur within five years of the firm locating to New Mexico. The receipts are deductible if the firm located in New Mexico between July 1, 2016 and January 1, 2021.

Created: 2003, with amendments in 2007, 2015, 2021, and 2025.

Expires: January 1, 2026

Statutory Basis: 7-9-56.3 NMSA 1978

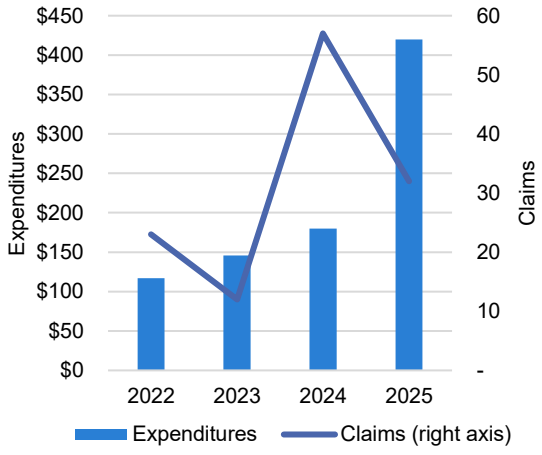
Impact Analysis Summary

In FY25, businesses received $400 thousand in state support through the deduction. Over the last three years, businesses received an average of $249 thousand in state support through the deduction each year. The estimated present value of the annual state GDP impact attributable to the program is $86 thousand, on average. The economic return on investment (ROI) is estimated to be -57 percent, meaning for every $1 spent on the deduction, the New Mexico economy shrinks by 57 cents. The estimated annual return in revenue is -96 percent, meaning that for every $1 spent, the state forgoes 96 cents and recaptures 4 cents of state tax revenue.

Economic Impact Analysis Summary

FY25 Expenditure	***FY25 Claims***
$0.4 M	*32*
Economic ROI	***Return in Revenue***
-57%	*-96%*
For every $1 spent, the state economy shrinks by 57 cents.	For every $1 spent, the state forgoes 96 cents and recaptures 4 cents in state tax revenue.

Border-Zone Trade-Support Companies GRT Deduction Expenditures and Claims



Source: LFC Analysis

Expenditure Overview and Legislative History. The border-zone trade-support GRT deduction allows customs brokerage firms and freight forwarder companies located within 20 miles of a port of entry on New Mexico's border with Mexico to deduct their receipts from GRT. The companies must have first located between July 1, 2016 and January 1, 2021 and must claim the receipts within a five-year period of locating in New Mexico. The company must also have at least two employees in New Mexico.

The Legislature has periodically amended the deduction to extend its availability, update definitions, and refine reporting requirements. A 2007 amendment extended the sunset date and changed the definition of port of entry. A 2015 amendment extended the sunset date and added reporting requirements. A 2021 amendment added definitions of employee. A 2025 amendment updated reporting requirements.

Usage Trends. Expenditures in FY25 increased by over 130 percent compared with FY24 while claims decreased. Historically, the number of claims and expenditure amounts have been withheld because of confidentiality issues, meaning making historical comparisons in difficult.

Design Analysis. The expenditure has an expiration date but lacks an expenditure cap. The expenditure does not target export-based industries. The expenditure does not target distressed areas. Recipients meet statutory reporting requirements.

Meets Purpose. The deduction does not have a purpose established in statute.

Summary

FY25 Tax Expenditure	$0.4 M
FY25 Number of Claims	32
Jobs Created	<5
Economic ROI	-57%
Return in Revenue	-96%
Usage Trends	
1-Year Change	+133%
3-Year Average Change	Not reported
Meets Purpose	No purpose
Design Elements	
Has expiration date	●
Has expenditure cap	○
Targets distressed areas	○
Targets export-based industry	○
Data Availability *Are requirements being met?*	●
Data Reliability *Is data reported separately?*	◑

Key
● Yes
◑ Partial
○ No

Note: Criteria based on LFC tax policy principles or other design, purpose, or statutory measures. See methodology for more details.

Future research opportunities for this tax expenditure include:
- Comparing the economic impacts to other tax expenditures and forms of spending
- Understanding how this expenditure impacts different regions of New Mexico
- Understanding the changes in claims and expenditures over time.
-

Tax·E Tax Expenditure Assessment

Analysis of key state tax credits, exemptions, and deductions by the Legislative Finance Committee

Commercial Trucks Operating Near Mexico Border Trip and Weight-Distance Tax Exemption

Background

Brief Description. Commercial motor carrier vehicles are exempt from the trip tax and the weight-distance tax while operating near the border with Mexico. Vehicles operating on New Mexico highways exclusively within 10 miles of a border with Mexico in conjunction with crossing the border.

Created: 2006.

Expires: No expiration date.

Statutory Basis: 7-15-3.2 and 7-15A-5(D) NMSA 1978

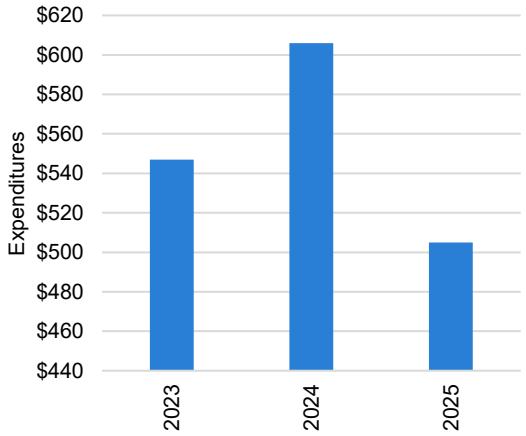
Impact Analysis Summary

In FY25, businesses received $500 thousand in state support through the exemption. Over the last three years, businesses received an average of $550 thousand in state support through the exemption each year. The expenditure is estimated to increase state personal income by a present value of $372 thousand, on average, because of higher wage earnings, increased business profits, and increased property income. The estimated present value of the annual state GDP impact attributable to the program is $210 thousand. The economic return on investment (ROI) is estimated to be -37 percent, meaning for every $1 spent on the exemption, the New Mexico economy shrinks by 37 cents. The estimated annual return in revenue is -95 percent, meaning that for every $1 spent, the state forgoes 95 cents and recaptures 5 cents of state tax revenue.

Economic Impact Analysis Summary

FY25 Expenditure	***FY25 Claims***
$0.5 M	*Not reported*
Economic ROI	***Return in Revenue***
-37%	*-95%*
For every $1 spent, the state economy shrinks by 37 cents.	For every $1 spent, the state forgoes 95 cents and recaptures 5 cents in state tax revenue.

Commercial Trucks Operating Near Mexico Border Trip & Weight-Distance Tax Exemption Expenditures
dollars in thousands



Source: LFC Analysis

Expenditure Overview and Legislative History. The expenditure exempts certain commercial motor vehicles from the trip and weight-distance tax who operate near a border with Mexico. A motor carrier is exempt from the tax while operating within 10 miles of the Mexico border and if the activity is associated with cross-border activity. Commercial vehicles not registered or licensed in New Mexico that are transporting passengers or property for hire are required to pay the trip tax, in lieu of registration or use fees. The tax is based on the weight of the vehicles and the number of miles traveled in New Mexico. The weight distance tax is levied on all motor vehicles weighting more than 26 thousand pounds that are registered in New Mexico. Both the trip tax and the weight-distance tax are distributed to the state road fund.

Usage Trends. The number of businesses estimated to have claimed the exemption has remained steady since 2023.

Design Analysis. The expenditure lacks an expiration date and an expenditure cap. The expenditure targets export-based industries. The expenditure does not target distressed areas. Because the expenditure is an exemption, the Taxation and Revenue Department must estimate the amount of tax revenue forgone. Actual forgone revenue may be higher than the reported amounts.

Meets Purpose. The expenditure does not have a purpose established in statute.

Summary

FY25 Tax Expenditure	$0.5 M
FY25 Number of Claims	Not reported
Jobs Created	<5
Economic ROI	-37%
Return in Revenue	-95%
Usage Trends	
1-Year Change	-17%
Meets Purpose	No purpose
Design Elements	
Has expiration date	●
Has expenditure cap	○
Targets distressed areas	○
Targets export-based industry	○
Data Availability *Are requirements being met?*	●
Data Reliability *Is data reported separately?*	○

Key
● Yes
◑ Partial
○ No

Note: Criteria based on LFC tax policy principles or other design, purpose, or statutory measures. See methodology for more details.

Future research opportunities for this tax expenditure include:
- Comparing the economic impacts to other tax expenditures and forms of spending
- Understanding how this expenditure impacts different regions of New Mexico
- Understanding the changes in claims and expenditures over time.
-

Tax·E Tax Expenditure Assessment

Analysis of key state tax credits, exemptions, and deductions by the Legislative Finance Committee

Durable Medical Equipment GRT and GGRT Deduction

Background

Brief Description. The durable medical equipment and medical supplies deduction is a deduction of receipts from the sale or rental of durable medical equipment, medical supplies, and related infusion therapy services from gross receipts and governmental gross receipts tax, primarily intended to protect jobs and retain businesses in New Mexico that provide these essential medical goods and services.

Created: 2014, with amendments in 2020 and 2025.

Expires: 2030.

Statutory Basis: 7-9-73.3 NMSA 1978

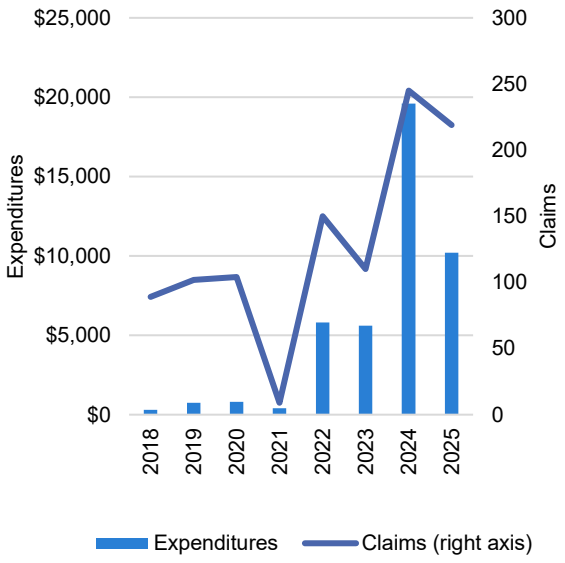
Impact Analysis Summary

In FY25, businesses received $10.2 million in state support through the credit. Over the last three years, businesses received an average of $11.8 million in state support through the credit each year. The deduction is estimated to increase statewide employment by 50 jobs per year on average because of lower business costs that encourage job creation. The estimated present value of the annual state GDP impact attributable to the program is $3.1 million. The economic return on investment (ROI) is estimated to be -63 percent, meaning for every $1 spent on the credit, the New Mexico economy shrinks by 63 cents. The estimated annual return in revenue is -98 percent, meaning that for every $1 spent, the state forgoes 98 cents and recaptures 2 cents of state tax revenue.

Economic Impact Analysis Summary

FY25 Expenditure	***FY25 Claims***
$10.2 M	*219*
Economic ROI	***Return in Revenue***
-63%	*-98%*
For every $1 spent, the state economy shrinks by 63 cents.	For every $1 spent, the state forgoes 98 cents and recaptures 2 cents in state tax revenue.

Durable Medical Equipment GRT Deduction Expenditures and Claims
dollars in thousands



Source: LFC Analysis

Expenditure Overview and Legislative History. The durable medical equipment and medical supplies deduction allows qualified taxpayers to deduct receipts from the sale or rental of durable medical equipment, medical supplies, and related infusion therapy services from gross receipts and governmental gross receipts tax. The deduction is available only to taxpayers participating in the New Mexico Medicaid program whose gross receipts are at least 90 percent derived from the sale or rental of durable medical equipment, medical supplies, or infusion therapy services and medications used in infusion therapy. Eligible equipment must be prescribed by a physician or other licensed provider and be appropriate for exclusive use in the home by the eligible recipient. The primary purpose of the deduction is to protect jobs and retain businesses in New Mexico that provide essential medical equipment and supplies, particularly those serving Medicaid recipients.

The Legislature has periodically amended the deduction to extend its availability and refine reporting requirements. A 2020 amendment extended the sunset date to July 1, 2030, and revised reporting by requiring the Taxation and Revenue Department to report annually on the effectiveness and cost of the deduction. A subsequent 2025 amendment further revised reporting provisions by removing obsolete language and aligning disclosure requirements with law, while restructuring and updating related subsections.

Usage Trends. After several years of relatively limited use, expenditures increased sharply in FY22 and rose again in FY24 to nearly $20 million. Expenditures decreased to $10.2 million in FY25. However, the number of claims in FY25 were about the same as the number of claims in FY24.

Design Analysis. The deduction has an expiration date, but no expenditure cap. The deduction neither targets distressed areas nor targets export based-industries.

Meets Purpose. The deduction likely meets its purpose of helping protect jobs and retain businesses in New Mexico that sell or rent durable medical equipment and medical supplies.

Summary

FY25 Tax Expenditure	$10.2M
FY25 Number of Claims	219
Jobs Created	50
Economic ROI	-63%
Return in Revenue	-98%
Usage Trends	
1-Year Change	-48%
3-Year Average Change	5x
Meets Purpose	●
Design Elements	
Has expiration date	●
Has expenditure cap	○
Targets distressed areas	○
Targets export-based industry	○
Data Availability *Are requirements being met?*	●
Data Reliability *Is data reported separately?*	●

Key
● Yes
◑ Partial
○ No

Note: Criteria based on LFC tax policy principles or other design, purpose, or statutory measures. See methodology for more details.

Future research opportunities for this tax credit include:
- Comparing the economic impacts to other tax expenditures and forms of spending
- Understanding how this credit impacts different regions of New Mexico
- Understanding the changes in claims and expenditures over time.
-

Tax·E Tax Expenditure Assessment

Analysis of key state tax credits, exemptions, and deductions by the Legislative Finance Committee

Film Production Tax Credit

Background

Brief Description. The film production tax credit provides an incentive for film production companies equal to between 25 percent and 40 percent of qualified expenditures. The credit is fully refundable.

Created: 2002 and amended in 2003, 2005, 2006, 2007, 2011, 2013, 2015, 2016, 2019, 2023, and 2025.

Expires: No expiration date.

Statutory Basis: 7-2F *et seq.* NMSA 1978

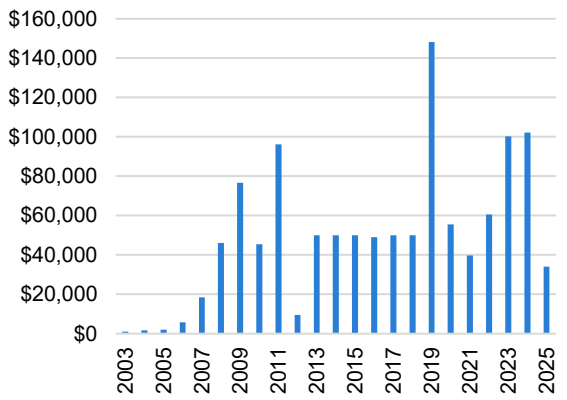
Impact Analysis Summary

In FY25, film production companies received $33.9 million in state support through the credit. The credit is estimated to increase statewide employment by 1,500 jobs per year on average because of the additional film production occurring within the state. The credit is estimated to increase state personal income by a present value of $116 million, on average, because of higher wage earnings, increased business profits, and increased property income. The estimated present value of the annual state GDP impact attributable to the program is $94 million, on average. The economic return on investment (ROI) is estimated to be 8 percent, meaning that for every $1 spent on the credit, the New Mexico economy grows by 8 cents. The estimated annual return in revenue is -94 percent, meaning that for every $1 spent, the state forgoes 94 cents and recaptures 6 cents in state tax revenue.

Economic Impact Analysis Summary

FY25 Expenditure	***FY25 Claims***
$33.9 M	*Not reported*
Economic ROI	***Return in Revenue***
8%	*-94%*
For every $1 spent, the state economy grows by 8 cents.	For every $1 spent, the state forgoes 94 cents and recaptures 6 cents in state tax revenue.

Film Production Tax Credit Expenditures
thousands



Source: LFC Analysis

Credit Overview and Legislative History. The film production tax credit was created in 2002 to establish the film industry as a permanent component of New Mexico's economic base, develop a pool of trained film professionals and businesses, increase employment for New Mexicans, improve the economic success of existing businesses, and develop lasting film infrastructure in the state.

The credit has been amended ten times since its creation. Recent changes include a 2015 expansion to cover television pilots and series, qualified production facilities, and certain non-resident industry crews. In FY19, the annual cap was raised from $50 million to $110 million, and in FY23 it was revised again to grow by $10 million per year until reaching $160 million. The cap does not apply to film partners, which are film companies with a ten-year contract to lease a qualified production facility. In 2019, an additional 5 percent credit was introduced for film and television productions located more than 60 miles outside the boundaries of Bernalillo and Santa Fe Counties.

Usage Trends. Until FY19, expenditures remained stable due to the $50 million cap. Expenditures totaled $148 million in FY19 as the state reduced the backlog of companies that were eligible for the credit but had not been refunded because of the cap. Looking ahead, the December 2025 consensus revenue estimating group projects expenditures will rebound to, between $100 million and $200 million annually, from FY26 through FY30.

Design Analysis. The credit does not have an expiration date. While the credit is subject to a partial expenditure cap, the uncapped portion presents a significant risk to state revenues. The credit partially targets distressed areas by providing an extra 5 percent credit for production outside of Bernalillo and Santa Fe but does not specifically target areas based on economic distress. The credit targets export-based industry.

Purpose. The film production tax credit has five distinct purposes as provided in statute. Page 3 summarizes this report's analysis of whether these purpose statements are satisfied.

Data Availability. Statute requires the economic development department (EDD) to provide extensive reporting on the film production tax credit. At least one provision of these requirements are not met, as summarized on page three.

Summary

FY25 Tax Expenditure	$33.9 M
FY25 Number of Claims	Not reported
Jobs Created	1,500
Economic ROI	8%
Return in Revenue	-94%
Usage Trends	
1-Year Change	-67%
3-Year Average Change	52%
Meets Purpose	◑
Design Elements	
Has expiration date	○
Has expenditure cap	◑
Targets distressed areas	◑
Targets export-based industry	●
Data Availability *Are requirements being met?*	○
Data Reliability *Is data reported separately?*	●

Key
● Yes
◑ Partial
○ No

Note: Criteria based on LFC tax policy principles or other design, purpose, or statutory measures. See methodology for more details.

Future research opportunities for this tax credit include:
- Comparing the economic impacts to other tax expenditures and forms of spending
- Understanding how this credit impacts different regions of New Mexico

This report finds EDD does not meet a statutory reporting requirement:

- 7-2F-4 NMSA section A subsection 4(e) requires EDD to report the aggregate amount of expenditures by year "shown by county." While EDD provides the aggregate amount, the agency fails to provide that information "shown by county." According to October 2025 correspondence, the agency does not currently collect the information needed to meet this reporting requirement, but the agency plans to make changes to its data collection and reporting process.

Meets Purpose. Pursuant to Section 7-2F-3 NMSA 1978, the film production tax credit has five distinct purposes. The following table describes the purpose, summarizes whether it has been met, and offers a summary of the analysis. Limited reporting reduces the ability to determine whether the purpose statements are satisfied or not.

Purpose	**Finding** and summary	
Establish the film industry as a permanent component of the economic base of New Mexico	**Partially met.** The New Mexico film industry matured rapidly after the creation of the film production tax credit. However, recent fluctuations in employment, spending, and credit utilization clouds the outlook and makes it unclear whether or to what extent the industry will remain a "permanent component" of the economy.	◐
Develop a pool of trained professionals and businesses in New Mexico to supply and support the film industry in the state	**Met.** Total employment in the film industry averaged 1,445 in the first quarter of 2025, comprising 0.2 percent of total private employment, which was down from an average employment of 3,005 in the first quarter of 2024.	●
Increase employment of New Mexico residents	**Partially met.** The film production tax credit likely increases employment, although film industry employment has demonstrated significant volatility. Because of limited reporting, it is unclear how many whether these jobs are filled by New Mexico residents or by workers who reside out of state. More information is needed.	◐
Improve the economic success of existing businesses in New Mexico	**Partially met.** This analysis estimates the film production tax credit is associated with a $7.6 million increase in business owner's income. However, because of limited reporting, it is unclear whether this benefit accrues to "existing businesses in New Mexico," new businesses, or out of state businesses. More information is needed.	◐
Develop the infrastructure in the state necessary for a thriving film industry	**Met.** The New Mexico film office notes "infrastructure has seen steady growth" while noting that there is additional demand for soundstages and post-production facilities.	●

State Estimates of Fiscal ROI of Film Incentives

	State	Study Year	Return in Revenue Estimate
•	New Mexico	2009	-6%
	Hawaii	2022	-44%
	New York	2020	-50%
	Mississippi	2015	-51%
•	New Mexico	2014	-67%
	Virginia	2017	-70%
	Massachusetts	2016	-79%
•	New Mexico	2008	-86%
	Pennsylvania	2019	-87%
	Oklahoma	2016	-87%
•	**New Mexico**	**2025**	**-89%**
	Louisiana	2024	-89%
	Georgia	2020	-90%
	Washington	2016	-94%
★	**New Mexico**	**2026**	**-94%**
	Maryland	2015	-94%

Note: • denotes New Mexico specific studies; ★ denotes this report's estimate. A 2021 study commissioned for the New Mexico film office did not include a return in revenue estimate.

Source: Citations for all referenced studies are included as an appendix. All findings have been converted into return in revenue.

Appendix: State Film Evaluations Referenced

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Camoin Associates, "Economic Impact of the Film Industry in New York State, 2019 & 2020." https://esd.ny.gov/sites/default/files/Camoin-310-Report-2019-20-Film-Incentive-Impact-ESD-Final.pdf

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MNP LLP, July 2014, "New Mexico Film Production Tax Incentive Study Phase I Report." https://nmfilm.com/assets/uploads/migrated/2018/10/Phase-1-Report-Final-Report-July-21-2014.pdf

Ernst & Young, January 2009, "Economic and Fiscal Impacts of the New Mexico Film Production Tax Credit."

New Mexico State University Arrowhead Center, August 2008, "The Film Industry in New Mexico and the Provision of Tax Incentives." https://www.nmlegis.gov/entity/lfc/Documents/Money_Matters/NMSU%20Report%20on%20Economic%20Impact%20of%20Film%20Production%20Tax%20Credit%20-%20August%202008.pdf

Tax·E Tax Expenditure Assessment

Analysis of key state tax credits, exemptions, and deductions by the Legislative Finance Committee

DoD Directed Energy and Satellites Deduction

Background

Brief Description. The DoD Directed Energy and Satellites Deduction is a gross receipts deduction for R&D and qualified directed-energy or satellite-related inputs sold pursuant to a Department of Defense contract.

Created: Created in 2015 with amendments in 2019 and 2025

Expires: Sunset in 2031

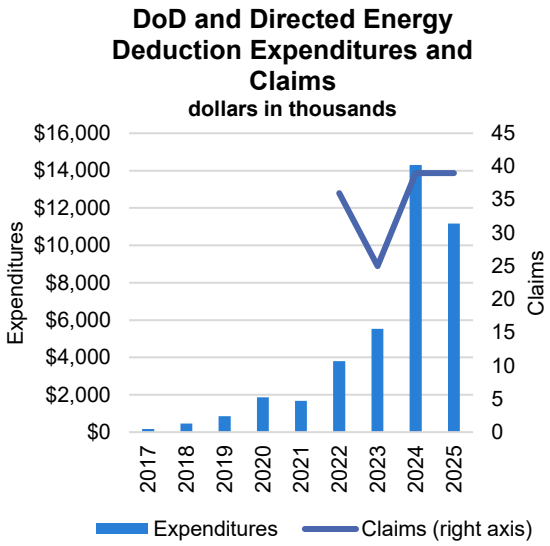
Statutory Basis: 7-9-115 NMSA 1978

Impact Analysis Summary

In FY25, businesses received $11.2 million in state support through the deduction. Over the last three years, businesses received an average of $10.3 million in state support through the deduction each year. The deduction is estimated to increase statewide employment by 90 jobs per year on average because of lower business costs that encourage job creation. The deduction is estimated to increase state personal income by a present value of $7.4 million, on average, because of higher wage earnings, increased business profits, and increased property income. The estimated present value of the annual state GDP impact attributable to the program is $4.8 million. The economic return on investment (ROI) is estimated to be -37 percent, meaning for every $1 spent, the New Mexico economy shrinks by 37 cents. The estimated annual return in revenue is -96 percent, meaning that for every $1 spent, the state forgoes 96 cents and recaptures 4 cents of state tax revenue.

Economic Impact Analysis Summary

FY25 Expenditure	***FY25 Claims***
$11.2 M	*39*
Economic ROI	***Return in Revenue***
-37%	*-96%*
For every $1 spent, the state economy shrinks by 37 cents	For every $1 spent, the state forgoes 96 cents and recaptures 4 cents in state tax revenue.



Source: LFC Analysis

DoD Directed Energy and Satellites Deduction

Expenditure Overview and Legislative History. The DoD Directed Energy and Satellites Deduction is a gross receipts deduction for R&D and qualified directed-energy or satellite-related inputs sold pursuant to a Department of Defense contract. The deduction is intended to promote advanced technology development, enhance the viability of directed-energy and satellite projects, attract new projects and employers to New Mexico, and increase high-technology employment opportunities in the state. Under statute, receipts from the sale by a qualified contractor of qualified research and development services and qualified directed-energy and satellite-related inputs may be deducted from gross receipts when sold pursuant to a contract with the U.S. Department of Defense. Directed energy means a system that enables the use of frequency spectrum, including radio waves, light, and x-rays; satellite means composite systems assembled and packaged for use in space, including launch vehicles; and inputs means inputs supplied to the DoD pursuant to a contract.

The 2019 amendment extended the sunset date from 2021 to 2031. The 2025 amendment standardized reporting requirements.

Usage Trends. Since its creation in 2015, usage increased steadily, peaking at nearly $14 million in FY24 before dipping slightly in FY25.

Design Analysis. The deduction has an expiration date and targets export-based industries. However, it does not target distressed areas and does not have an expenditure cap.

Meets Purpose. The deduction meets its intended purpose of promoting new technology and supporting directed-energy and satellite projects.

Summary

FY25 Tax Expenditure	$11.2M
FY25 Number of Claims	39
Jobs Created	90
Economic ROI	-37%
Return in Revenue	-96%
Usage Trends	
1-Year Change	-22%
3-Year Average Change	+422%
Meets Purpose	●
Design Elements	
Has expiration date	●
Has expenditure cap	○
Targets distressed areas	○
Targets export-based industry	●
Data Availability *Are requirements being met?*	●
Data Reliability *Is data reported separately?*	●

Key
● Yes
◑ Partial
○ No

Note: Criteria based on LFC tax policy principles or other design, purpose, or statutory measures. See methodology for more details.

Future research opportunities for this tax expenditure include:
- Comparing the economic impacts to other tax expenditures and forms of spending
- Understanding how this expenditure impacts different regions of New Mexico
- Understanding the changes in claims and expenditures over time.
-

Tax·E Tax Expenditure Assessment

Analysis of key state tax credits, exemptions, and deductions by the Legislative Finance Committee

Hosting World Wide Web Sites GRT Deduction

Background

Brief Description. The hosting worl wide web sites GRT deduction allows businesses with receipts from internet connected facilities that store data are deductible from GRT. Despite the title, statute provides that the deduction is not limited to facilities that provide web-hosting services.

Created: 1998

Expires: No expiration date.

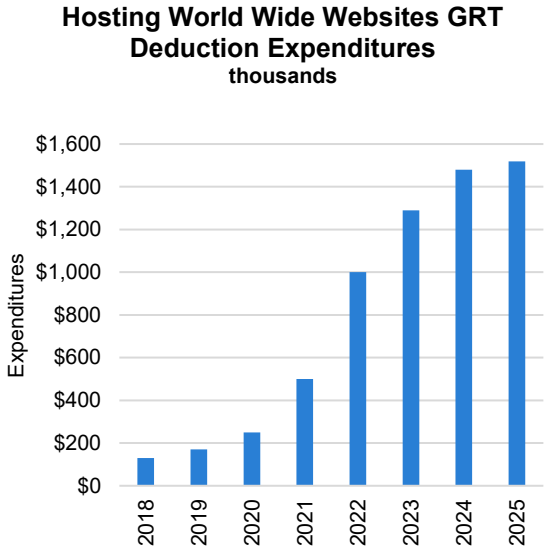
Statutory Basis: 7-9-56.2 NMSA 1978

Impact Analysis Summary

In FY25, businesses received $1.5 million in state support through the deduction. Over the last three years, businesses received an average of $1.4 million in state support through the deduction each year. The deduction is estimated to increase statewide employment by 15 jobs per year on average because of lower business costs that encourage job creation. The deduction is estimated to increase state personal income by a present value of $1 million, on average, because of higher wage earnings, increased business profits, and increased property income. The estimated present value of the annual state GDP impact attributable to the program is $702 thousand, on average. The economic return on investment (ROI) is estimated to be -24 percent, meaning for every $1 spent on the deduction, the New Mexico economy shrinks by 24 cents. The estimated annual return in revenue is -96 percent, meaning that for every $1 spent, the state forgoes 96 cents and recaptures 4 cents of state tax revenue.

Economic Impact Analysis Summary

FY25 Expenditure	***FY25 Claims***
$1.5M	*Not reported*
Economic ROI	***Return in Revenue***
-24%	*-96%*
For every $1 spent, the state economy shrinks by 24 cents	For every $1 spent, the state forgoes 96 cents and recaptures 4 cents in state tax revenue.



Source: LFC Analysis

Overview and Legislative History. The The hosting worl wide web sites GRT deduction allows businesses with receipts from internet connected facilities that store data are deductible from GRT. The deduction defines "hosting" as "storing information on computers attached to the internet." Accordingly, despite the title, the deduction is allowed for all internet-connected facilities that store data, including data centers. Originally enacted in 1998, the deduction has not been amended.

Usage Trends. Expenditures increased slightly in FY25 Over the last three years, expenditures were twice as large compared with the three years earlier. Because the expenditure is not separately reported, the Taxation and Revenue Department (TRD) does not report the number of businesses claiming the deduction. The agency reports that there were 22 colocation data centers operating in New Mexico.

Design Analysis. The deduction does not have an expiration date or an expenditure cap. The deduction does not target distressed areas. The deduction targets an export-based industry.

Meets Purpose. Statute does not provide a purpose.

Summary

FY25 Tax Expenditure	$1.5M
FY25 Number of Claims	Not reported
Jobs Created	15
Economic ROI	-24%
Return in Revenue	-96%
Usage Trends	
1-Year Change	+3%
3-Year Average Change	+145%
Meets Purpose	No purpose
Design Elements	
Has expiration date	○
Has expenditure cap	○
Targets distressed areas	○
Targets export-based industry	●
Data Availability *Are requirements being met?*	●
Data Reliability *Is data reported separately?*	○

Key
● Yes
◑ Partial
○ No

Note: Criteria based on LFC tax policy principles or other design, purpose, or statutory measures. See methodology for more details.

Future research opportunities for this tax expenditure include:
- Comparing the economic impacts to other tax expenditures and forms of spending
- Understanding how this expenditure impacts different regions of New Mexico
- Understanding the changes in claims and expenditures over time.
-

Tax·E Tax Expenditure Assessment

Analysis of key state tax credits, exemptions, and deductions by the Legislative Finance Committee

High-Wage Jobs Tax Credit

Background

Brief Description. The high-wage jobs tax credit is an incentive for businesses to create and fill new high-wage jobs in New Mexico by providing a refundable tax credit equal to 8.5 percent of the wages of a new job up to $12,750.

Created: 2004 and amended in 2007, 2008, 2013, 2016, 2019, 2021, 2025, and 2026.

Expires: July 1, 2036

Statutory Basis: 7-9G-1 NMSA 1978

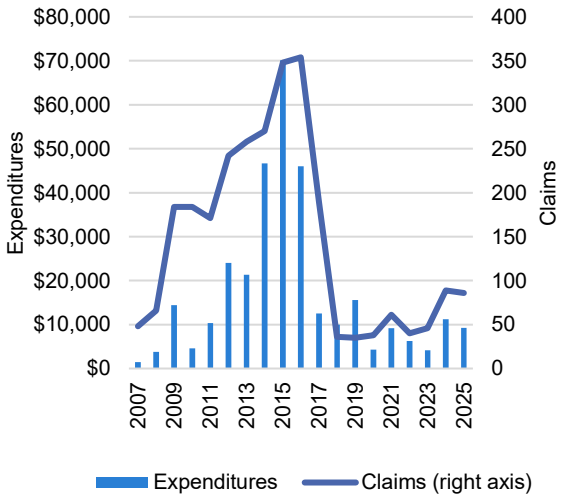
Impact Analysis Summary

In FY25, businesses received a total of $9.2 million in state support through the credit. Over the last ten years, businesses received an average of $12.8 million in state support through the credit each year. The credit is estimated to increase statewide employment by 135 jobs per year on average because of lower business costs that encourage job creation. The credit is estimated to increase state personal income by a present value of $10.4 million, on average, because of higher wage earnings, increased business profits, and increased property income. The estimated present value of the annual state GDP impact attributable to the program is $8.1 million, on average. The economic return on investment (ROI) is estimated to be 33 percent, meaning for every $1 spent on the credit, the New Mexico economy grows by 33 cents. The estimated annual return in revenue is -92 percent, meaning that for every $1 spent, the state forgoes 92 cents and recaptures 8 cents in state tax revenue.

Economic Impact Analysis Summary

FY25 Expenditure	***FY25 Claims***
$9.2 M	*86*
Economic ROI	***Return in Revenue***
33%	*-92%*
For every $1 spent, the state economy grows by 33 cents.	For every $1 spent, the state forgoes 92 cents and recaptures 8 cents in state tax revenue.

High-Wage Jobs Tax Credit Expenditures and Claims
dollars in thousands



Source: LFC Analysis

Credit Overview and Legislative History. The high-wage jobs tax credit, provides a refundable tax credit to businesses eligible for the Job Training Incentive Program equal to 8.5 percent of wages up to $12,750 for a newly enacted high-wage job, defined as a job with wages of over $60 thousand in urban communities (population over 60 thousand people), and $40 thousand in rural communities, that are filled for 44 consecutive weeks. An employer may apply for the tax credit against tax liability from income or sales taxes.

The credit has been amended or extended eight times since it was first enacted in 2004. Lawmakers made a technical change in 2007 and extended the credit in 2008. In 2013, lawmakers increased claim amounts by changing the wage qualification from $28 thousand to $40 thousand for rural employers and $40 thousand to $60 thousand for urban employees and increased the population threshold distinguishing rural from urban. Notably, the number of claims continued to rise steadily after this amendment. In 2016, lawmakers required annual filing and removed employee benefits from the calculation of wages. After these changes, claims and reimbursements went down. The most recent, significant statutory changes included lowering the reimbursement rate from 10 percent to 8.5 percent, increasing the maximum eligible benefit from $12,000 to $12,750 thousand, and reducing the job threshold from 48 to 44 consecutive weeks. Lawmakers made a minor adjustment to the definition of "threshold job" in the 2025 legislative session. Lastly, lawmakers extended the expiration to July 1, 2036 in the 2026 legislative session.

Usage Trends. From FY23 to FY25, an average of 74 claims were made per year for an average total tax expenditure of $8.2 million annually. Expenditures and claims have been relatively steady at these levels since FY18; before this, both claims and expenditures were much higher, with a peak at 348 claims and $70 million in FY15.

Design Analysis. The credit has a sunset date of July 1, 2026, but it does not have an expenditure cap. While targeting rural areas may help distressed areas, the credit could be more effective by differentiating based on need, demographics, or economic activity. The credit targets export-based industries.

Meets Purpose. The credit likely meets its purpose of "providing an incentive" for businesses to create and fill new high-wage jobs because usage and job creation has remained steady.

Summary

FY25 Tax Expenditure	$9.2 M
FY25 Number of Claims	86
Jobs Created	135
Economic ROI	33%
Return in Revenue	-92%
Usage Trends	
1-Year Change	-18%
3-Year Average Change	+24%
Meets Purpose	●
Design	
Has expiration date	●
Has expenditure cap	○
Targets distressed areas	◑
Targets export-based industry	●
Data Availability *Are requirements being met?*	●
Data Reliability *Is data reported separately?*	●

Key
● Yes
◑ Partial
○ No

Note: Criteria based on LFC tax policy principles or other design, purpose, or statutory measures. See methodology for more details.

Future research opportunities for this tax credit include:
- Comparing the economic impacts to other tax expenditures and forms of spending
- Comparing this credit to similar credits in other states
- Understanding how this credit impacts different regions of New Mexico

Tax·E Tax Expenditure Assessment

Analysis of key state tax credits, exemptions, and deductions by the Legislative Finance Committee

Investment Credit

Background

Brief Description. The Investment Credit is a tax credit for qualified equipment used in new or expanded manufacturing operations, applied against gross receipts, compensating, and withholding tax liabilities to promote a favorable tax climate for manufacturing in New Mexico.

Created: 1979 with amendments in 1983, 1986, 1990, 1991, 2001, 2002, 2003, 2009 and 2020.

Expires: 2030.

Statutory Basis: 7-9A-1 *et seq.* NMSA 1978

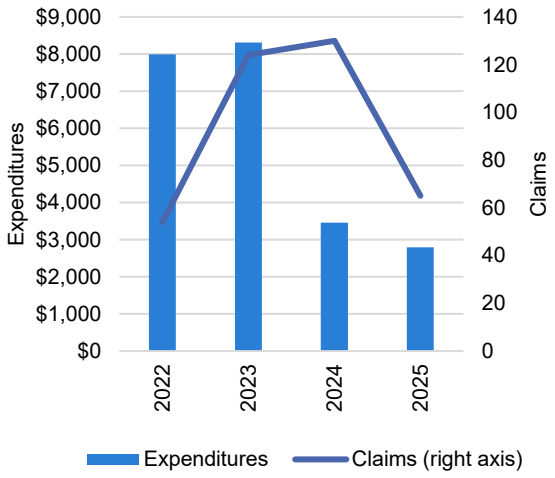
Impact Analysis Summary

In FY25, businesses received $2.7 million in state support through the credit. Over the last three years, businesses received an average of $4.9 million in state support through the credit each year. The credit is estimated to increase statewide employment by 85 jobs per year on average because of lower business costs that encourage job creation. The credit is estimated to increase state personal income by a present value of $6.5 million, on average, because of higher wage earnings, increased business profits, and increased property income. The estimated present value of the annual state GDP impact attributable to the program is $4.5 million, on average. The economic return on investment (ROI) is estimated to be 139 percent, meaning for every $1 spent on the credit, the New Mexico economy grows by $1.39. The estimated annual return in revenue is -84 percent, meaning that for every $1 spent, the state forgoes 84 cents and recaptures 16 cents of state tax revenue.

Economic Impact Analysis Summary

FY25 Expenditure	***FY25 Claims***
$2.7 M	*65*
Economic ROI	***Return in Revenue***
139%	*-84%*
For every $1 spent, the state economy grows by $1.39	For every $1 spent, the state forgoes 84 cents and recaptures 16 cents in state tax revenue.

Investment Credit Expenditures and Claims
dollars in thousands



Source: LFC Analysis

Credit Overview and Legislative History. The Investment Credit is a tax credit for equipment owned and introduced into New Mexico for use by a taxpayer in a new or expanded manufacturing operation. The credit was created to provide a favorable tax climate for manufacturing businesses and to promote increased employment in New Mexico.

The credit is generally tied to qualified equipment investments and associated employment thresholds, with eligibility tied to maintaining specified full-time equivalent employment levels through June 30, 2030. The credit may be applied against 85 percent of a taxpayer's state and local gross receipts and compensating tax liabilities and, after those liabilities are exhausted, against withholding tax liability. Refundability is limited and subject to thresholds based on the size of the available credit and the taxpayer's prior-year tax liabilities.

The credit has been amended multiple times since its enactment in 1979. The most recent significant amendment, effective July 1, 2020, established a July 1, 2030 sunset for equipment valuation and employment requirements, updated employment thresholds, clarified credit calculations depending on whether qualified equipment is subject to gross receipts or compensating tax, and consolidated the credit's application against a taxpayer's state and local tax liabilities before withholding tax liabilities.

Usage Trends. In FY25, total general fund expenditures decreased 19 percent compared with FY24 and were less than half that the FY23 spike of $8.3 million.

Design Analysis. The deduction has an expiration date but does not include an overall expenditure cap, though it does include an individual eligibility threshold. It targets export-based industries but does not specifically target distressed areas.

Meets Purpose. The credit partially satisfies its purpose of providing a favorable tax climate for manufacturing businesses although additional research is needed to determine whether the credit promotes increased employment in New Mexico.

Summary

FY25 Tax Expenditure	$2.7 M
FY25 Number of Claims	65
Jobs Created	85
Economic ROI	139%
Return in Revenue	-84%
Usage Trends	
1-Year Change	-19%
Meets Purpose	◑
Design Elements	
Has expiration date	●
Has expenditure cap	○
Targets distressed areas	○
Targets export-based industry	●
Data Availability *Are requirements being met?*	●
Data Reliability *Is data reported separately?*	●

Key
● Yes
◑ Partial
○ No

Note: Criteria based on LFC tax policy principles or other design, purpose, or statutory measures. See methodology for more details.

Future research opportunities for this tax credit include:
- Comparing the economic impacts to other tax expenditures and forms of spending
- Understanding how this credit impacts different regions of New Mexico
- Understanding the changes in claims and expenditures over time.
-

Tax·E Tax Expenditure Assessment

Analysis of key state tax credits, exemptions, and deductions by the Legislative Finance Committee

Investment Management of Advisory Services GRT Deduction

Background

Brief Description. Businesses that perform management or investment advisory services for a mutual fund, hedge fund, or real esate investment trust may deduct their receipts from GRT.

Created: 2007

Expires: No expiration date.

Statutory Basis: 7-9-108 NMSA 1978

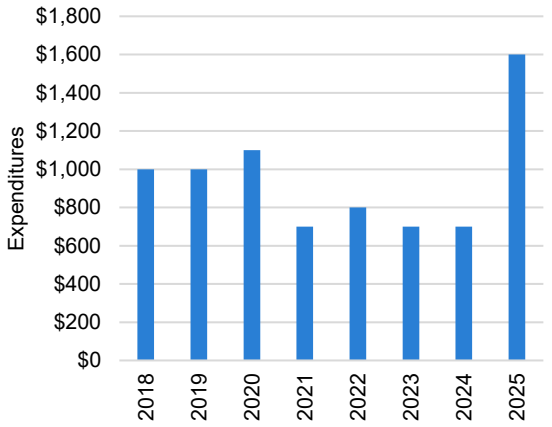
Impact Analysis Summary

In FY25, businesses received $1.6 million in state support through the deduction. Over the last three years, businesses received an average of $1 million in state support through the deduction each year. The deduction is estimated to increase statewide employment by 40 jobs per year on average because of lower business costs that encourage job creation. The deduction is estimated to increase state personal income by a present value of $2.3 million, on average, because of higher wage earnings, increased business profits, and increased property income. The estimated present value of the annual state GDP impact attributable to the program is $1.1 million. The economic return on investment (ROI) is estimated to be 54 percent, meaning for every $1 spent on the deduction, the New Mexico economy grows by 54 cents. The estimated annual return in revenue is -92 percent, meaning that for every $1 spent, the state forgoes 92 cents and recaptures 8 cents of state tax revenue.

Economic Impact Analysis Summary

FY25 Expenditure	***FY25 Claims***
$1.6 M	*Not reported*
Economic ROI	***Return in Revenue***
54%	*-92%*
For every $1 spent, the state economy grows by 54 cents.	For every $1 spent, the state forgoes 92 cents and recaptures 8 cents in state tax revenue.

Investment Management or Advisory Services GRT Deduction Expenditures
thousands



Source: LFC Analysis

Overview and Legislative History. Revenue The investment management or advisory services GRT deduction allows businesses performing certain financial industry services to deduct their receipts from GRT. Specifically, businesses providing investment management or advisory services to a hedge fund, mutual fund, or real estate investment trusts may deduct their receipts from GRT. Created in 2007, the deduction has not been amended. Although a purpose for the expenditure is not provided in statute, the Taxation and Revenue Department's (TRD) Tax Expenditure Report notes that the intended purpose is to incentivize fund managers to locate to New Mexico to increase income tax revenues and disposable income.

Usage Trends. Expenditures jumped 129 percent in FY25 compared with FY24. Over the last three years, expenditures have increased 15 percent compared with the three years earlier. Because of data limitations, TRD does not report the number of claims for the deduction.

Design Analysis. The deduction does not have an expiration date or an expenditure cap. The deduction does not target distressed areas. The deduction targets an export-based industry. The deduction is not separately reported, meaning TRD must estimate state and local government's expenditure amounts.

Meets Purpose. Statute does not provide a purpose for this deduction.

Summary

FY25 Tax Expenditure	$1.6 M
FY25 Number of Claims	Not reported
Jobs Created	42
Economic ROI	54%
Return in Revenue	-92%
Usage Trends	
1-Year Change	+129%
3-Year Average Change	+15%
Meets Purpose	No purpose
Design Elements	
Has expiration date	○
Has expenditure cap	○
Targets distressed areas	○
Targets export-based industry	●
Data Availability *Are requirements being met?*	●
Data Reliability *Is data reported separately?*	○

Key
● Yes
◑ Partial
○ No

Note: Criteria based on LFC tax policy principles or other design, purpose, or statutory measures. See methodology for more details.

Future research opportunities for this tax expenditure include:
- Comparing the economic impacts to other tax expenditures and forms of spending
- Understanding how this expenditure impacts different regions of New Mexico
- Understanding the changes in claims and expenditures over time.
-

Tax·E Tax Expenditure Assessment

Analysis of key state tax credits, exemptions, and deductions by the Legislative Finance Committee

Jet Fuel Deduction

Background

Brief Description. The Jet Fuel GRT and Compensating Tax Deduction allows a deduction equal to 40 percent of receipts from the sale of fuel specially prepared and sold for use in turboprop or jet-type engines, as determined by the Taxation and Revenue Department, in computing gross receipts or compensating tax.

Created: 1993

Expires: None.

Statutory Basis: 7-9-83 and 7-9-84 NMSA 1978

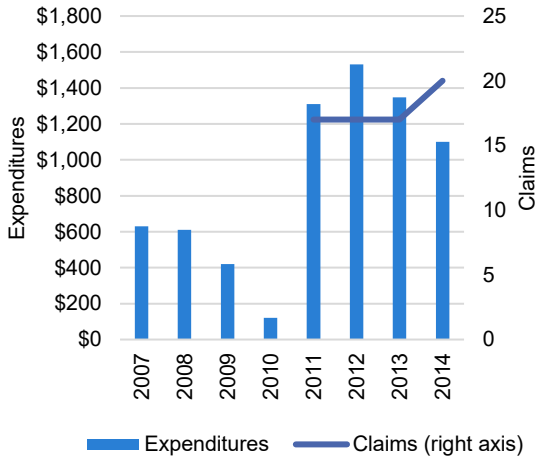
Impact Analysis Summary

In FY25, businesses received $1.1 in state support through the deduction. Over the last five years, businesses received an average of $1.1 million in state support through the deduction each year. The deduction is estimated to increase statewide employment by fewer than 5 jobs per year on average. The deduction is estimated to increase state personal income by a present value of $247 thousand, on average, because of higher wage earnings, increased business profits, and increased property income. The estimated present value of the annual state GDP impact attributable to the program is $200 thousand. The economic return on investment (ROI) is estimated to be -73 percent, meaning for every $1 spent on the deduction, the New Mexico economy shrinks by 73 cents. The estimated annual return in revenue is -98 percent, meaning that for every $1 spent, the state forgoes 98 cents and recaptures 2 cents of state tax revenue.

Economic Impact Analysis Summary

FY25 Expenditure	***FY25 Claims***
$1.1 M	*20*
Economic ROI	***Return in Revenue***
-73%	*-98%*
For every $1 spent, the state economy shrinks by 73 cents.	For every $1 spent, the state forgoes 98 cents and recaptures 2 cents in state tax revenue.

Jet Fuel Deduction Expenditures and Claims
dollars in thousands



Source: LFC Analysis

Overview and Legislative History. The jet fuel deduction allows 40 percent of the value of fuel for turboprop or jet-type engines to be deducted from GRT. Created in 1993, the value of the deduction was increased from 40 percent to 55 percent beginning in 2003. The deduction percentage was reduced to 40 percent beginning in 2017.

Usage Trends. Expenditures increased sharply in FY22 and have since remained relatively stable, with between 17 and 20 claims annually, averaging about $1.3 million in general fund expenditures.

Design Analysis. The amendment does not have an expiration date or an expenditure cap. It does not target distressed areas, nor does it target export-based industries. The deduction is not required to be separately reported. The Taxation and Revenue Department (TRD) considers the expenditure amount estimate to be a somewhat unreliable because the deduction is not separately reported, and TRD recommends that the deduction updated add separate reporting requirements.

Meets Purpose. Statute does not include an intended purpose.

Summary

FY25 Tax Expenditure	$1.1 M
FY25 Number of Claims	20
Jobs Created	<5
Economic ROI	-73%
Return in Revenue	-98%
Usage Trends	
1-Year Change	-18%
3-Year Average Change	+115%
Meets Purpose	No purpose
Design Elements	
Has expiration date	○
Has expenditure cap	○
Targets distressed areas	○
Targets export-based industry	○
Data Availability *Are requirements being met?*	●
Data Reliability *Is data reported separately?*	○

Key
● Yes
◑ Partial
○ No

Note: Criteria based on LFC tax policy principles or other design, purpose, or statutory measures. See methodology for more details.

Future research opportunities for this tax expenditure include:
- Comparing the economic impacts to other tax expenditures and forms of spending
- Understanding how this expenditure impacts different regions of New Mexico
- Understanding the changes in claims and expenditures over time.
-

Tax·E Tax Expenditure Assessment

Analysis of key state tax credits, exemptions, and deductions by the Legislative Finance Committee

Laboratory Partnership with Small Businesses Tax Credit

Background

Brief Description. The Laboratory Partnership with Small Businesses Tax Credit is an incentive for Los Alamos National Laboratory and Sandia National Laboratories to provide services to small businesses free of charge.

Created: 2000 and amended in 2007 and 2019

Expires: No expiration date.

Statutory Basis: 7-9E-1 et seq. NMSA 1978

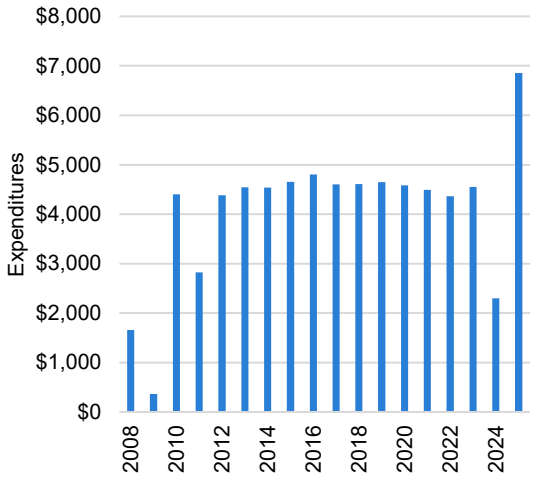
Impact Analysis Summary

In FY25, New Mexico's national laboratory prime contractors received $6.9 million in state support through the credit. Over the last ten years, the prime contractors received an average of $4.6 million in state support through the credit each year. The credit is estimated to increase statewide employment by 60 jobs per year on average because of lower business costs that encourage job creation and because of the technical assistance provided. The credit is estimated to increase state personal income by a present value of $5 million, on average, because of higher wage earnings, increased business profits, and increased property income. The estimated present value of the annual state GDP impact attributable to the program is $4.4 million. The economic return on investment (ROI) is estimated to be 97 percent, meaning for every $1 spent on the credit, the New Mexico economy grows by 97 cents. The estimated annual return in revenue is -89 percent, meaning that for every $1 spent, the state forgoes 89 cents and recaptures 11 cents of state tax revenue.

Economic Impact Analysis Summary

FY25 Expenditure	***FY25 Claims***
$6.9 M	*2*
Economic ROI	***Return in Revenue***
97%	*-89%*
For every $1 spent, the state economy grows by 97 cents.	For every $1 spent, the state forgoes 89 cents and recaptures 11 cents in state tax revenue.

Laboratory Partnership with Small Business Tax Credit Expenditures
dollars in thousands



Source: LFC Analysis

Laboratory Partnership with Small Businesses Tax Credit

Credit Overview and Legislative History. The laboratory partnership with small businesses tax credit was first enacted in 2000 to bring the technology and expertise of the national laboratories to small businesses to promote economic development, especially in rural areas. It provides a tax credit equal to the value of free technical services offered to a small business by the national laboratory prime contractors—Triad National Security LLC and National Technology and Engineering Solutions of Sandia, a Honeywell International subsidiary. For each business served, the lab may claim a credit up to $20 thousand if the business is in an urban area and up to $40 thousand if the business is in a rural area. Laboratory prime contractors may claim the credit against the state portion of gross receipts tax, but not the local portion of gross receipts tax. The credit is capped at $2.4 million per laboratory, or $4.8 million in aggregate.

The credit has been amended twice. The original statute was enacted in 2000 but sunset in 2006. In 2007, the per laboratory expenditure cap was increased from $1.7 million to $2.4 million. The allowable amount of assistance provided to each business was also increased and reporting requirements were added. In 2019, the credit was amended to increase the amount a laboratory could claim per business served, increasing from in urban areas from $10 thousand to $20 thousand and in rural areas from $20 thousand to $40 thousand.

Usage Trends. From FY23 to FY25, expenditures averaged $4.6 million. FY25 expenditures were $6.9 million, a significant increase reflecting timing impacts between FY24 and FY25. Since 2007, the effective value of the credit has decreased by 34 percent because of inflation.

Design Analysis. The credit does not have an expiration date, but it does have an expenditure cap. While targeting rural businesses may help distressed areas, the credit could be more effective by differentiating based on need, demographics, or economic activity. The credit primarily goes toward export-based industries, but targeting export-based industries is not statutorily required. Recipients meet statutory reporting requirements.

Meets Purpose. The credit likely meets its purpose of bringing technology and expertise to small businesses. Although usage trends have recently slowed, it offers benefits to rural areas and has seen a strong return in investment to the state's economy.

Summary

FY25 Tax Expenditure	$6.9 M
FY25 Number of Claims	2
Jobs Created	8
Economic ROI	97%
Return in Revenue	-89%
Meets Purpose	●
Design Elements	
Has expiration date	○
Has expenditure cap	●
Targets distressed areas	◑
Targets export-based industry	◑
Data Availability *Are requirements being met?*	●
Data Reliability *Is data reported separately?*	●

Key
● Yes
◑ Partial
○ No

Note: Criteria based on LFC tax policy principles or other design, purpose, or statutory measures. See methodology for more details.

Future research opportunities for this tax credit include:
- Comparing the economic impacts to other tax expenditures and forms of spending
- Understanding how this credit impacts different regions of New Mexico
- Understanding the changes in claims and expenditures over time.
-

Tax·E Tax Expenditure Assessment

Analysis of key state tax credits, exemptions, and deductions by the Legislative Finance Committee

Local Economic Development Act (LEDA) Special GRT Distributions

Background

Brief Description. The Local Economic Development Act (LEDA) Special GRT Distributions is a mechanism for providing GRT and compensating tax increments to enhance the resources for local economic development projects.

Created: 2020 and 2021.

Expires: No expiration date.

Statutory Basis: 5-10-14 NMSA 1978, 5-10-17 NMSA 1978 and 7-1.6.67 NMSA 1978

Impact Analysis Summary

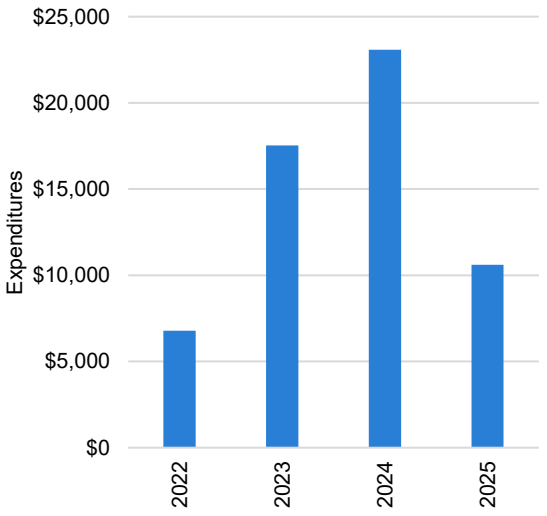
In FY25, qualifying projects received $10.6 million in state support. Over the last three years, the qualifying projects received $17.1 million in state support on average. The tax expenditure is estimated to increase statewide employment by 170 jobs per year on average because of lower business costs that encourage job creation. The tax expenditure is estimated to increase state personal income by a present value of $13.5 million, on average, because of higher wage earnings, increased business profits, and increased property income. The estimated present value of the annual state GDP impact attributable to the program is $9.4 million. The economic return on investment (ROI) is estimated to be 9 percent, meaning for every $1 spent on the tax expenditure, the New Mexico economy grows by 9 cents. The estimated annual return in revenue is -93 percent, meaning that for every $1 spent, the state forgoes 93 cents and recaptures 7 cents of state tax revenue.

Economic Impact Analysis Summary

FY25 Expenditure	***FY25 Claims***
$10.6 M	*Not Reported*

Economic ROI	***Return in Revenue***
9%	*-93%*
For every $1 spent, the state economy grows by 9 cents.	For every $1 spent, the state forgoes 93 cents and recaptures 7 cents in state tax revenue.

LEDA GRT Distributions Expenditures
dollars in thousands



Source: LFC Analysis

LEDA Special GRT Distributions

Overview and Legislative History. Enacted in 2020, LEDA Special GRT Distributions provide a mechanism for GRT and compensating tax increments to foster, promote, and enhance the resources for local economic development projects. Under the expenditure, fifty percent of the net receipts from the state gross receipts and state compensating taxes are distributed to the LEDA fund. The projects also benefit from fifty percent of the net receipts from local option gross receipts and compensating taxes imposed by counties and municipalities, when those taxes are paid on expenses related to the construction of an entity's approved economic development project.

Usage Trends. Expenditures grew each year until FY25, when they were half of what they were in FY24. The Taxation and Revenue Department (TRD) does not report the number of taxpayers who benefit from the distributions in the annual Tax Expenditure Report (TER).

Design Analysis. The expenditure does not have an expiration date or a cap. Additionally, it does not target distressed areas but it does target export-based industries. In the TER, TRD cautions that distributions such as this may add cost and risk to the overall distribution system

Meets Purpose. The statutes that create this expenditure does not include a purpose.

Summary

FY25 Tax Expenditure	$10.6 M
FY25 Number of Claims	Not Reported
Jobs Created	170
Economic ROI	9%
Return in Revenue	-93%
Usage Trends	
1-Year Change	-54%
Meets Purpose	No purpose
Design Elements	
Has expiration date	○
Has expenditure cap	○
Targets distressed areas	○
Targets export-based industry	●
Data Availability *Are requirements being met?*	●
Data Reliability *Is data reported separately?*	●

Key
● Yes
◑ Partial
○ No

Note: Criteria based on LFC tax policy principles or other design, purpose, or statutory measures. See methodology for more details.

Future research opportunities for this tax credit include:
- Comparing the economic impacts to other tax expenditures and forms of spending
- Understanding how this credit impacts different regions of New Mexico
- Understanding the changes in claims and expenditures over time.
-

Tax·E Tax Expenditure Assessment

Analysis of key state tax credits, exemptions, and deductions by the Legislative Finance Committee

Rural Job Tax Credit

Background

Brief Description. The rural job tax credit provides an incentive to businesses opening or expanding in rural areas equal to either 12.5 percent or 25 percent of up to $16 thousand in wages per qualifying job, depending on where the job is performed or based.

Created: 2007 and amended in 2013, and 2021

Expires: No expiration date.

Statutory Basis: 7-2E-1.1 NMSA 1978

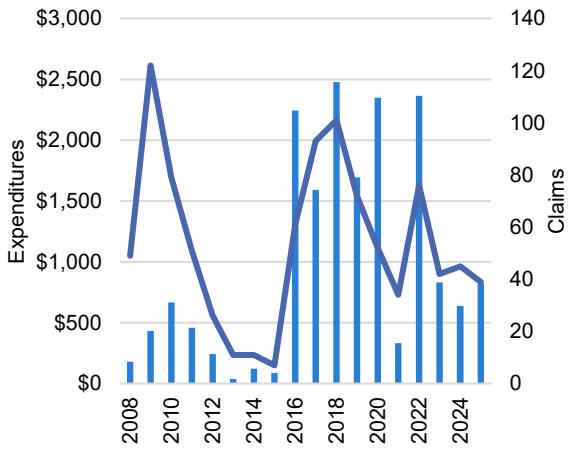
Impact Analysis Summary

In FY25, businesses received $800 thousand in state support through the credit. Over the last ten years, businesses received an average of $1.5 million in state support through the credit each year. The credit is estimated to increase statewide employment by fewer than five jobs per year on average because of lower business costs that encourage job creation. The credit is estimated to increase state personal income by a present value of $368 thousand, on average, because of higher wage earnings, increased business profits, and increased property income. The estimated present value of the annual state GDP impact attributable to the program is $267 thousand. The economic return on investment (ROI) is estimated to be -42 percent, meaning for every $1 spent on the credit, the New Mexico economy shrinks by 42 cents. The estimated annual return in revenue is -96 percent, meaning that for every $1 spent, the state forgoes 96 cents and recaptures 4 cents of state tax revenue.

Economic Impact Analysis Summary

FY25 Expenditure	***FY25 Claims***
$0.8 M	*39*
Economic ROI	***Return in Revenue***
-42%	*-96%*
For every $1 spent, the state economy shrinks by 42 cents.	For every $1 spent, the state forgoes 96 cents and recaptures 4 cents in state tax revenue.

Rural Jobs Tax Credit Expenditures and Claims
dollars in thousands



Source: LFC Analysis

Credit Overview and Legislative History. The rural job tax credit was first enacted in 2007 to encourage business expansion in rural areas of the state. It provides a tax credit to businesses eligible for the Job Training Incentive Program equal to either 12.5 percent or 25 percent of up to $16,000 in wages per qualifying job, depending on the area's population. Employers in Tier 1 areas (population under 15 thousand) receive the full 25 percent, while those in Tier 2 areas (population between 15 thousand and 30 thousand) receive 12.5 percent. The credit is disbursed incrementally, as 6.25 percent of the wages per year for up to four years for jobs in Tier 1 areas and two years for jobs in Tier 2 areas.

The credit has been amended three times. The original statute was enacted in 2000 but sunset in 2006. In 2007, the sunset provision was removed. In 2013, the credit was amended to restrict the definition of qualifying jobs to exclude jobs created due to business mergers or acquisitions. The Legislature also added a purpose statement to the credit. In 2021, the credit was amended to add certification requirements for employers, add application time limits, define "new job," and revise the definition of "qualifying job." Additionally, the 2021 amendment expanded the scope from starting new businesses to incorporate "expand[ing] existing businesses" into the purpose.

Usage Trends. From FY23 to FY25, an average of 42 claims were made per year for an average annual tax expenditure of $764 thousand. Expenditures and claims are both down from historical levels. Between FY18 and FY20 the state spent $2.2 million on average with an average of 75 claims per year. Since 2000, the effective value of the credit has decreased by 45 percent because of inflation.

Design Analysis. The credit does not have an expenditure cap or an expiration date. While targeting rural jobs may help distressed areas, the credit could be more effective by differentiating based on need, demographics, or economic activity. The credit targets export-based industries, and agencies are meeting statutory reporting requirements.

Meets Purpose. The credit partially satisfies its purpose to encourage businesses to start new or expand existing businesses in rural areas of the state. While it has historically offered a significant benefit to rural areas, claims and expenditures have declined sharply recently, indicating the credit may not be continuing to achieve its purpose.

Summary

FY25 Tax Expenditure	$0.8 M
FY25 Number of Claims	39
Jobs Created	<5
Economic ROI	-42%
Return in Revenue	-96%
Usage Trends	
1-Year Change	+29%
3-Year Average Change	-55%
Meets Purpose	◑
Design Elements	
Has expiration date	○
Has expenditure cap	○
Targets distressed areas	◑
Targets export-based industry	●
Data Availability *Are requirements being met?*	●
Data Reliability *Is data reported separately?*	●

Key
● Yes
◑ Partial
○ No

Note: Criteria based on LFC tax policy principles or other design, purpose, or statutory measures. See methodology for more details.

Future research opportunities for this tax credit include:
- Comparing the economic impacts to other tax expenditures and forms of spending
- Understanding how this credit impacts different regions of New Mexico
- Understanding the changes in claims and expenditures over time.
-

Tax·E Tax Expenditure Assessment

Analysis of key state tax credits, exemptions, and deductions by the Legislative Finance Committee

Sale of Software Development Services GRT Deduction

Background

Brief Description. The sale of software development services GRT deduction allows eligible software companies to deduct receipts from the sale of software development services performed in qualified rural areas from gross receipts tax, with the purpose of stimulating new business development in those areas.

Created: 2002.

Expires: No expiration date.

Statutory Basis: 7-9-57.2 NMSA 1978

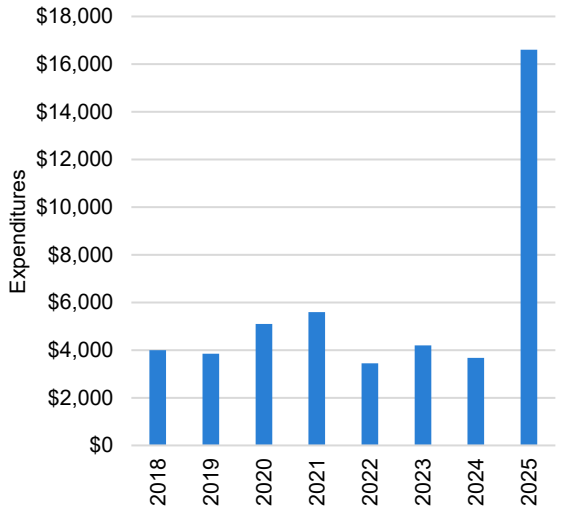
Impact Analysis Summary

In FY25, businesses received $16.6 million in state support through the deduction. Over the last three years, businesses received an average of $8.2 million in state support through the deduction each year. The deduction is estimated to increase statewide employment by 70 jobs per year on average because of lower business costs that encourage job creation. The deduction is estimated to increase state personal income by a present value of $5.4 million, on average, because of higher wage earnings, increased business profits, and increased property income. The estimated present value of the annual state GDP impact attributable to the program is $6.8 million, on average. The economic return on investment (ROI) is estimated to be -6 percent, meaning for every $1 spent on the deduction, the New Mexico economy shrinks by 6 cents. The estimated annual return in revenue is -96 percent, meaning that for every $1 spent, the state forgoes 96 cents and recaptures 4 cents of state tax revenue.

Economic Impact Analysis Summary

FY25 Expenditure	***FY25 Claims***
$16.6 M	*Not reported*
Economic ROI	***Return in Revenue***
-6%	*-96%*
For every $1 spent, the state economy shrinks by 6 cents.	For every $1 spent, the state forgoes 96 cents and recaptures 4 cents in state tax revenue.

Sale of Software Development Services GRT Deduction Expenditures
dollars in thousands



Sale of Software Development Services GRT Deduction

Overview and Legislative History. into Enacted in 2002, the sale of software development services GRT deduction allows software companies operating in rural areas to deduct their receipts from GRT. Rural areas are classified as anywhere except an incorporated municipality with a population of more than 50 thousand. According to the 2020 census, four municipalities had a population greater than 50 thousand: Albuquerque, Las Cruces, Rio Rancho, and Santa Fe. Roswell had a population of 48 thousand. Statute provides the purpose of the deduction as "to stimulate new business development." Since its creation, the deduction has not been amended.

Usage Trends. In FY25, usage of the deduction sharply increased to $16.6 million, over four times as large as the deduction in FY24. Because the deduction is not separately reported, the Taxation and Revenue Department (TRD) must estimate the expenditures.

Design Analysis. The deduction does not have an expiration date nor an expenditure cap. While targeting rural areas may help distressed areas, the deduction could better target economically distressed areas by targeting based on need, demographics, or economic activity. The deduction targets an export-based industry.

Meets Purpose. The expenditure partially meets its purpose by reducing business costs for eligible businesses. However, additional research is needed to determine whether the expenditure achieves its aim to stimulate "new" business activity.

Summary

FY25 Tax Expenditure	$16.6 M
FY25 Number of Claims	Not reported
Jobs Created	70
Economic ROI	-6%
Return in Revenue	-96%
Usage Trends	
1-Year Change	+352%
3-Year Average Change	+73%
Meets Purpose	◑
Design Elements	
Has expiration date	○
Has expenditure cap	○
Targets distressed areas	◑
Targets export-based industry	●
Data Availability *Are requirements being met?*	●
Data Reliability *Is data reported separately?*	○

Key
● Yes
◑ Partial
○ No

Note: Criteria based on LFC tax policy principles or other design, purpose, or statutory measures. See methodology for more details.

Future research opportunities for this tax credit include:
- Comparing the economic impacts to other tax expenditures and forms of spending
- Understanding how this credit impacts different regions of New Mexico
- Understanding the changes in claims and expenditures over time.
-

Tax·E Tax Expenditure Assessment

Analysis of key state tax credits, exemptions, and deductions by the Legislative Finance Committee

Sales of Services to Manufacturing GRT Deduction

Background

Brief Description. The sales of services to manufacturing GRT deduction allows deductions of accounting, architectural, engineering, IT, and legal services sold to manufacturers.

Created: 2022

Expires: No expiration date.

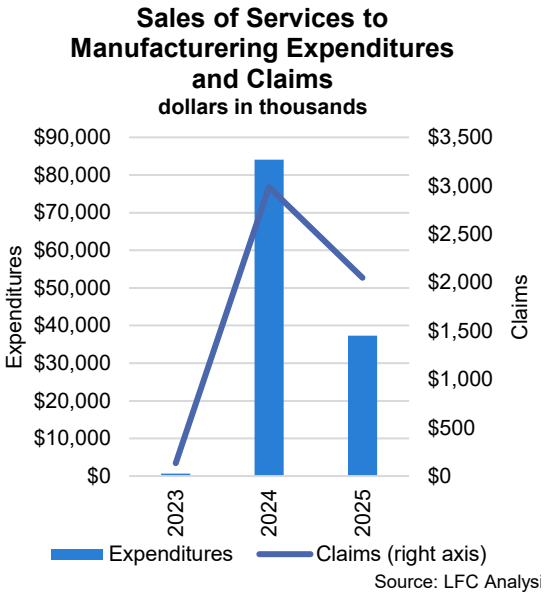
Statutory Basis: 7-9-46.1 NMSA 1978

Impact Analysis Summary

In FY25, businesses providing professional services to manufacturers received $37.2 million in state support through the deduction.[2] The deduction is estimated to increase statewide employment by 380 jobs per year on average because of lower business costs that encourage job creation. The expenditure is estimated to increase state personal income by a present value of $29 million, on average, because of higher wage earnings, increased business profits, and increased property income. The estimated present value of the annual state GDP impact attributable to the program is $21 million. The economic return on investment (ROI) is estimated to be -36 percent, meaning for every $1 spent, the New Mexico economy shrinks by 36 cents because of forgone government investment. The estimated annual return in revenue is -96 percent, meaning that for every $1 spent, the state forgoes 96 cents and recaptures 4 cents of state tax revenue.

Economic Impact Analysis Summary

FY25 Expenditure	***FY25 Claims***
$37.3 M	*2,049*
Economic ROI	***Return in Revenue***
-36%	*-96%*
For every $1 spent, the state economy shrinks by 36%	For every $1 spent, the state forgoes 96 cents and recaptures 4 cents in state tax revenue.



[2] These businesses also received $24.9 million in local government support through the deduction, bringing the total state and local government support to $62.1 million. However, this assessment only analyzes the economic impact of the state government portion.

Expenditure Overview and Legislative History. The sales of services to manufacturing GRT deduction was created in 2022 to encourage manufacturing businesses to locate in New Mexico and to reduce the tax burden and tax pyramiding of the professional services purchased by businesses in New Mexico. The deduction includes architectural services, engineering services, information technology services, and legal services made to a person engaged in the business of manufacturing.

Usage Trends: Expenditures decreased 56 percent in FY25 compared with FY24. Long-term usage trends cannot yet be determined because FY24 was the first full fiscal year the deduction was available.

Design Analysis. The expenditure does not have an expiration date or an expenditure cap. It does not target distressed areas or differentiate based on need, rurality, or other factors. The expenditure partially targets export-based industries because manufacturers likely benefit from lower costs associated with purchasing professional services. However, professional service businesses also benefit from lower costs, and these businesses are not export-based. The Taxation and Revenue Department (TRD) notes in its Tax Expenditure Report that while the deduction is separately reported, reported data may not be reliable because "taxpayers may be claiming this deduction in error."

Meets Purpose. The expenditure partially meets its purpose by reducing the tax burden and tax pyramiding on manufacturing businesses. However, additional research is needed to determine whether the expenditure satisfies both prongs of its purpose by causing manufacturing businesses to locate in New Mexico.

Summary

FY25 Tax Expenditure	$37.3M
FY25 Number of Claims	2,049
Jobs Created	380
Economic ROI	-36%
Return in Revenue	-96%
Usage Trends	
1-Year Change	-55%
Meets Purpose	◑
Design Elements	
Has expiration date	○
Has expenditure cap	○
Targets distressed areas	○
Targets export-based industry	◑
Data Availability *Are requirements being met?*	●
Data Reliability *Is data reported separately?*	◑

Key
● Yes
◑ Partial
○ No

Note: Criteria based on LFC tax policy principles or other design, purpose, or statutory measures. See methodology for more details.

Future research opportunities for this tax expenditure include:
- Comparing the economic impacts to other tax expenditures and forms of spending
- Understanding how this expenditure impacted manufacturing employment
- Understanding the changes in claims and expenditures over time.
-

Tax·E Tax Expenditure Assessment

Analysis of key state tax credits, exemptions, and deductions by the Legislative Finance Committee

Sales to State-Chartered Credit Unions GRT Deduction

Background

Brief Description. Receipts from selling tangible personal property to state-chartered credit unions are deductible from GRT.

Created: 2000

Expires: No expiration date.

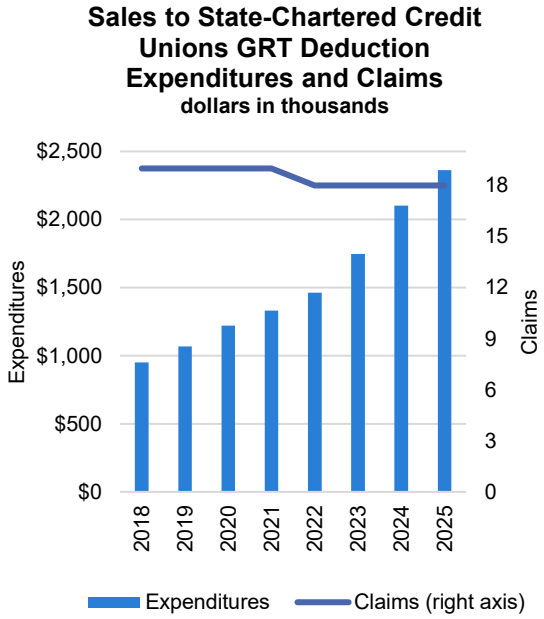
Statutory Basis: 7-9-61.2 NMSA 1978

Impact Analysis Summary

In FY24, claimants received $2.4 in state support through the deduction. Over the last three years, businesses received an average of $2.1 million in state support through the deduction each year. The deduction is estimated to increase statewide employment by 5 jobs per year on average because of lower business costs that encourage job creation. The deduction is estimated to increase state personal income by a present value of $481 thousand, on average, because of higher wage earnings, increased business profits, and increased property income. The estimated present value of the annual state GDP impact attributable to the program is $287 thousand, on average. The economic return on investment (ROI) is estimated to be -79 percent, meaning for every $1 spent on the deduction, the New Mexico economy shrinks by 79 cents. The estimated annual return in revenue is -99 percent, meaning that for every $1 spent, the state forgoes 99 cents and recaptures 1 cents of state tax revenue.

Economic Impact Analysis Summary

FY25 Expenditure	***FY25 Claims***
$2.4M	*18*
Economic ROI	***Return in Revenue***
-79%	*-99%*
For every $1 spent, the state economy shrinks by 79 cents.	For every $1 spent, the state forgoes 99 cents and recaptures 1 cents in state tax revenue.



Source: LFC Analysis

Overview and Legislative History. Receipts from selling tangible personal property to state-chartered credit unions are deductible from GRT to the same extent that receipts from the sale of tangible personal property to federal credit unions are deductible. Created in 2000, the deduction has not been amended. Although a purpose for this deduction is not provided by statute, the Taxation and Revenue Department's (TRD) Tax Expenditure Report states that the intended purpose is to provide "equitable tax treatment between federally-chartered and state-chartered credit unions."

Usage Trends. Expenditures for this deduction increased by 12 percent in FY25 compared with FY24. Over the last three years, expenditures increased by 55 percent. The number of claims reported by TRD decreased from 19 to 18 in FY22 and have remained at 18 since.

Design Analysis. The expenditure does not have an expenditure cap or an expiration date. The expenditure does not target distressed areas. The expenditure does not target an export-based industry. Because the deduction is not separately reported, TRD must estimate the annual cost of the expenditure based on available information on credit unions.

Meets Purpose. Statute does not provide a purpose for this expenditure.

Summary

FY25 Tax Expenditure	$2.4 M
FY25 Number of Claims	18
Jobs Created	5
Economic ROI	-79%
Return in Revenue	-99%
Usage Trends	
1-Year Change	+12%
3-Year Average Change	+55%
Meets Purpose	No purpose
Design Elements	
Has expiration date	○
Has expenditure cap	○
Targets distressed areas	○
Targets export-based industry	○
Data Availability *Are requirements being met?*	●
Data Reliability *Is data reported separately?*	○

Key
● Yes
◑ Partial
○ No

Note: Criteria based on LFC tax policy principles or other design, purpose, or statutory measures. See methodology for more details.

Future research opportunities for this tax expenditure include:
- Comparing the economic impacts to other tax expenditures and forms of spending
- Understanding how this expenditure impacts different regions of New Mexico
- Understanding the changes in claims and expenditures over time.
-

Tax·E Tax Expenditure Assessment

Analysis of key state tax credits, exemptions, and deductions by the Legislative Finance Committee

Sales to Manufacturers GRT and GGRT Deduction

Background

Brief Description. The sales to manufacturers GRT deduction allows deductions of the sales of tangible personal property, manufacturing consumables, or qualified equipment to a manufacturer. The deduction is meant to encourage manufacturing businesses to locate in New Mexico and to reduce their tax burden.

Created: 1969. Amended 1992, 2012, 2013, 2021, 2023, 2025.

Expires: No expiration date.

Statutory Basis: 7-9-46 NMSA 1978

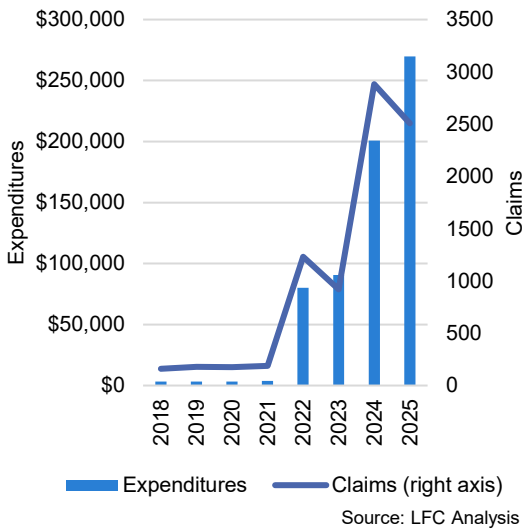
Impact Analysis Summary

In FY25, businesses with eligible sales to manufacturers received $269.7 million in state support through the deduction.[3] Over the last eight years, these businesses received an average of $81 million annually in state support through the deduction. The deduction is estimated to increase statewide employment by 3,150 jobs per year on average because of lower business costs that encourage job creation. The expenditure is estimated to increase state personal income by a present value of $242 million, on average, because of higher wage earnings, increased business profits, and increased property income. The estimated present value of the annual state GDP impact attributable to the program is $186 million, on average. The economic return on investment (ROI) is estimated to be 25 percent, meaning for every $1 spent, the New Mexico economy grows by 25 cents. The estimated annual return in revenue is -92 percent, meaning that for every $1 spent, the state forgoes 92 cents and recaptures 8 cents of state tax revenue.

Economic Impact Analysis Summary

FY25 Expenditure	***FY25 Claims***
$269.7 M	*2,509*
Economic ROI	***Return in Revenue***
25%	*-92%*
For every $1 spent, the state economy grows by 25 cents.	For every $1 spent, the state forgoes 92 cents and recaptures 8 cents in state tax revenue.

Sales to Manufacturers GRT Deduction Expenditures and Claims
dollars in thousands



Source: LFC Analysis

Expenditure Overview and Legislative History. The sales to manufacturers GRT and GGRT deduction was

[3] These businesses also received $176 million in local government support through the deduction, bringing the total state and local government support to $446 million. However, this assessment only analyzes the economic impact of the state government portion.

first created in 1969 to encourage manufacturing businesses to locate in New Mexico and to reduce the tax burden, including reducing pyramiding, on the tangible personal property that is consumed in the manufacturing process and purchased by manufacturing businesses in New Mexico. Deductions are classified into three categories: receipts from selling tangible personal property; receipts from selling a manufacturing consumable; and receipts from selling or leasing qualified equipment.

The deduction has been amended multiple times since its creation. The 2013 and 2021 amendments defined the terms "consumable" and "manufacturing consumable," respectively. The 2023 amendment specified when alternative evidence may be used to support the deduction. The 2025 amendment revised reporting requirements, including a mandate to report each deduction separately and to include total expenditures in the tax expenditure budget.

Usage Trends. Deductions and expenditures have risen sharply in recent years. Between FY18 and FY21, an average of 176 taxpayers claimed $3.4 million in state GRT deductions annually, with consistent usage year over year. In FY22, however, participation increased to 1,233 taxpayers claiming $80.2 million, and by FY25, these figures rose to 2,509 taxpayers and $269.7 million in state deductions.

Design Analysis. The expenditure does not have an expiration date or an expenditure cap. It does not target distressed areas or differentiate based on need, population, or other factors of economic distress. The expenditure targets manufacturing, which is an export-based industry.

Meets Purpose. The expenditure partially meets its purpose by reducing the tax burden and tax pyramiding on manufacturing businesses. However, additional research is needed to determine whether the expenditure satisfies both prongs of its purpose by causing manufacturing businesses to locate in New Mexico.

Note: this assessment classifies the sales to manufacturers GRT deduction as a tax expenditure. The Taxation and Revenue Department's Tax Expenditure Report does not classify this provision as a tax expenditure.

Summary

FY25 Tax Expenditure	$269.7M
FY25 Number of Claims	2,509
Jobs Created	3,150
Economic ROI	25%
Return in Revenue	-92%
Usage Trends	
1-Year Change	+34%
3-Year Average Change	6x
Meets Purpose	◑
Design Elements	
Has expiration date	○
Has expenditure cap	○
Targets distressed areas	○
Targets export-based industry	●
Data Availability *Are requirements being met?*	●
Data Reliability *Is data reported separately?*	●

Key
● Yes
◑ Partial
○ No

Note: Criteria based on LFC tax policy principles or other design, purpose, or statutory measures. See methodology for more details.

Future research opportunities for this tax expenditure include:
- Comparing the economic impacts to other tax expenditures and forms of spending
- Understanding how this expenditure impacted manufacturing employment
- Understanding the changes in claims and expenditures over time.
-

Tax·E Tax Expenditure Assessment

Analysis of key state tax credits, exemptions, and deductions by the Legislative Finance Committee

Small Business Saturday Thanksgiving Weekend GRT Deduction

Background

Brief Description. Retail businesses with sales of certain goods worth less than $500 are able to deduct those receipts from GRT on the first Saturday after Thanksgiving. To qualify, retailiers must be a business in New Mexico and muct have employed 10 or fewer employees at one time in the previous fiscal year.

Created: 2018 and amended in 2020 and 2025.

Expires: July 1, 2025.

Statutory Basis: 7-9-116 NMSA 1978

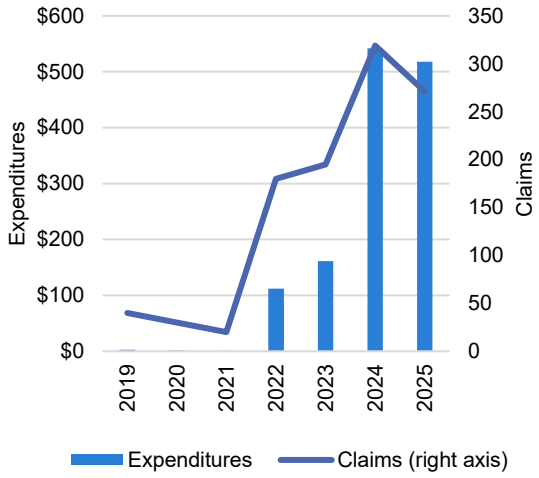
Impact Analysis Summary

In FY25, businesses received $518 thousand in state support through the deduction. Over the last three years, businesses received an average of $407 thousand in state support through the deduction each year. The deduction is estimated to increase statewide employment by fewer than five jobs per year on average. The deduction is estimated to increase state personal income by a present value of $72 thousand, on average, because of higher wage earnings, increased business profits, and increased property income. The estimated present value of the annual state GDP impact attributable to the program is $44 thousand.The economic return on investment (ROI) is estimated to be -86 percent, meaning for every $1 spent on the deduction, the New Mexico economy shrinks by 86 cents. The estimated annual return in revenue is -99 percent, meaning that for every $1 spent, the state forgoes 99 cents and recaptures 1 cent of state tax revenue.

Economic Impact Analysis Summary

FY25 Expenditure	***FY25 Claims***
$0.5M	*271*
Economic ROI	***Return in Revenue***
-86%	*-99%*
For every $1 spent, the state economy shrinks by 86 cents.	For every $1 spent, the state forgoes 99 cents and recaptures 1 cent in state tax revenue.

Small Business Saturday Thanksgiving GRT Deduction Expenditures and Claims
dollars in thousands



Source: LFC Analysis

Overview and Legislative History. Receipts from the sale of retail goods worth less than $500 may be deducted from GRT on the first Saturday after Thanksgiving. Statute specifies what goods are eligible for the deduction and includes clothing, accessories, cosmetics, furniture, and home electronics among others. To be eligible, the retail business must be based in New Mexico and have employed no more than 10 employees at any one time during the previous fiscal year.

The deduction was created in 2018 and amended once in 2020 to extend the expiration date. The deduction was amended in 2025 to update reporting requirements.

Usage Trends. Expenditures more than tripled in FY24 compared with FY23 and remained at the same level in FY25. In FY25, 271 businesses claimed the deduction, a decrease from FY24 when 319 businesses claimed the deduction. Over the last several year, expenditures increased at a faster rate than claims, indicating businesses were claiming a higher deduction per claim.

Design Analysis. The deduction does not have an expenditure cap. The deduction has an expiration date. The deduction does not target distressed areas. The deduction does not target export-based industries. The deduction is separately reported, but the Taxation and Revenue Department notes that "some taxpayers may be claiming this deduction in error and others may not be reporting under the correct deduction code."

Meets Purpose. The deduction likely does not meet the intended purpose of increasing sales at small local businesses. There are over 4,300 retail establishments with fewer than 10 employees. This implies that only 7.4 percent of small retail establishments take advantage of this deduction. The magnitude of the expenditure and number of claims indicate that between 500 and 1,000 individual transactions benefitted from the deduction, a small share of total transactions.

Summary

FY25 Tax Expenditure	$0.5M
FY25 Number of Claims	271
Jobs Created	<5
Economic ROI	-86%
Return in Revenue	-99%
Usage Trends	
1-Year Change	-4%
3-Year Average Change	10x
Meets Purpose	○
Design Elements	
Has expiration date	●
Has expenditure cap	○
Targets distressed areas	○
Targets export-based industry	○
Data Availability *Are requirements being met?*	●
Data Reliability *Is data reported separately?*	◑

Key
● Yes
◑ Partial
○ No

Note: Criteria based on LFC tax policy principles or other design, purpose, or statutory measures. See methodology for more details.

Future research opportunities for this tax expenditure include:
- Comparing the economic impacts to other tax expenditures and forms of spending
- Understanding how this expenditure impacts different regions of New Mexico
- Understanding the changes in claims and expenditures over time.
-

Tax·E Tax Expenditure Assessment

Analysis of key state tax credits, exemptions, and deductions by the Legislative Finance Committee

Technology Jobs and Research & Development Tax Credit

Background

Brief Description. The technology jobs and research and development tax credit is an incentive for technology-based businesses engaged in research and development. The incentive offers a credit of up to 5 percent (10 percent in rural areas) and is partially refundable based on total expenditures.

Created: 2000 and amended in 2015 and 2019

Expires: No expiration date.

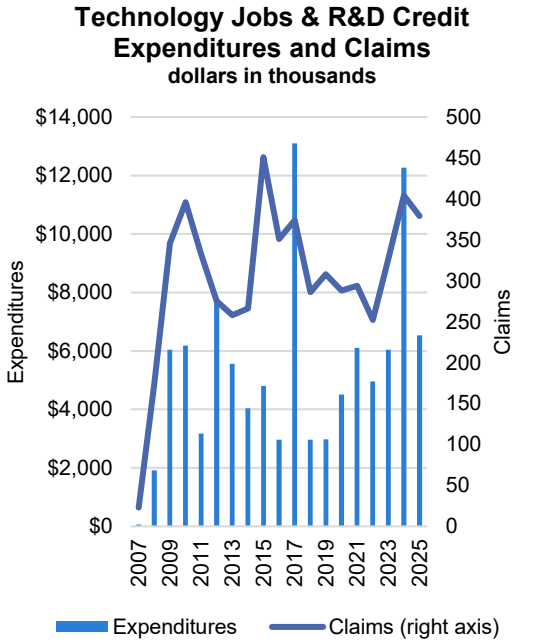
Statutory Basis: No 7-9F-1 *et seq.* NMSA 1978

Impact Analysis Summary

In FY25, businesses received $6.5 million in state support through the credit. Over the last ten years, businesses received an average of $6.2 million in state support through the credit each year. The credit is estimated to increase statewide employment by 115 jobs per year on average because of lower business costs that encourage job creation. The credit is estimated to increase state personal income by a present value of $9.2 million, on average, because of higher wage earnings, increased business profits, and increased property income. The estimated present value of the annual state GDP impact attributable to the program is $6.5 million. The economic return on investment (ROI) is estimated to be 23 percent, meaning for every $1 spent on the credit, the New Mexico economy grows by 23 cents. The estimated annual return in revenue is -93 percent, meaning that for every $1 spent, the state forgoes 93 cents and recaptures 7 cents of state tax revenue.

Economic Impact Analysis Summary

FY25 Expenditure	***FY25 Claims***
$6.5 M	*379*
Economic ROI	***Return in Revenue***
23%	*-93%*
For every $1 spent, the state economy grows by 23 cents.	For every $1 spent, the state forgoes 93 cents and recaptures 7 cents in state tax revenue.



Source: LFC Analysis

Credit Overview and Legislative History. The technology jobs and research development tax credit was created in 2000 to provide a favorable tax climate for technology-based businesses engaging in research, development and experimentation and to promote increased employment and higher wages within those fields. A taxpayer who conducts qualified research may claim a basic credit equal to 5 percent of qualified expenditures against the state portion of GRT, compensating tax, or withholding tax. The credit is doubled to 10 percent when the taxpayer's facility is in a rural area. Taxpayers may claim an additional 5 percent credit (or 10 percent in rural areas) against income tax by raising payroll by $75 thousand for every $1 million in qualified expenditures. The credit is fully or partially refundable if qualified expenditures are less than $5 million.

The credit has been amended twice since its inception. In 2015, the credit was amended to add Research and Development to the title and increase the basic and additional tax credits provided for from four percent to five percent of the amount of qualified expenditures. It also set forth a new mechanism for claiming the basic credit and excluded local option gross receipts tax from the taxes the basic credit could be claimed against. In 2019, an amendment revised the definition of "local options gross receipts tax."

Usage Trends. Between FY23 and FY25, an average of 369 claims were made per year for an average annual tax expenditure of $8.3 million, including basic and additional claims. Over the last three years, expenditures have increased by 60 percent compared with the prior three years.

Design Analysis. The credit does not have an expenditure cap or an expiration date. While targeting rural businesses may help distressed areas, the credit could be more effective by differentiating based on need, demographics, or economic activity. The credit targets export-based industries. There are no additional agency reporting requirements beyond the annual tax expenditure report.

Meets Purpose. The credit likely meets its purpose of providing a favorable tax climate for technology-based, research and development businesses and promoting increased employment, with a high number of jobs created, steady usage trends, and sound return on investment.

Summary

FY25 Tax Expenditure	$6.5 M
FY25 Number of Claims	379
Jobs Created	115
Economic ROI	23%
Return in Revenue	-93%
Usage Trends	
1-Year Change	-47%
3-Year Average Change	60%
Meets Purpose	●
Design Elements	
Has expiration date	○
Has expenditure cap	○
Targets distressed areas	◑
Targets export-based industry	●
Data Availability *Are requirements being met?*	●
Data Reliability *Is data reported separately?*	●

Key
● Yes
◑ Partial
○ No

Note: Criteria based on LFC tax policy principles or other design, purpose, or statutory measures. See methodology for more details.

Future research opportunities for this tax credit include:
- Comparing the economic impacts to other tax expenditures and forms of spending
- Understanding how this credit impacts different regions of New Mexico
- Understanding the changes in claims and expenditures over time.
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Tax·E Tax Expenditure Assessment

Analysis of key state tax credits, exemptions, and deductions by the Legislative Finance Committee

Technology Readiness Credit Against Gross Receipts Tax

Background

Brief Description. The technology readiness credit against GRT encourages the state's two national laboratories to assist businesses in achieving technology maturation by allowing them to receive a credit of up to $150 thousand per business assisted, up to $1 million total.

Created: 2020

Expires: July 1, 2027

Statutory Basis: 7-9-96.3 NMSA 1978

Impact Analysis Summary

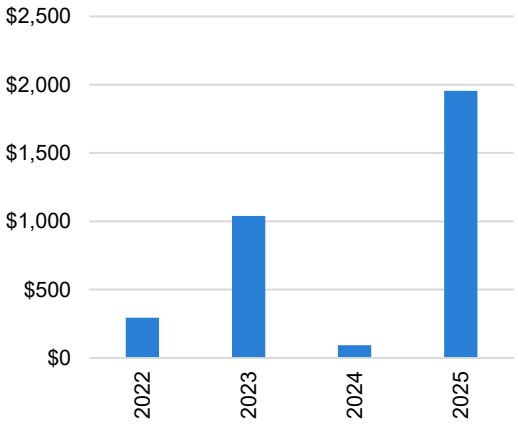
In FY25, New Mexico's national laboratory prime contractors received $1.9 million in state support through the credit. The credit is estimated to have increased statewide employment by 15 jobs on average per year. The credit is estimated to increase state personal income by a present value of $1.3 million, on average, because of higher wage earnings, increased business profits, and increased property income. The estimated present value of the annual state GDP impact attributable to the program is $887 thousand. The economic return on investment (ROI) is estimated to be 17 percent, meaning for every $1 spent on the credit, the New Mexico economy grows by 17 cents. The estimated annual return in revenue is -93 percent, meaning that for every $1 spent, the state forgoes 93 cents and recaptures 7 cents of state tax revenue.

Economic Impact Analysis Summary

FY25 Expenditure	***FY25 Claims***
$1.9 M	*2*
Economic ROI	***Return in Revenue***
17%	*-93%*
For every $1 spent, the state economy grows by 17 cents.	For every $1 spent, the state forgoes 93 cents and recaptures 7 cents in state tax revenue.

Technology Readiness Credit Against GRT Expenditures and Claims

dollars in thousands



Source: LFC Analysis

Credit Overview and Legislative History. The technology readiness credit against GRT, commonly known as TRGR, was created in July 2020 as partnership between the state of New Mexico and the Sandia and Los Alamos national laboratories to help companies leverage laboratory research capabilities. It provides a tax credit equal to the value of free technical services offered to a small business by the national laboratory prime contractors—Triad National Security LLC and National Technology and Engineering Solutions of Sandia, a Honeywell International subsidiary. For each business served, the prime contractors may receive a credit of up to $150 thousand per business for qualified expenditures, excluding any local option gross receipts tax liability. The credit has an annual cap per national laboratory of $1 million.

In 2022, an amendment extended the technology readiness gross receipts tax credit from its 2023 expiration date through July, 2027. Additionally, the amendment capped the standard tax credit at $1 million per national laboratory.

Usage Trends. Usage trends have been variable since inception, with expenditures ranging from $1.9 million in FY25 to $93 thousand in FY24. In FY25, laboratories report having assisted 22 projects, including 10 licenses and 12 Cooperative Research and Development Agreement, or CRADA.

Design Analysis. The credit has both an expiration date and expenditure cap. The credit targets export-based industries. The credit does not target distressed areas. Recipients meet statutory reporting requirements.

Meets Purpose. The credit partially meets its purpose of helping companies leverage laboratory research capabilities. The credit shows potential and features some strong design elements, but usage trends and return on investment are not yet well-established and could benefit from further analysis as the program matures.

Summary

FY25 Tax Expenditure	$1.9M
FY245 Number of Claims	2
Jobs Created	15
Economic ROI	17%
Return in Revenue	-93%
Usage Trends	
1-Year Change	+21x
Meets Purpose	◑
Design Elements	
Has expiration date	●
Has expenditure cap	●
Targets distressed areas	○
Targets export-based industry	●
Data Availability *Are requirements being met?*	●
Data Reliability *Is data reported separately?*	●

Key
● Yes
◑ Partial
○ No

Note: Criteria based on LFC tax policy principles or other design, purpose, or statutory measures. See methodology for more details.

Future research opportunities for this tax credit include:
- Comparing the economic impacts to other tax expenditures and forms of spending
- Understanding how this credit impacts different regions of New Mexico
- Understanding the changes in claims and expenditures over time.
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