

NEW MEXCO'S SINGLE SALES FACTOR OPTION - Optional Single Sales Factor Apportionment for Manufacturing Corporations

Manufacturers can now elect to utilize a single sales factor option for calculating corporate income tax. An optional single sales factor for manufacturers is on a path for a five year phase-in to 100%. With this legislation, a manufacturer corporation's corporate income tax liability will be determined by the sales of its products within New Mexico. The option will dramatically reduce the state corporate income tax liability for most manufacturers.

Prior to Single Sales Factor Option, manufacturers had the option to elect to apportion business income to New Mexico using a double-weighted sales factor apportionment formula. The double-weighted sales factor remains an option. It involves adding the New Mexico (NM) Payroll divided by non-NM Payroll plus NM Property divide by non-NM property plus NM sales multiplied by two divided by non-NM sales and then average of the three.

For companies with large employee numbers and no sales within the state; they were essentially being taxed higher for increasing payroll. The same was the case for companies with large facility assets. The task for many companies prior to Single Sales Option was how to reduce its taxable income in New Mexico by limiting employee hiring and avoiding facility expansion and reducing outside sales.

Proponents of Single Sales Factor contend taxing business based on payroll expenditures discounts the positive impact of individual worker salaries and the expenditures made by employees. Additionally, New Mexico's personal income tax on individual wages and the employers' percentage tax collected on total payroll expense is a double tax of the same salary.

NEW MEXICO'S CORPORATE INCOME AND FRANCHISE TAX SINGLE SALES FACTOR

Effective for taxable years beginning from and after January 1, 2014, New Mexico's Corporate Income and Franchise Tax Act was amended to phase in over five years an elective single sales factor for businesses engaged in manufacturing. In tax year 2014, the elective sales factor was double weighted, and will transition to an elective triple-weighted sales factor in tax year 2015. For tax year 2016, a 70% weighted sales factor may be elected, while for tax year 2017, an 80% weighted sales factor election may be made. Beginning tax year 2018, a 100% weighted sales factor may be elected.

UTILITY ECONOMIC DEVELOPMENT RATES

Allows gas and electric utilities to offer economic development rates with or without the existing requirement for excess capacity under specific conditions and includes consumer (rate payer) protections.

NEW MEXICO CORPORATE INCOME TAX

Corporate income taxes "piggyback" on federal taxable income using the three factor formula: property, payroll and sales in New Mexico calculated as a percentage of the corporation's property, payroll and sales. A corporation may select one of three methods for reporting their state corporate income tax. Separate corporate entity, combination of domestic unitary corporations or federal consolidated group.

The State of New Mexico's five year phased reduction of corporate income tax from the current top rate of 7.6%, began in taxable year 2014. For taxable years on or after January 1, 2018, rate will be 5.9%.

MANUFACTURER'S GROSS RECEIPTS TAX EXEMPTION ON CONSUMABLES

Beginning January 1, 2013 a manufacturer may deduct a percentage (20%) of the gross receipts tax paid on consumables used in the manufacturing process. "Consumable" means tangible personal property that is incorporated into, destroyed, depleted, or transformed in the process of manufacturing a product and includes electricity, fuels, water, supplies, chemicals, gases, repair, and spare parts, but does not include

tools or equipment used to create the product. The GRT exemption will be 100% phased-in on January 1, 2017.

MANUFACTURING INVESTMENT TAX CREDIT

New Mexico tax law provides for a credit equal to 5.125 percent of the value of qualified equipment and other property used directly and exclusively in a manufacturing operation. The credit can be applied against compensating, gross receipts tax or withholding tax due. Gross receipts tax acts very much like a sales tax; the Albuquerque rate is 7.0 percent. Compensating (or use) tax applies to purchases made out of state and totals 5.125 percent.

The credit may be claimed for equipment acquired under an IRB. This is a double benefit since no gross receipts or compensating tax was paid on the purchase or importation of the equipment.

INDUSTRIAL REVENUE BONDS

Significant real and personal property tax and compensating tax exemptions can occur through the use of an Industrial Revenue Bond (IRB). An IRB is a loan from the bond purchaser to a company where the loan proceeds and repayment flows through a governmental issuer. Instead of purchasing a facility directly, companies can enter into a lease with the issuer, provided the company will lease the facility from the issuer and at end of lease, purchase the facility from the issuer for a nominal amount.

IRBs can also be used when a developer is involved.

City Council or County Commission must vote to induce an IRB, and the community does not lend its credit to an IRB. The company must secure its own purchaser of IRBs or the company can purchase its own IRB. Amount of property tax exemption and term of bond is determined by each community
– Albuquerque: up to 20 years; up to 95% abatement

JOB TRAINING INCENTIVE PROGRAM (JTIP)

The New Mexico Job Training Incentive Program is a highly flexible state program to provide on-the-job training. Customized training may be provided by post-secondary educational institutions, company trainers, or outside trainers.

HIGH WAGE JOBS TAX CREDIT

The High Wage Jobs Tax Credit provides businesses with a tax credit equal to 10 percent of the combined value of salaries and benefits for each net new job paying a net taxable wage of at least \$60,000 per year in communities with a population of 40,000 or more. Companies located in communities with a population less than 40,000 are eligible for the same tax credit for each net new job paying a net taxable wage of at least \$40,000.

TECHNOLOGY JOBS TAX CREDIT

In order to keep New Mexico competitive with the types of recruitment projects that continue to add value to the local economy, the legislature enacted the Technology Jobs Tax Credit to give credit to qualified expenditures on qualified research at qualified NM facilities.