Center on Budget and Policy Priorities

NEWS RELEASE

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Most Large New Mexico Corporations Already Comply With Proposed Corporate Tax Reform in Other States

Fears That Companies Would Shun State Are Unwarranted

While proposals to adopt a key corporate tax reform in New Mexico have drawn criticism from some multistate corporations, almost all of the major corporations doing business in New Mexico already comply with the reform in at least one of the 23 other states that have it, according to a report released today by the Washington, DC-based Center on Budget and Policy Priorities.

The tax reform, known as "combined reporting," shuts down a variety of tax shelters that major multistate corporations use to avoid state corporate income taxes. Sixteen states have used combined reporting for at least two decades and seven more have adopted it since 2004.

The Governor's 2003 Blue Ribbon Tax Reform Commission recommended that New Mexico require combined reporting, and bills to implement it have been introduced repeatedly in recent years — most recently Senate Bill 90 / House Bill 62 on January 20, 2010.

Lobbyists for some New Mexico corporations claim that combined reporting will encourage companies to leave the state, due to increased tax liability and compliance burdens. However, 71 of the 78 multistate corporations examined in the Center report already comply with combined reporting in at least one other state or are a subsidiary of a corporation that has a facility in at least one combined reporting state.

Six of the companies have facilities in all 23 states with combined reporting. And 18 of the companies, including Boeing, Genzyme, Intel, Motorola, Target, and Wells Fargo, maintained their headquarters in combined reporting states.

"Cleary, complying with combined reporting would not be an unmanageable burden to New Mexico corporations, given that so many of them already do so in numerous other states," said Michael Mazerov, senior fellow with the Center's State Fiscal Project and author of the report. "Claims that combined reporting would drive corporations from New Mexico or discourage them from coming to the state ring hollow."

Evidence from other combined reporting states also indicates that the reform would not harm New Mexico's economy, according to the report. Seven of the eight states that experienced net growth in manufacturing jobs between 1990 and 2007 — Arizona, Idaho, Kansas, Montana, Nebraska, North Dakota and Utah — had combined reporting in effect.

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“More states across the nation are moving toward closing this corporate tax loophole, leaving New Mexico as the only state west of the Rockies that still allows multistate corporations to shelter their profits,” said Gerry Bradley, research director for New Mexico Voices for Children, an advocacy group that has recommended combined reporting over the last several years. “Claims that combined reporting would make New Mexico unattractive to large corporations are clearly not based on facts,” Bradley added.

“Combined reporting would level the playing field for New Mexico’s small businesses,” said Mazerov. “Right now, most small companies can’t take advantage of the corporate income tax loopholes that large multistate corporations exploit, leaving them at a disadvantage.”

Combined reporting would also help New Mexico maintain adequate resources for services key to economic growth, such as infrastructure, public safety, health care and higher education. To minimize the cuts in services needed to close the state’s budget shortfall, Governor Richardson has said he plans to negotiate new revenue measures with the state legislature to raise $200 million for the fiscal year that begins July 1. Although Richardson has said he will support only temporary tax increases, last fall he expressed openness toward combined reporting, which is intended to be a permanent change.

The official fiscal impact analysis estimates that enactment of SB 90/HB 62 would generate $4.8 million in new revenue in FY11 and $27.2 million in FY12, the first full year of implementation. Some legislators are likely to push for the inclusion of combined reporting in this year’s revenue package as an alternative to additional program cuts or proposed gross receipts tax increases that will burden low-income families.

The Center’s report, *Vast Majority of Large New Mexico Corporations Are Already Subject To ‘Combined Reporting’ in Other States*, is available at: http://www.cbpp.org/cms/index.cfm?fa=view&id=3056.

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