WE CUT CORPORATE TAXES IN 2013, BUT THE JOBS DID NOT FOLLOW

ROADMAP TO A STRONGER NEW MEXICO

WHEN BIG CORPORATIONS CONSIDER A NEW LOCATION, TAX RATES ARE FAR DOWN ON THE LIST OF WHAT MATTERS TO THEM

NEW MEXICO VOICES FOR CHILDREN

Instead of enticing more big corporations to locate here, this big tax giveaway really only benefitted those out-of-state corporations already doing business here.

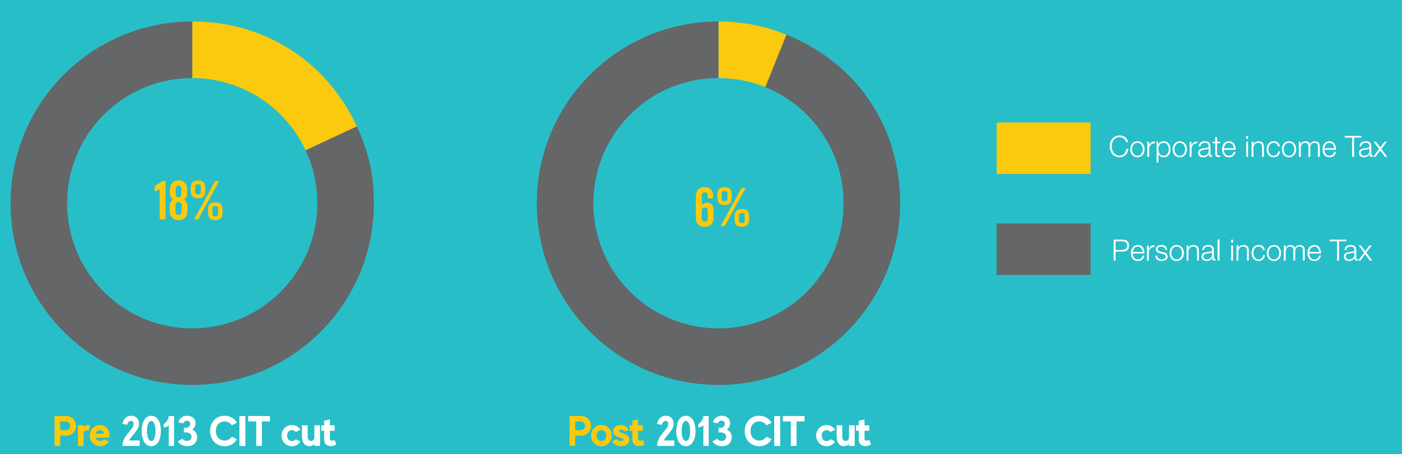
THE PROBLEM

- Cutting corporate taxes is an ineffective economic development and job-creation strategy. That's because corporations base location decisions mostly on whether a state offers a growing market for their goods, a well-trained workforce, robust infrastructure, and a quality of life that assures they will be able to hire their workforce.

- After corporate taxes were slashed in 2013, New Mexico started losing millions of dollars each year. That was revenue New Mexico could have invested in preparing workers for 21st century jobs, improving public safety, and modernizing our infrastructure.

- These tax cuts made our tax system less fair so hardworking New Mexicans have had to bear more of the responsibility for paying for the resources and services that businesses and people both use – like roads and bridges, police and fire protection, clean water, and more.
    - Corporate income taxes (CIT), as a share of all income taxes paid, averaged 18% in the decade leading up to the 2013 corporate tax cuts. But it's only averaged 6% these last few years. And due to the film tax credit – which is paid for through CIT revenues – the share is estimated to fall further to just 1% for fiscal year 2021.[1]

Corporate income taxes make up a smaller slice of the revenue pie



Source: General Fund Consensus Revenue Estimates 2002-2020

Fairer tax rates – combined with other policies that close numerous tax avoidance loopholes – can help ensure that corporations are paying their fair share and contributing to the health and success of our economy.

SOLUTIONS TO ENSURE BIG CORPORATIONS PAY THEIR FAIR SHARE

- **Increase the corporate income tax rate.** The tax cuts that benefitted big corporations in 2013 did not lead to increased economic activity, as promised, but it did substantially reduce revenues needed for the public investments that do create jobs and build a strong economy. New Mexico should increase the corporate income tax rate to ensure that corporations – especially those that have profited immensely from the pandemic – are paying their fair share.

- **Include foreign tax havens in mandatory combined reporting.** New Mexico closed a corporate tax loophole in 2019 by passing a mandatory combined reporting law. However, corporations only have to report the combined profits from parent and subsidiary companies formed in the U.S. This means corporations can still form subsidiaries in tax haven countries to hide their profits from taxation. Six states have closed this loophole and required corporations to also report profits from subsidiaries formed in tax havens abroad.

- **Establish a corporate minimum tax of $500 or more.** Many states have a minimum corporate income tax, helping to keep large corporations from exploiting loopholes or claiming numerous tax breaks to end up paying no income tax at all even when they make big profits. New Mexico, at the very least, should have a flat dollar minimum tax of at least $500 to ensure corporations pay something for the benefits they receive from New Mexico's land and water, roads and bridges, and public services.

Bottom Line: New Mexico has a lot to offer, and everyone – businesses and individuals – should be responsible for paying their fair share for using New Mexico's land and water, roads and bridges, and public services. It's time to raise corporate tax rates and close loopholes so big, profitable corporations are contributing towards the goods and services that benefit us all.

EQUITY IMPACT STATEMENT:

Increasing the corporate income tax on large corporations would advance racial equity in New Mexico because tax cuts for corporate profits increase the value of the corporation's stock, which is twice as likely to be owned by white households as by Black and Hispanic households. When corporations are not taxed at a fair rate, it overwhelmingly benefits white stakeholders, further widening the existing income and wealth divide.

1 While the CIT tax cuts are a significant reason for the declining share of CIT revenues, the film tax credit contributes to that declining percentage of overall revenues and – as noted – will further reduce that share in the future. The 2013 change to single sales factor for manufacturers, the narrowing of the base through tax incentives, tax avoidance strategies, and the growth of pass-through entities (which are taxed through the personal income tax) are additional reasons the share has declined.