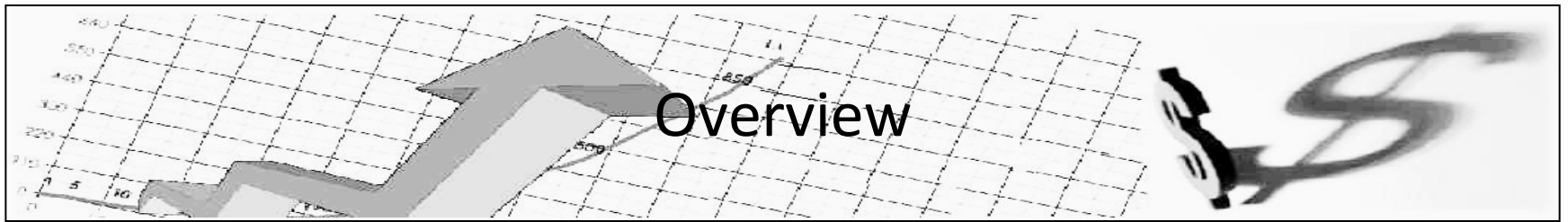


State and Local Revenue Impacts of the 2008 Federal Economic Stimulus Act

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“Economic Stimulus Act of 2008” has three main components: *

- Individual rebates:
 - \$600 per person plus \$300 per dependent child
- 50% Bonus depreciation:
 - An additional 50% of equipment cost may be deducted immediately thus lowering tax liability – depreciation deductions will be lower in later years (and tax liability higher)
- “Section 179” Expensing:
 - The cost of a limited amount of equipment may be deducted immediately rather than depreciated over time, reducing liability now with an offsetting increase later on

* A technical description of the Act provided by the staff of the Joint Committee on Taxation may be found on the web at <http://www.house.gov/jct/x-16-08.pdf>.



Outline of State Fiscal Impacts

	Individual Rebates	Bonus Depreciation	Expensing
Static Impacts	N/A	Negative Short Run Positive Long Run	Negative Short Run Positive Long Run
Dynamic Impacts: Demand Side	Positive	Positive	Positive
Dynamic Impacts: Supply Side	Not estimated	Not estimated	Not estimated

- “Static” impacts are due to New Mexico tax law “piggybacking” on the expensing and depreciation provisions but not on the individual rebates
- Both depreciation and expensing are “timing” impacts, i.e. they reduce tax in the short run but increase it later on
- “Dynamic” impacts result because Federal tax cuts are not immediately offset by spending cuts, thus they increase total income and spending – and tax revenue – in the state
- “Supply side” impacts -- which are positive -- are too uncertain to be estimated

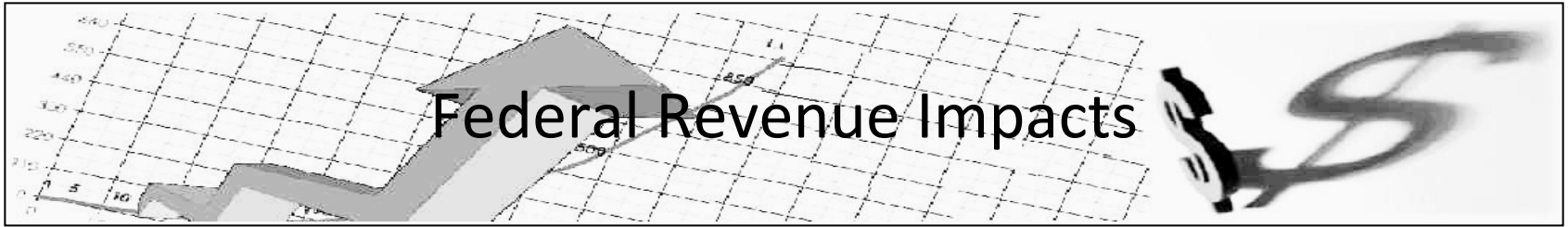


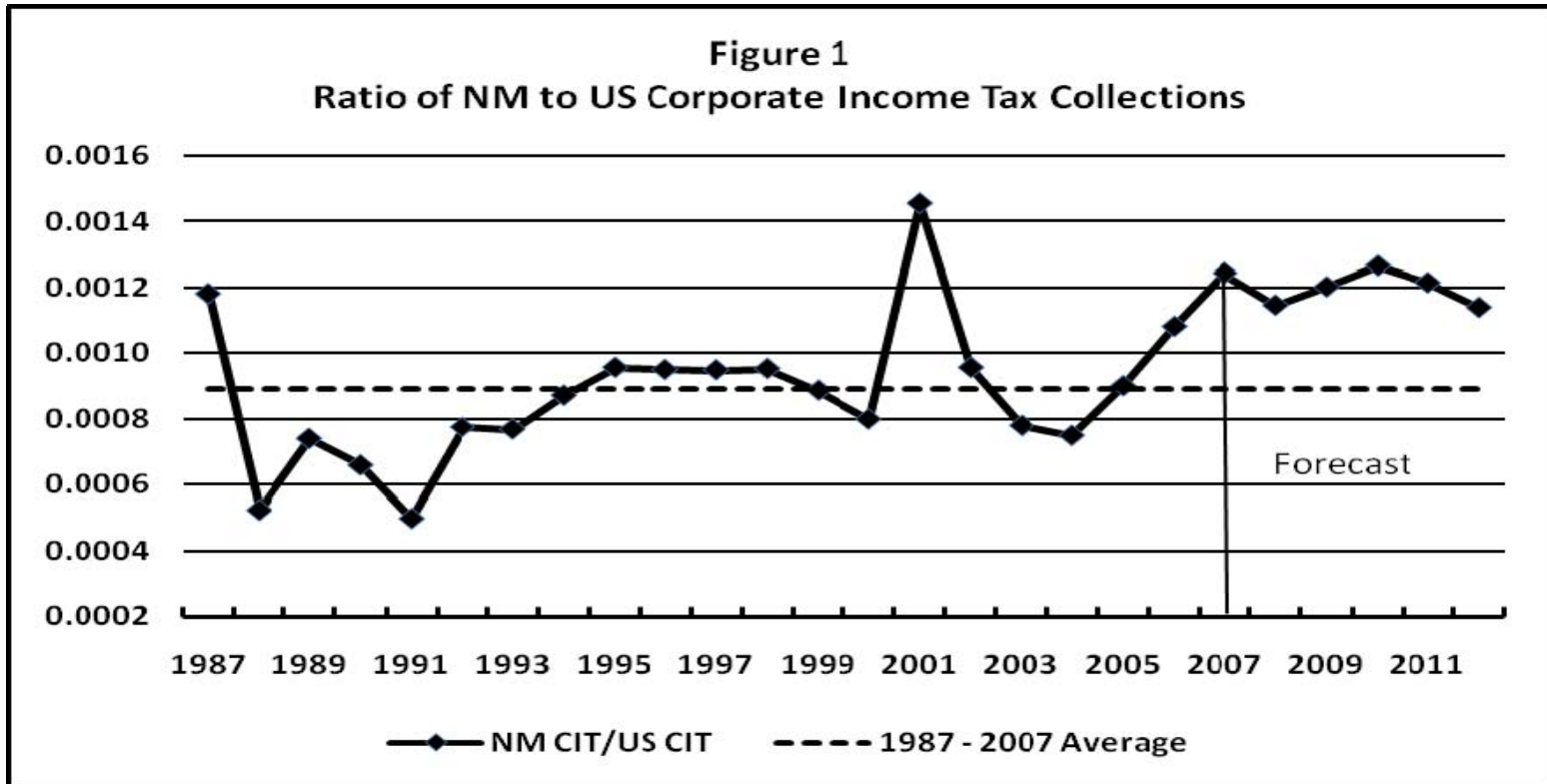
Table 1
Estimated Federal Budget Effects of Economic Stimulus Act
(Billion dollars by federal fiscal years)

Provision	2008	2009	2008-13
Recovery rebates for individuals	(106.7)	(10.0)	(116.)
Increase Section 179 expensing	(0.9)	(0.6)	(0.3)
50% Bonus Depreciation	(43.9)	(5.6)	(16.7))
Total	(151.7)	(16.3)	(134.0)

Source: “*Estimated Budget Effects of the Economic Stimulus Act of 2008*”, U.S. Congress, Joint Committee on Taxation, February 8, 2008, JCX-17-08.

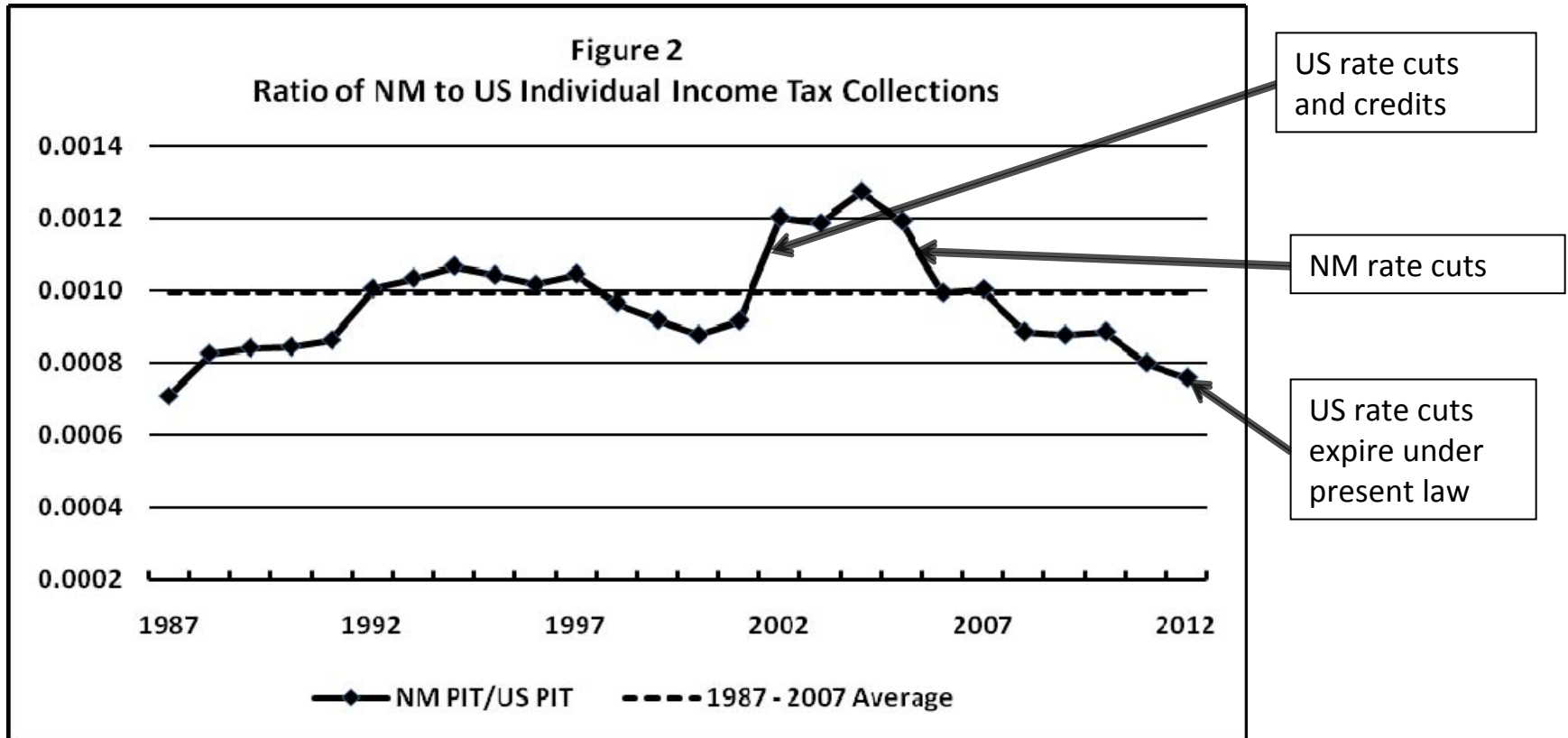
- Parentheses indicate decreased tax revenue.
- Rebates are currently being sent to a large portion of the taxpaying population – low-income and high income households are excluded
- Federal Fiscal Year 2008 ends September 30, 2008
- Static State revenue impacts can be estimated using Federal estimates and the ratio of State income tax collections to Federal collections

Static Effects: Bonus Depreciation for C-Corporations



- Estimated 80% of benefits go to “C-corporations”, rest to LLC’s, etc.
- NM/US CIT has increased to 0.0012 with high Oil and Gas revenue
- Depreciation benefits O&G more than average so NM ratio should increase by estimated 20% to 0.0014

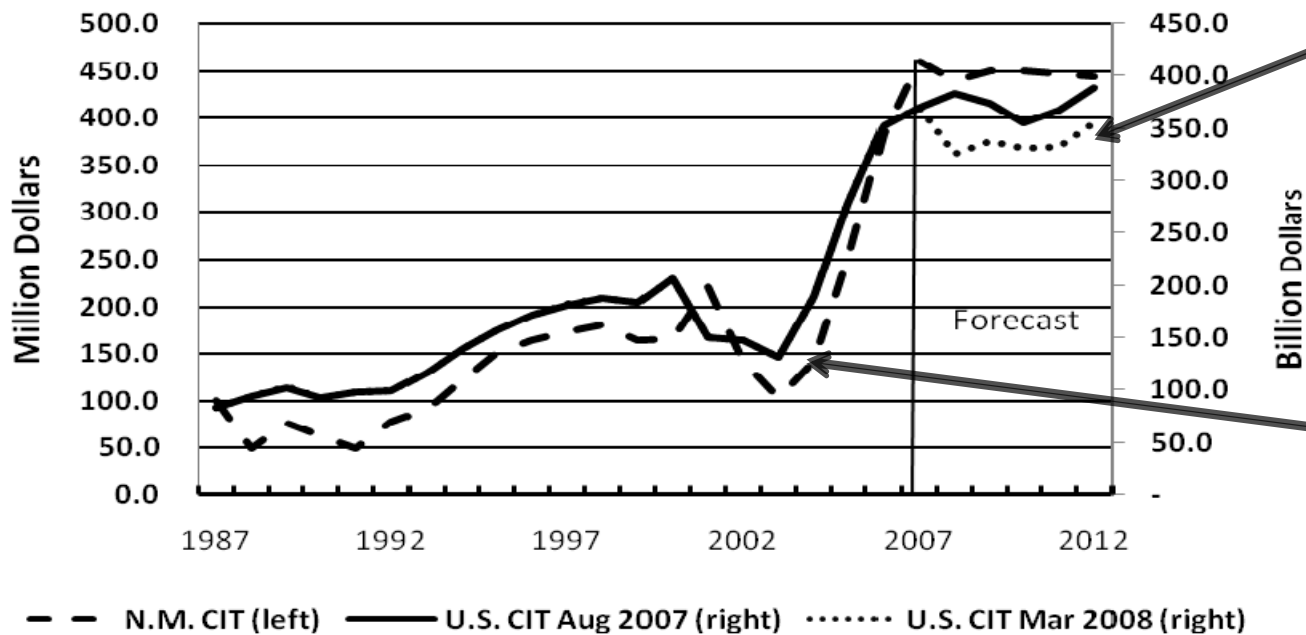
Static Effects: Bonus Depreciation for Individuals



- NM/US PIT expected to fall to 0.0008 due to rising US tax rates
- NM share of business income smaller than US, reduces ratio to estimated 0.0005

Static Effects: Timing of Depreciation Impacts

Figure 3
NM vs US Corporate Income Tax Collections



U.S. Forecast update with bonus depreciation and slower growth

Previous Bonus Depreciation Applied Sept. 2001 Through December 2004

- State payments are later than federal – payment due dates, return filing and NOL's
- NM CIT dropped later than US in 2001-2002 recession; N. Gas price caused uptick in 2001
- NMTRI estimates 35% of US effects will be delayed one year for NM



Static Effects of Bonus Depreciation

Table 2
Static Impacts of Bonus Depreciation on NM Revenues
(Million dollars, Parentheses indicate decreased tax revenue)

	FY 2008	FY 2009	FY 2008-2013
Total U.S. Tax Savings	(43,900)	(5,600)	(16,600)
(1) Corporate share	(35,120)	(4,480)	(13,280)
NM share of corporate total	(51)	(7)	(19)
NM Revenue impacts after timing adjustment	(33)	(22)	(22)
(2) Individual share	(8,780)	(1,120)	(3,320)
NM share of individual total	(4)	(1)	(2)
NM revenue impacts after timing adjustment	(3)	(2)	(2)
Total NM revenue impacts	(36)	(24)	(24)

- Initial negative impacts are partly offset in later years
- Almost all impacts are on the State General Fund

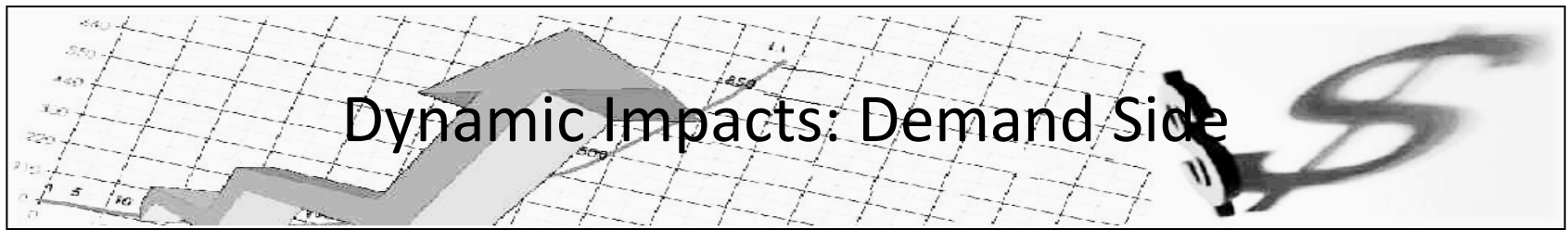


Static Impacts of Expensing and Depreciation

Table 3
Static Impacts of Bonus Depreciation and Expensing on NM Revenues
(Million dollars, Parentheses indicate decreased tax revenue)

	FY 2008	FY 2009	FY 2008-2013
Bonus Depreciation	(36)	(24)	(24)
Section 179 Expensing	(0.3)	(0.5)	(0.2)
Total NM revenue impacts	(36)	(24)	(24)

- Expensing impacts assumed to be all on Personal Income Tax
- Estimated by same methods as depreciation, i.e. NM share of US = 0.0005
- Almost all static impacts are on the State General Fund



Increased spending by households and businesses due to higher after-tax income increases business sales. Spending by these businesses leads to multiple rounds of increased income as long as there are unemployed resources in the economy.

- Estimates from past stimulus measures suggest about one-half of individual rebates are spent immediately, the rest saved or used to reduce debts.
- Business spending impacts are probably smaller, e.g. 25% spent.
- Magnitude of “multiplier effect” is HIGHLY uncertain. National studies suggests a value of 2.0 is appropriate for household spending: i.e. Total income change is 2.0 times the original change in spending. Lower multiplier (1.5) for business spending because more purchases go to out-of-state vendors.



Demand Side Impacts: Increased Household Spending

Table 4: Dynamic State & Local Tax Effects of increased Spending by NM Households

	FY 2008	FY 2009	FY 2008 – 2013
Federal Tax Savings Per Return<1>	\$802	\$802	\$802
Number of Returns <2>	378,000	378,000	756,000
Federal Tax Savings of NM Taxpayers	\$303 million	\$303 million	\$606 million
Increased Spending <3>	\$152 million	\$152 million	\$303 million
Increase NM Personal Income <4>	\$303 million	\$303 million	\$606 million
Increased State and Local Taxes <5>	\$26 million	\$26 million	\$52 million
Increased State General Fund Taxes <6>	\$22 million	\$22 million	\$43 million

<1> Estimates from Joint Committee on Taxation, JCX-18-2008

<2> NMTRI estimates of total NM returns and the share of all returns receiving benefits using JCT estimates.

<3> Assumes one-half of federal tax savings are spent by households.

<4> Multiplier of 2.0 applied to increased spending to generate total change in NM Personal Income.

<5> *“Relative Revenue Generation from New Mexico Taxes,”* Jim Nunns, Tax Policy Director, N.M. Taxation and Revenue Department, presented to the Interim Revenue Stabilization and Tax Policy Committee, Dec. 12, 2007.

<6> NMTRI estimate: General Fund taxes average 7.1% of total personal income.



Demand Side Impacts: Increased Business Spending

Table 5: State Tax Effects of Added Business Spending Due to Economic Stimulus

	FY 2008	FY 2009	FY 2008 – 2013
U.S. Total Federal Tax Savings	\$44.8 billion	\$6.2 billion	\$17 billion
Federal Tax Savings of NM Companies <1>	\$296 million	\$41 million	\$112 million
Increased Spending <2>	\$74 million	\$10 million	\$28 million
Increased NM Income <3>	\$111 million	\$15 million	\$42 million
Increased State & Local Taxes <4>	\$9 million	\$1 million	\$4 million
Increased State General Fund Taxes <5>	\$8 million	\$1 million	\$3 million

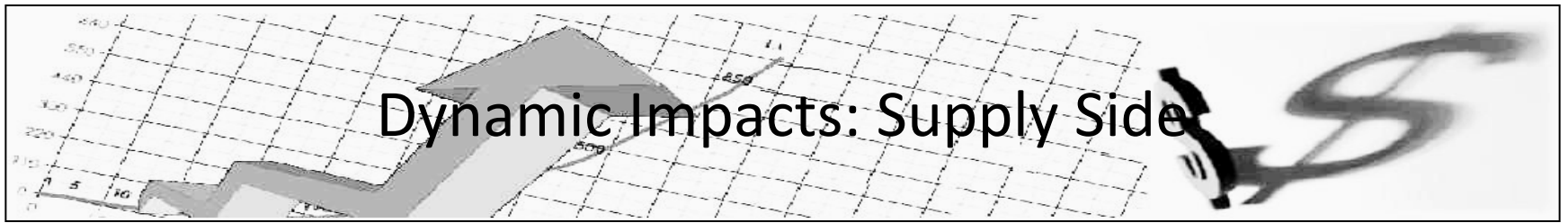
<1> NMTRI estimated ratio of Federal Taxable Income of NM Corporations to Total U.S. Corporations = 0.0066.

<2> Assumes 25% of federal tax savings are spent immediately.

<3> Multiplier of 1.5 applied to increased spending to generate total change in NM Personal Income.

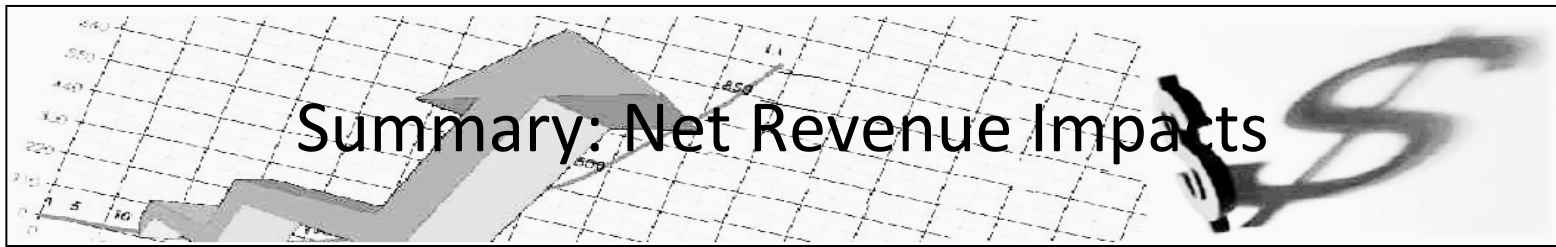
<4> State and local taxes average 8.5% of total NM Personal Income.

<5> State general Fund taxes average 7.1% of personal income.



“Supply side” impacts: Increased supply of labor and investment in response to increased after tax return on these activities

- MUCH harder to estimate than Demand side effects
- Probably limited due to temporary nature of tax relief – i.e. may just speed-up investment that would have happened anyway
- Federal estimates are mostly due to tax breaks for investment that would have occurred anyway
- Ignore Supply side estimates in this analysis; Understates likely benefits to State’s economy



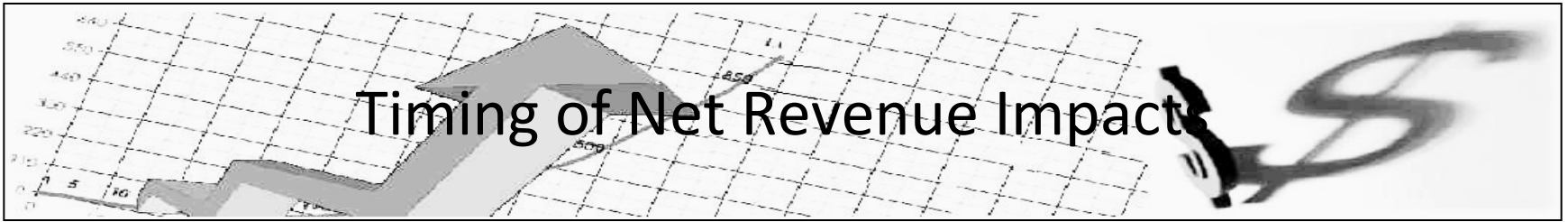
Summary: Net Revenue Impacts

Table 6

Total State and Local Revenue Impacts of Federal Stimulus Legislation:

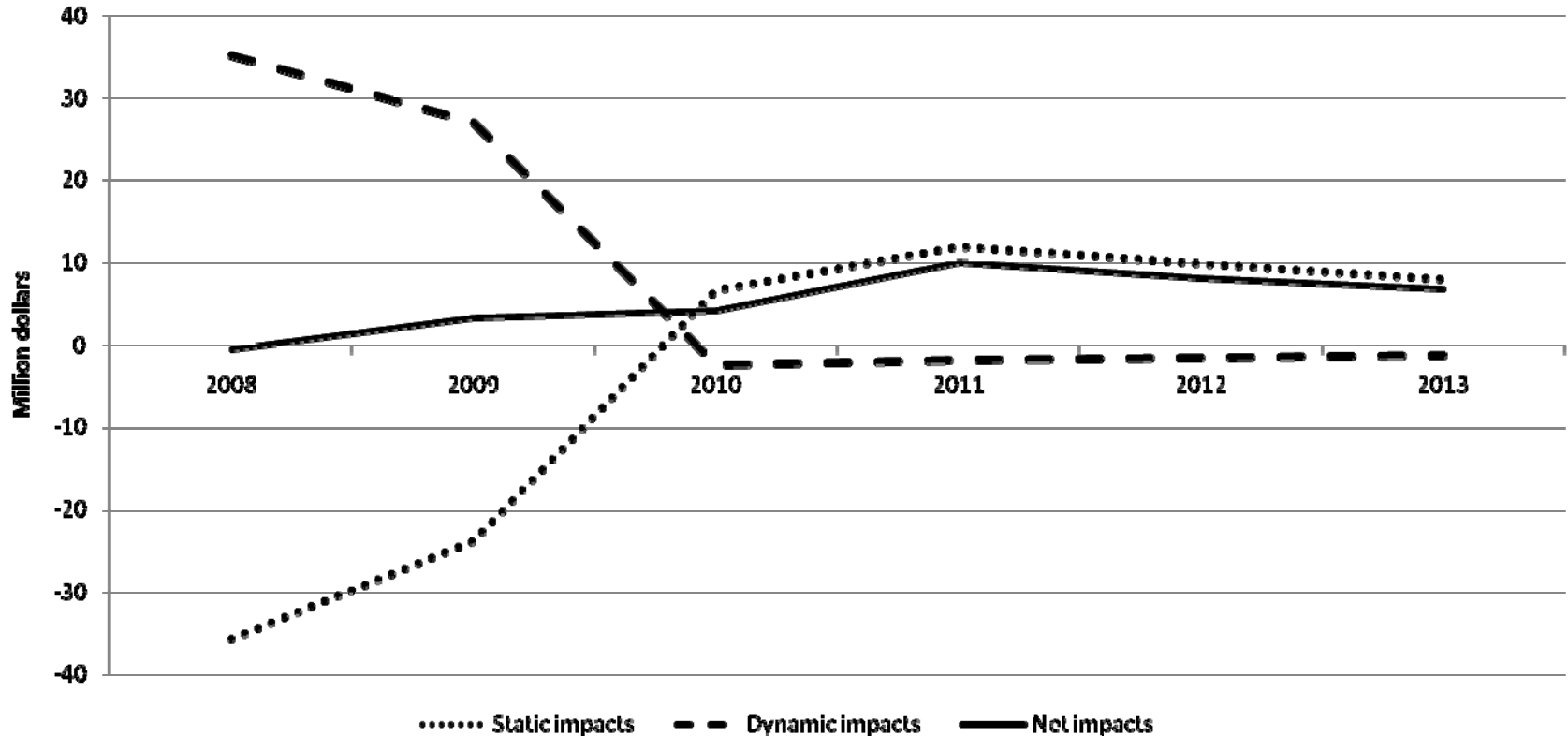
	FY 2008	FY 2009	FY 2008 – 2013
Static Revenue Impacts (All General Fund)	(\$36 million)	(\$24 million)	(\$24 Million)
Dynamic Revenue Impacts: All State & Local Taxes State General Fund	\$35 million \$30 million	\$27 million \$23 million	\$55 million \$46 million
Net State and Local Revenue impacts	(\$1 million)	\$3 million	\$32 million
Net State General Fund Impacts	(\$6 million)	(\$1 million)	\$23 million

- Dynamic revenue impacts will largely offset static impacts in the short run
- Net effects are positive after 2009

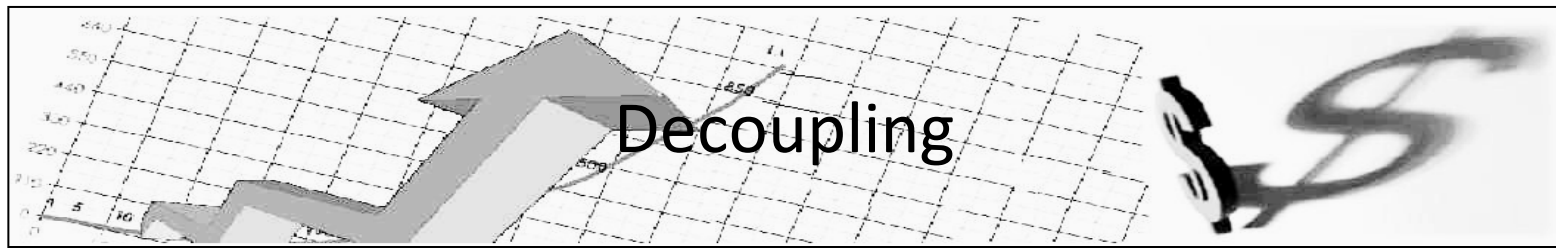


Timing of Net Revenue Impacts

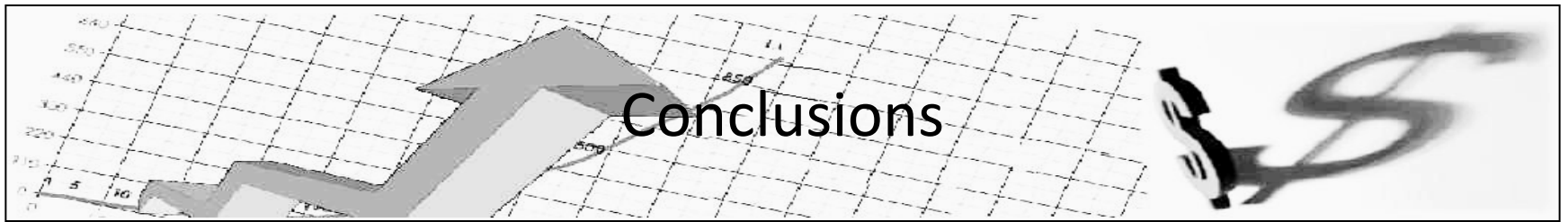
State & Local Revenue Impacts of 2008 Economic Stimulus Act



- 2008 – 2009 Static losses are offset by dynamic gains leaving minimal net revenue impacts
- Net revenues are positive after 2009 mostly due to static impacts



- De-coupling from depreciation and expensing provisions would eliminate the negative static impacts and would not substantially alter the positive dynamic impacts
- But, de-coupling would cause a substantial increase in complexity: Taxpayers would need separate depreciation schedules – applying only to equipment purchased during the specified period – for federal and New Mexico tax purposes; These schedules would have to be maintained for the entire useful life of the equipment
- Static revenue effects are **temporary**, i.e. de-coupling would **increase** revenue in the short run but **decrease** it in the long run
- De-coupling should be considered only in rare circumstances, and would not be appropriate in this case because of the temporary nature of the stimulus impacts



- Federal economic stimulus legislation will result in \$600 million of federal tax savings for NM residents and \$300 million for NM businesses this year.
- NM tax law “piggybacking” on federal provisions will reduce state revenues by about \$60 million over the next two years, revenue will increase thereafter.
- Reduced federal taxes will stimulate spending, leading to higher income and higher state and local taxes and offsetting the static impacts.
- Net State General Fund revenue changes will be minimal over the next year and positive thereafter.
- Although New Mexico has the option to “de-couple” from the federal tax cuts, the resulting increase in tax return complexity is not justified in this case because negative revenue impacts are only temporary.