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Tax expenditure report details state, local impacts

The New Mexico Taxation and Revenue Department today released its latest Tax Expenditure Report, which for the first time separates the impact of tax deductions, exemptions and credits on state versus local government revenues.

About 87% of the revenue foregone due to tax expenditures would otherwise have gone to state coffers, while the remaining 13% would have gone to local governments.

“The Tax Expenditure Report is an important transparency tool that helps New Mexicans evaluate the value of various tax credits, deductions and exemptions. For the first time, they can also see the impact of tax expenditures on their local governments,” said Taxation and Revenue Secretary Stephanie Schardin Clarke.

The largest of the 127 expenditures covered in the report is the gross receipts tax (GRT) deduction for groceries, which was larger than normal in FY2020 due to a large refund as well as the pandemic causing New Mexicans to purchase more groceries. This deduction reduced state GRT revenue by \$252.7 million in Fiscal Year 2020. Another \$142.9 million was transferred from the state to local governments to partially hold them harmless from lost GRT on groceries, bringing the total State cost to \$395.6 million. After adjusting for the hold harmless payments from the state, local government revenues were reduced by \$61.1 million in FY2020.

Other large tax expenditures and their costs include:

- The GRT deduction for prescription drugs and oxygen – \$105.9 million in state revenue and \$67.7 million in local revenue for FY '20
- The Film Tax Credit – \$55.6 million in state revenue for FY '20
- The GRT deduction for health care practitioner services – \$37.1 million in state revenue and \$27.9 million in local revenue. The state transferred \$19.5 million in hold harmless payments to local governments for the deduction.

- Working families tax credit – legislation enacted in 2019 increased the income tax credit from 10% to 17% of the value of the federal Earned Income Tax Credit. The cost of the credit rose from \$49.9 million in 2018 to \$83.4 million in 2019.

Secretary Schardin Clarke will present [the report](#) to the Legislature's Revenue Stabilization and Tax Policy Committee on Tuesday, Dec. 15. It is available on the Department's website, tax.newmexico.gov, in the publications folder on the Forms & Publications page.