

“Total State and Local Business Taxes” by Robert Cline, Tom Newbig and Andrew Phillips, Ernst & Young LLP. Prepared in conjunction with the Council on State Taxation. March 2006

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This report by Ernst & Young and COST is about the extent to which businesses contribute to the finance of state and local governments. The report indicates that at the national level, businesses contributed \$497 billion to state and local tax collections in FY2005.

At the national level also, \$111.7 billion were collected in FY2005 through the purchases of inputs (pyramiding), which represent about 10% of the total contribution of businesses to state and local governments.

In nominal dollars, the contribution of businesses to the finance of state and local governments were about \$104 billion in FY1980 at the national level, and \$497 in FY2005, which is almost a five fold increase. In real dollars of 2005 however, the increase was only from \$251 to \$497 billion (two fold).

For New Mexico the report indicates that businesses contributed \$3.1 billion to state and local governments in FY2005; \$1.1 billion (35%) come from Gross Receipts Taxes on the purchase of business inputs (pyramiding), \$800 million from licenses, and \$500 million from property taxes.

According to the report, New Mexico businesses finance 53% of state and local governments. This contribution represents 6.3% of Gross State Product; there are only four states that show a higher percentage than New Mexico in this respect: Alaska (9.3% of GSP) North Dakota (6.6%), West Virginia (6.6%) and Washington DC (9.6%). The national average is 4.8%.

In terms of the type of tax, 36.6% of the contribution of New Mexico businesses to state and local governments came from the taxation of business inputs (pyramiding). Only Louisiana (43%) and Washington (45%) contribute more than New Mexico, through the purchase of business inputs. The national average is 22.5%. On the other hand, property taxes represent only 15.8% of the contribution of business to local and state finance in New Mexico. This percentage is lower only in the case of one state: Delaware (12.8%).

The report then confirms two statements that are frequently made about the tax system in New Mexico: 1) that pyramiding represents a significant portion of business contribution to fiscal finance, and 2) that property taxes are low.