

# **Pyramiding Transaction Taxes in New Mexico**

*A Discussion of Options  
for the Gross Receipts Tax*

before the

**New Mexico Legislature  
Revenue Stabilization and Tax Policy Committee**

from the



**Jim Eads**

President and Executive Director

**Manuel del Valle, Ph. D.**

Director of Research

October 30, 2005



*NMTRI: Working to Improve New Mexico's Tax and Fiscal Policies*

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## ABOUT THE NEW MEXICO TAX RESEARCH INSTITUTE

One of the principal reasons for the existence of the New Mexico Tax Research Institute can be succinctly stated in the following two quotes, both from opinions delivered by the Supreme Court of United States.

"The power to tax involves the power to destroy" - *McCulloch v. Maryland*, 17 U.S. 316 (1819), Chief Justice John Marshall.

"Taxes are what we pay for civilized society" *Campañía General de Tabacos v. Collector*, 275 U.S. 87, 100 (1927), Justice Oliver Wendell Holmes, dissenting.

The New Mexico Tax Research Institute is a nonprofit, nonpartisan, member-supported organization dedicated to providing fact based principled research and analysis to the tax policy debate in New Mexico. We do not advocate any agenda for or against taxation. We seek only to study, inform and educate the public and tax policy makers concerning the pressing issues of taxation facing our state. We believe that well-versed policymakers and an active, informed citizenry are essential for effective representative government. We are organized and operate as a corporation pursuant to § 501(c)3 of the Internal Revenue Code and welcome individuals, businesses and organizations as members.

The creation of the New Mexico Tax Research Institute was recommended by the participants in a New Mexico First Town Hall Meeting held in May, 2001. We officially came into being in October, 2002. We are supported through the generosity of our members and through the gracious support of the McCune Charitable Foundation. We do not accept public funds inasmuch as we want to be able to be as objective as possible in our analyses and publications. Our members understand this and believe that professional, objective collection of data, analysis of that data and juxtaposition of information with sound principles enables the best decisions regarding tax and fiscal policies for our state.

You can contact the New Mexico Tax Research Institute at 505-842-1222 or Jim Eads, President & Executive Director, directly at 505-228-7129 or [jimeads@nmtri.org](mailto:jimeads@nmtri.org) or Manuel del Valle, Research Director at 505-238-2086 or [mdelvalle@nmtri.org](mailto:mdelvalle@nmtri.org). Our Internet website address is [www.nmtri.org](http://www.nmtri.org). Our mailing address is P.O. Box 30483, Albuquerque, New Mexico 87190-0483.

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## The Principles of Taxation

The **New Mexico Tax Research Institute** has adopted the following principles regarding taxation in our State:

- State and local taxes should be adequate to provide an appropriate level of those goods and services best provided by the public sector, such as education, public safety, law enforcement, streets and highways, and the courts.
- State and local tax policy should do the least harm to the private economy. Therefore, tax bases should be as broad as possible so that tax rates can be as low as possible in order to raise the necessary revenues.
- State and local tax policy should be fair and equitable towards individuals and businesses similarly situated. Individuals with the same income level should be taxed the same. Businesses engaged in similar commercial activities should be subject to the same level of taxation.
- State and local tax policy should not be costly to administer and should be easily understood by taxpayers so as to minimize taxpayer compliance costs.
- The state and local tax burden should be evaluated on the basis of the impact of all taxes levied on a given taxpayer, not just a single tax or tax rate.
- Deviations from established tax policy in pursuit of economic development, social or other goals should be well-reasoned and pursued only when established tax policies are not significantly undermined and the results of such deviations can subsequently be measured and evaluated.

## **Background**

At your August meeting in Rio Rancho we presented a summary of our study on Pyramiding of the New Mexico Gross Receipts Tax. The New Mexico Tax Research Institute undertook the study to provide context so that the appropriate action by policy makers could be made with as much knowledge and analysis as possible. We did not make a recommendation as a result of the findings, but we do discuss options in this paper at the request of the Committee. Although the Institute has not yet actually examined other states' tax systems and made a detailed comparison of the extent of pyramiding occurring there, the relevant literature makes clear that pyramiding occurs in all transaction tax systems.

### Pyramiding Defined

Pyramiding of taxation in state transaction taxes, like the New Mexico Gross Receipts Tax (GRT), occurs when the tax is paid by successive sellers of products and services as those products and services are sold and the subsequent seller is subject to the tax on its sales (assuming no suspension mechanism exists allowing a deduction, exclusion or exemption on the successive sales). Economists have argued for years that, ideally, the GRT should be applied only to final consumption and not to business inputs. This ideal state of no taxation of business inputs is not achieved completely by any state's transaction taxes today. Intuitively it seems clear that a broad tax base, which is often a very desirable policy and which we have in New Mexico, will result in greater pyramiding of tax simply because more goods and services are subject to tax.

### The Pyramiding Debate

If pyramiding of the Gross Receipts Tax is perceived as a problem to be solved, more tax suspension mechanisms (exemptions, deductions or credits) become necessary. Pyramiding is seen as a problem not just by the economists who prefer a theoretically sound, adequate and efficient system, but also by businesses. Businesses perceive that the tax on their purchases--which is consumed by them even though they enable them to make subsequent taxable sales adds to their costs--makes them less competitive and causes them to lose business. The Legislature acknowledged the issue in the 2005 session in HB 410 and took what was admittedly a small step toward some amelioration of the impact of pyramiding.

## Pyramiding is an Issue for Economists and Businesses Because

1. It is a tax on purchases made to make taxable sales, therefore the statutorily mandated tax base and rate arguably becomes distorted for some sellers and purchasers.
2. Taxpayers are not treated equally. Sectors of the economy that make intensive use of inputs are taxed more than sectors that do not rely on similar inputs, or businesses that are more vertically integrated.
3. There is a loss of transparency. Although the ultimate consumers may not be aware of the cumulative embedded tax costs, they may pay for all of the accumulated taxes through an increased price or, alternatively, the seller might keep the price down by cutting back wages paid to employees or on other business inputs.
4. These three results lead to strong perception of complexity and unfairness as the tax is applied successively.

## A Service Economy Complicates Matters

Services are becoming a greater portion of the economy as compared with transactions involving tangible products. This trend creates issues in the efficient administration of the GRT system. Among these issues are:

1. Jurisdictional issues: The widespread use of information and communications technologies enable many services to be provided from anywhere and it becomes increasingly difficult to determine where the sale of a service takes place.
2. Difficulties in defining the inputs: In the service economy it is increasingly difficult to determine when a service becomes an input of another subsequent service.
3. Competitiveness problems: In a service economy, states compete not only with other states, but also with nations around the world. Investment today often depends on the quality and availability of the workforce, infrastructure to support business activities and lifestyle amenities. These things may be more important than the traditional need for access to natural resources or reducing the related tax bill.

One of the more recent comprehensive surveys of the states regarding the taxation of services was done by the Federation of Tax Administrators in 2004 and published in their newsletter in May of this year. The chart on the next page summarizes the taxation of services for all of the states with transaction taxes. Thus, in New Mexico about 156 services are subject to transaction taxes, out of a total of 168 services in the economy. On the other extreme, the state of New Hampshire only charges transaction taxes on 11 services of the 168, mostly utility services; neighboring state of Colorado only 14, Texas 81 and Arizona 58. As the chart shows, only a handful of states charge transaction taxes to the provision of professional services: Delaware, Hawaii, New Mexico, South Dakota and Washington.

Number of services subject to transaction taxes,  
by type of service and by state

| States            | Utilities | Personal Services | Business Services | Computer Services | Admission Amusemen | Professiona l Services | Fabrication, Repair& Installation | Other Services | Total |
|-------------------|-----------|-------------------|-------------------|-------------------|--------------------|------------------------|-----------------------------------|----------------|-------|
| Alabama           | 12        | 2                 | 6                 | 3                 | 10                 | 0                      | 1                                 | 3              | 37    |
| Alaska/1          | 0         | 0                 | 0                 | 0                 | 0                  | 0                      | 0                                 | 1              | 1     |
| Arizona           | 12        | 2                 | 5                 | 1                 | 11                 | 0                      | 2                                 | 25             | 58    |
| Arkansas          | 16        | 7                 | 12                | 1                 | 12                 | 0                      | 11                                | 13             | 72    |
| California        | 4         | 2                 | 7                 | 2                 | 1                  | 0                      | 3                                 | 4              | 23    |
| Colorado/1        | 4         | 0                 | 2                 | 1                 | 2                  | 0                      | 3                                 | 2              | 14    |
| Connecticut       | 10        | 9                 | 20                | 6                 | 10                 | 0                      | 11                                | 14             | 80    |
| Delaware/2        | 9         | 20                | 33                | 6                 | 10                 | 9                      | 19                                | 37             | 143   |
| Dist. Of Columbia | 12        | 8                 | 11                | 8                 | 7                  | 0                      | 13                                | 11             | 70    |
| Florida/1         | 7         | 4                 | 8                 | 2                 | 13                 | 0                      | 16                                | 14             | 64    |
| Georgia           | 10        | 4                 | 5                 | 2                 | 8                  | 0                      | 1                                 | 6              | 36    |
| Hawaii            | 16        | 20                | 34                | 8                 | 14                 | 9                      | 18                                | 41             | 160   |
| Idaho             | 0         | 3                 | 5                 | 0                 | 11                 | 0                      | 6                                 | 5              | 30    |
| Illinois          | 12        | 1                 | 1                 | 1                 | 0                  | 0                      | 1                                 | 1              | 17    |
| Indiana           | 7         | 4                 | 3                 | 2                 | 3                  | 0                      | 0                                 | 4              | 23    |
| Iowa              | 13        | 15                | 18                | 1                 | 13                 | 0                      | 14                                | 20             | 94    |
| Kansas            | 7         | 10                | 9                 | 1                 | 13                 | 0                      | 16                                | 15             | 71    |
| Kentucky          | 11        | 2                 | 4                 | 2                 | 6                  | 0                      | 3                                 | 1              | 29    |
| Louisiana         | 10        | 8                 | 5                 | 3                 | 9                  | 0                      | 13                                | 7              | 55    |
| Maine             | 9         | 1                 | 6                 | 0                 | 2                  | 0                      | 4                                 | 2              | 24    |
| Maryland          | 5         | 3                 | 13                | 1                 | 11                 | 0                      | 4                                 | 2              | 39    |
| Massachusetts     | 9         | 1                 | 4                 | 0                 | 1                  | 0                      | 2                                 | 2              | 19    |
| Michigan          | 12        | 2                 | 7                 | 1                 | 1                  | 0                      | 1                                 | 2              | 26    |
| Minnesota         | 15        | 7                 | 12                | 2                 | 14                 | 0                      | 6                                 | 11             | 67    |
| Mississippi       | 10        | 5                 | 8                 | 3                 | 11                 | 0                      | 14                                | 23             | 74    |
| Missouri          | 8         | 1                 | 2                 | 2                 | 11                 | 0                      | 0                                 | 4              | 28    |
| Montana           | 12        | 0                 | 0                 | 0                 | 3                  | 0                      | 0                                 | 4              | 19    |
| Nebraska          | 14        | 8                 | 15                | 3                 | 12                 | 0                      | 13                                | 11             | 76    |
| Nevada            | 0         | 1                 | 3                 | 0                 | 7                  | 0                      | 1                                 | 3              | 15    |
| New Hampshire     | 6         | 1                 | 0                 | 2                 | 0                  | 0                      | 0                                 | 2              | 11    |
| New Jersey        | 10        | 2                 | 10                | 0                 | 6                  | 0                      | 14                                | 13             | 55    |
| New Mexico        | 16        | 20                | 32                | 8                 | 14                 | 9                      | 18                                | 39             | 156   |
| New York          | 4         | 4                 | 13                | 1                 | 5                  | 0                      | 14                                | 15             | 56    |
| North Carolina    | 10        | 5                 | 5                 | 0                 | 8                  | 0                      | 1                                 | 1              | 30    |
| North Dakota      | 6         | 1                 | 4                 | 2                 | 11                 | 0                      | 1                                 | 2              | 27    |
| Ohio              | 8         | 12                | 14                | 5                 | 3                  | 0                      | 12                                | 14             | 68    |
| Oklahoma          | 8         | 3                 | 4                 | 2                 | 10                 | 0                      | 0                                 | 5              | 32    |
| Oregon            | 0         | 0                 | 0                 | 0                 | 0                  | 0                      | 0                                 | 0              | 0     |
| Pennsylvania      | 9         | 6                 | 16                | 1                 | 1                  | 0                      | 14                                | 8              | 55    |
| Rhode Island      | 10        | 1                 | 6                 | 3                 | 4                  | 0                      | 3                                 | 2              | 29    |
| South Carolina    | 4         | 6                 | 6                 | 4                 | 10                 | 0                      | 1                                 | 3              | 34    |
| South Dakota      | 14        | 19                | 28                | 8                 | 13                 | 5                      | 18                                | 41             | 146   |
| Tennessee         | 11        | 10                | 7                 | 3                 | 12                 | 0                      | 13                                | 11             | 67    |
| Texas             | 12        | 10                | 14                | 8                 | 12                 | 1                      | 11                                | 13             | 81    |
| Utah              | 7         | 8                 | 6                 | 0                 | 10                 | 0                      | 15                                | 11             | 57    |
| Vermont           | 6         | 2                 | 5                 | 2                 | 11                 | 0                      | 2                                 | 1              | 29    |
| Virginia          | 1         | 3                 | 4                 | 0                 | 1                  | 0                      | 4                                 | 5              | 18    |
| Washington/2      | 16        | 20                | 33                | 8                 | 12                 | 9                      | 16                                | 43             | 157   |
| West Virginia/1   | 10        | 17                | 26                | 4                 | 13                 | 1                      | 13                                | 26             | 110   |
| Wisconsin         | 11        | 11                | 7                 | 3                 | 14                 | 0                      | 14                                | 14             | 74    |
| Wyoming           | 10        | 6                 | 7                 | 3                 | 7                  | 0                      | 16                                | 13             | 62    |
| Total             | 16        | 20                | 34                | 8                 | 15                 | 9                      | 19                                | 47             | 168   |

Source: Federation of Tax Administrators, Sales Taxation of Services, 2004.

/1 1996 data. /2 Includes the business license tax in Delaware and the business occupation tax in Washington.

## Business Sector Analysis of Pyramiding

As noted above, unless a state's transaction tax system exempts all business inputs or has a comprehensive system of exclusions, deductions and exemptions, pyramiding will occur. Pyramiding is not unique to New Mexico. Any state that imposes a sales-type tax will create a certain amount of Pyramiding. Hawaii, for example, has a similar tax system as New Mexico but, according to the COST study, does not pyramid as much. On the other hand, the same study reports that Louisiana, which imposes a more standard transaction tax, pyramids more than New Mexico.

A study to be published in the *Journal of Multistate Taxation and Incentives* in January, 2006, by Brian Wood of KPMG in Atlanta, will say that "The jurisdictions that offer the most pro-business sales and use tax climates for manufacturers feature a combination of narrow tax bases and low tax rates." It should be noted that one of the principles adopted by the New Mexico Tax Research Institute states that "*State and local tax policy should do the least harm to the private economy. Therefore, tax bases should be as broad as possible so that tax rates can be as low as possible in order to raise the necessary revenues.*" Thus we do not necessarily agree with the argument that suggests narrow tax bases. The study goes on to say that "the following jurisdictions (all ranking near the bottom of the list) do not currently provide sales and use tax exemptions or rate reductions for manufacturing machinery and equipment: California, District of Columbia, Nebraska, Nevada, New Mexico and South Dakota." It should be noted, and it has been pointed out to the author, that such a categorization fails to recognize the favorable tax treatment afforded some businesses through New Mexico's IRB programs and the tax credits that are available. The article proclaims Virginia as the most sales tax friendly state for manufacturers and Louisiana as the worst.

Our study presented the following Table A indicating the degree of relief currently enjoyed by various economic sectors. The new column on the far right indicates the ranking of economic sectors with the greatest lack of relief from pyramiding, with "1" being the heaviest currently unrelieved pyramiding. We have prepared a new Table B arrayed by the "rankings" column.

In addition, two new tables have been prepared to illustrate the issues created by the taxation of business services and by the manufacturing sector in particular. They appear on the following pages.

Table A

| Economic Sectors          | Value of Business Purchases (1) | Potential Tax from All Business Purchases (2) | Pyramiding Relief Under Current Law (3) | Tax Collected from Pyramiding (4=2-3) | Percentage of Pyramiding "Solved" by Current GRT Law (5=3/2) | Rank by Lack of Pyramiding Relief |
|---------------------------|---------------------------------|---|---|---------------------------------------|--|-----------------------------------|
| Agriculture               | \$1,118.8                       | \$67.1  | \$45.0                                  | \$22.1                                | 67.0%  | 15                                |
| Mining                    | \$2,557.5                       | \$153.5                                       | \$9.1                                   | \$144.4                               | 5.9%   | 4                                 |
| Utilities                 | \$445.0                         | \$26.7  | \$0.5                                   | \$26.2                                | 1.9%   | 2                                 |
| Construction              | \$1,621.8                       | \$97.3  | \$71.6                                  | \$25.7                                | 73.6%  | 16                                |
| Manufacturing             | \$5,307.0                       | \$318.4                                       | \$149.2                                 | \$169.2                               | 46.9%  | 11                                |
| Wholesale                 | \$536.0                         | \$32.2  | \$2.1                                   | \$30.2                                | 6.5%   | 5                                 |
| Retail                    | \$1,303.0                       | \$78.2  | \$1.9                                   | \$76.2                                | 2.4%   | 3                                 |
| Transportation            | \$990.0                         | \$59.4  | \$11.7                                  | \$47.7                                | 19.7%  | 6                                 |
| Information               | \$686.7                         | \$41.2  | \$16.9                                  | \$24.3                                | 41.0%  | 10                                |
| Finance                   | \$881.4                         | \$52.9  | \$26.7                                  | \$26.2                                | 50.5%  | 12                                |
| Real Estate               | \$761.0                         | \$45.7  | \$12.6                                  | \$33.1                                | 27.6%  | 8                                 |
| Professional, Mgmt, Admin | \$1,073.3                       | \$64.4  | \$1.0                                   | \$63.4                                | 1.6%   | 1                                 |
| Education                 | \$90.4                          | \$5.4   | \$4.4                                   | \$1.0                                 | 81.1%  | 17                                |
| Health                    | \$1,294.0                       | \$77.6  | \$51.0                                  | \$26.6                                | 65.7%  | 14                                |
| Arts                      | \$124.0                         | \$7.4   | \$2.0                                   | \$5.4                                 | 26.9%  | 7                                 |
| Accom and Hotels          | \$545.0                         | \$32.7  | \$13.0                                  | \$19.7                                | 39.8%  | 9                                 |
| Other Services            | \$254.0                         | \$15.2  | \$8.0                                   | \$7.2                                 | 52.5%  | 13                                |
| <b>Total</b>              | <b>\$19,588.9</b>               | <b>\$1,175.3</b>                              | <b>\$426.7</b>                          | <b>\$748.6</b>                        | <b>36.3%</b>   |                                   |

Table B

| Economic Sectors          | Value of Business Purchases (1) | Potential Tax from All Business Purchases (2) | Pyramiding Relief Under Current Law (3) | Tax Collected from Pyramiding (4=2-3) | Percentage of Pyramiding "Solved" by Current GRT Law (5=3/2) | Rank by Lack of Pyramiding Relief |
|---------------------------|---------------------------------|---|---|---------------------------------------|--|-----------------------------------|
| Professional, Mgmt, Admin | \$1,073.3                       | \$64.4  | \$1.0                                   | \$63.4                                | 1.6%   | 1                                 |
| Utilities                 | \$445.0                         | \$26.7  | \$0.5                                   | \$26.2                                | 1.9%   | 2                                 |
| Retail                    | \$1,303.0                       | \$78.2  | \$1.9                                   | \$76.2                                | 2.4%   | 3                                 |
| Mining                    | \$2,557.5                       | \$153.5                                       | \$9.1                                   | \$144.4                               | 5.9%   | 4                                 |
| Wholesale                 | \$536.0                         | \$32.2  | \$2.1                                   | \$30.2                                | 6.5%   | 5                                 |
| Transportation            | \$990.0                         | \$59.4  | \$11.7                                  | \$47.7                                | 19.7%  | 6                                 |
| Arts                      | \$124.0                         | \$7.4   | \$2.0                                   | \$5.4                                 | 26.9%  | 7                                 |
| Real Estate               | \$761.0                         | \$45.7  | \$12.6                                  | \$33.1                                | 27.6%  | 8                                 |
| Accom and Hotels          | \$545.0                         | \$32.7  | \$13.0                                  | \$19.7                                | 39.8%  | 9                                 |
| Information               | \$686.7                         | \$41.2  | \$16.9                                  | \$24.3                                | 41.0%  | 10                                |
| Manufacturing             | \$5,307.0                       | \$318.4                                       | \$149.2                                 | \$169.2                               | 46.9%  | 11                                |
| Finance                   | \$881.4                         | \$52.9  | \$26.7                                  | \$26.2                                | 50.5%  | 12                                |
| Other Services            | \$254.0                         | \$15.2  | \$8.0                                   | \$7.2                                 | 52.5%  | 13                                |
| Health                    | \$1,294.0                       | \$77.6  | \$51.0                                  | \$26.6                                | 65.7%  | 14                                |
| Agriculture               | \$1,118.8                       | \$67.1  | \$45.0                                  | \$22.1                                | 67.0%  | 15                                |
| Construction              | \$1,621.8                       | \$97.3  | \$71.6                                  | \$25.7                                | 73.6%  | 16                                |
| Education                 | \$90.4                          | \$5.4   | \$4.4                                   | \$1.0                                 | 81.1%  | 17                                |
| <b>Total</b>              | <b>\$19,588.9</b>               | <b>\$1,175.3</b>                              | <b>\$426.7</b>                          | <b>\$748.6</b>                        | <b>36.3%</b>   |                                   |

**Table C. Purchase of services by sector in New Mexico**

11 21 22 23 31-33 42 48-49 44-45 51 52 53 54 55 56 61 62 71 72 81 92

| Type Codes.Description                  | Ag Forestry-Fish & Hunting | Mining | Utilities | Construction | Manufacturing | Wholesale Trade | Transportation & Warehousing | Retail trade | Information | Finance & insurance | Real estate & rental | Professional-svcs | Management of companies | Administrative | Education | Health & social services | Arts-entertainment | Accommodation & food services | Other services | Government & non NAICs |
|---|----------------------------|--------|-----------|--------------|---------------|-----------------|------------------------------|--------------|-------------|---------------------|----------------------|-------------------|-------------------------|----------------|-----------|--------------------------|--------------------|-------------------------------|----------------|------------------------|
| 51 Information                          | 5.7                        | 12.5   | 3.3       | 54.9         | 54.0          | 28.4            | 29.9                         | 66.3         | 225.9       | 32.1                | 21.3                 | 51.8              | 14.3                    | 24.7           | 5.6       | 76.3                     | 6.3                | 29.6                          | 42.2           | 9.9                    |
| 52 Finance & insurance                  | 27.7                       | 47.0   | 7.7       | 67.7         | 71.8          | 25.8            | 44.8                         | 74.3         | 17.8        | 542.7               | 50.3                 | 22.9              | 0.7                     | 17.3           | 3.0       | 101.4                    | 6.1                | 33.9                          | 24.3           | 141.8                  |
| 53 Real estate & rental                 | 79.8                       | 374.2  | 4.5       | 73.0         | 126.2         | 47.0            | 60.4                         | 204.4        | 53.1        | 71.9                | 111.0                | 68.7              | 15.5                    | 36.8           | 19.7      | 265.8                    | 17.9               | 120.7                         | 109.3          | 59.7                   |
| 54 Professional- scientific & tech svcs | 21.5                       | 70.2   | 20.9      | 279.9        | 177.1         | 91.0            | 84.6                         | 246.1        | 105.2       | 117.0               | 75.2                 | 129.2             | 43.9                    | 55.0           | 6.0       | 179.2                    | 19.0               | 67.7                          | 69.6           | 72.7                   |
| 55 Management of companies              | 0.3                        | 81.2   | 0.3       | 3.7          | 96.9          | 24.8            | 7.7                          | 122.5        | 4.2         | 12.1                | 1.9                  | 3.5               | 0.0                     | 13.7           | 0.2       | 29.9                     | 2.0                | 4.3                           | 12.6           | 0.1                    |
| 56 Administrative & waste services      | 4.5                        | 12.9   | 6.9       | 76.8         | 53.1          | 72.7            | 94.9                         | 135.9        | 31.4        | 38.1                | 123.1                | 108.5             | 0.6                     | 87.3           | 7.9       | 262.2                    | 13.1               | 34.2                          | 74.1           | 49.4                   |
| 61 Educational svcs                     | 0.0                        | 1.5    | 2.7       | 1.4          | 4.7           | 5.3             | 2.5                          | 7.7          | 2.8         | 4.6                 | 1.6                  | 3.3               | 0.0                     | 5.1            | 22.2      | 10.5                     | 6.2                | 1.1                           | 18.3           | 1.5                    |
| 62 Health & social services             | 0.0                        | 0.0    | 0.0       | 0.0          | 0.0           | 0.0             | 0.2                          | 0.0          | 0.0         | 0.0                 | 0.0                  | 0.3               | 0.0                     | 0.1            | 0.1       | 27.0                     | 0.1                | 0.0                           | 0.1            | 0.0                    |
| 71 Arts- entertainment & recreation     | 1.7                        | 30.0   | 0.3       | 2.6          | 5.5           | 2.3             | 0.7                          | 4.0          | 18.4        | 3.7                 | 2.3                  | 7.5               | 0.1                     | 2.7            | 0.5       | 5.0                      | 28.7               | 10.9                          | 4.9            | 0.3                    |
| 72 Accommodation & food services        | 1.7                        | 6.4    | 5.4       | 10.1         | 36.9          | 12.8            | 27.9                         | 30.8         | 7.5         | 29.3                | 16.8                 | 30.7              | 0.1                     | 16.6           | 1.0       | 82.4                     | 1.6                | 21.9                          | 16.6           | 1.5                    |
| 81 Other services                       | 31.3                       | 7.6    | 2.2       | 110.4        | 203.8         | 30.4            | 77.5                         | 58.0         | 30.7        | 14.8                | 24.0                 | 24.7              | 11.4                    | 42.0           | 3.1       | 69.9                     | 8.2                | 35.6                          | 44.7           | 46.3                   |
| 92 Government & non NAICs               | 15.7                       | 46.8   | 4.1       | 25.8         | 131.0         | 26.8            | 66.7                         | 45.4         | 36.5        | 54.8                | 48.2                 | 18.5              | 3.4                     | 11.8           | 1.7       | 39.5                     | 3.9                | 33.5                          | 25.5           | 19.5                   |

Table C can be a good guide to identify “pyramiding” sources from services in New Mexico. Business in New Mexico claim that services are the main source of pyramiding.

Table C shows 20 sectors as columns and 12 services as rows. The cells are dollar amounts (millions) spent in the purchase of different services. The columns are the economic sectors that demand the services and the rows are the different types of services that are sold to the demandants. Thus, in the Mining sector for example \$12.5 million are spent on Information Services and the Utilities sector purchases about \$20.9 million in Professional and Technical Services. The larger dollar amounts are highlighted in yellow to indicate the greatest levels of pyramiding, showing for example that Mining purchases \$374.2 million in Real Estate & Rental Services. The Finance and Insurance sector purchases a significant amount of services from the same sector, Finance and Insurance, in the amount of \$542.7 million.

**Table D. The disaggregated manufacturing sector and the purchase of services**

|  | 311           | 312                | 313           | 314              | 315         | 316              | 321           | 322                 | 323                | 324                   | 325                    | 326                    | 327                   | 331               | 332                   | 333           | 334                          | 335                          | 336                  | 337                      | 339               |
|--|---------------|--------------------|---------------|------------------|-------------|------------------|---------------|---------------------|--------------------|-----------------------|------------------------|------------------------|-----------------------|-------------------|-----------------------|---------------|------------------------------|------------------------------|----------------------|--------------------------|-------------------|
| Type Codes.Description                     | Food products | Beverage & Tobacco | Textile Mills | Textile Products | Apparel Mfg | Leather & Allied | Wood Products | Paper Manufacturing | Printing & Related | Petroleum & coal prod | Chemical Manufacturing | Plastics & rubber prod | Nonmetal mineral prod | Primary metal mfg | Fabricated metal prod | Machinery Mfg | Computer & other electronics | Electrical eqpt & appliances | Transportation eqpmt | Furniture & related prod | Miscellaneous mfg |
| 511 Publishing industries                  | 0.72          | 0.09               | 0.01          | 0.01             | 0.03        | 0.01             | 0.07          | 0.06                | 0.21               | 0.54                  | 0.20                   | 0.14                   | 0.16                  | 0.20              | 0.26                  | 0.14          | 2.78                         | 0.09                         | 0.27                 | 0.08                     | 0.60              |
| 512 Motion picture & sound recording       | 0.42          | 0.14               | 0.00          | 0.00             | 0.01        | 0.00             | 0.00          | 0.01                | 0.01               | 0.06                  | 0.10                   | 0.02                   | 0.00                  | 0.00              | 0.04                  | 0.01          | 0.11                         | 0.02                         | 0.04                 | 0.04                     | 0.20              |
| 515 Broadcasting                           | 3.77          | 0.30               | 0.04          | 0.05             | 0.15        | 0.03             | 0.42          | 0.34                | 0.87               | 1.66                  | 0.67                   | 0.89                   | 1.11                  | 0.82              | 1.78                  | 1.38          | 4.28                         | 0.41                         | 1.72                 | 0.47                     | 4.22              |
| 518 Internet & data process svcs           | 0.79          | 0.05               | 0.02          | 0.01             | 0.03        | 0.01             | 0.08          | 0.08                | 0.12               | 0.17                  | 0.13                   | 0.13                   | 0.20                  | 0.22              | 0.28                  | 0.18          | 0.67                         | 0.08                         | 0.27                 | 0.08                     | 0.54              |
| 521 Monetary authorities                   | 6.45          | 0.57               | 0.07          | 0.07             | 0.29        | 0.04             | 0.71          | 0.69                | 0.77               | 4.76                  | 0.78                   | 1.28                   | 1.55                  | 1.91              | 2.13                  | 0.95          | 3.41                         | 0.45                         | 1.60                 | 0.52                     | 2.63              |
| 522 Credit intermediation & related        | 3.64          | 0.30               | 0.04          | 0.04             | 0.17        | 0.02             | 0.40          | 0.41                | 0.59               | 2.37                  | 0.46                   | 0.77                   | 1.00                  | 1.06              | 1.46                  | 0.56          | 1.89                         | 0.27                         | 0.86                 | 0.35                     | 1.58              |
| 523 Securities & other financial           | 1.40          | 0.16               | 0.01          | 0.02             | 0.05        | 0.01             | 0.16          | 0.13                | 0.13               | 1.37                  | 0.16                   | 0.27                   | 0.44                  | 0.66              | 0.71                  | 0.34          | 1.28                         | 0.18                         | 0.62                 | 0.17                     | 0.94              |
| 524 Insurance carriers & related           | 3.43          | 0.14               | 0.01          | 0.01             | 0.05        | 0.01             | 0.15          | 0.14                | 0.15               | 0.56                  | 0.10                   | 0.23                   | 0.39                  | 0.39              | 0.35                  | 0.16          | 0.47                         | 0.07                         | 0.23                 | 0.12                     | 0.56              |
| 531 Real estate                            | 2.78          | 0.17               | 0.05          | 0.07             | 0.32        | 0.03             | 0.35          | 0.48                | 1.36               | 0.89                  | 0.30                   | 1.41                   | 1.23                  | 0.45              | 2.80                  | 0.79          | 3.14                         | 0.33                         | 0.51                 | 0.78                     | 3.36              |
| 532 Rental & leasing svcs                  | 5.47          | 0.29               | 0.06          | 0.08             | 0.27        | 0.04             | 0.48          | 0.64                | 1.68               | 1.60                  | 0.71                   | 1.39                   | 2.23                  | 1.38              | 3.48                  | 0.95          | 2.32                         | 0.46                         | 0.81                 | 0.76                     | 2.89              |
| 533 Lessor of nonfinance intang assets     | 1.96          | 0.88               | 0.01          | 0.00             | 0.04        | 0.01             | 0.07          | 0.02                | 0.04               | 1.65                  | 0.77                   | 0.12                   | 0.15                  | 0.17              | 0.16                  | 0.23          | 2.44                         | 0.04                         | 0.55                 | 0.04                     | 0.35              |
| 541 Professional- scientific & tech svcs   | 25.24         | 3.25               | 0.23          | 0.24             | 0.98        | 0.25             | 2.20          | 1.76                | 3.77               | 19.36                 | 6.95                   | 4.96                   | 5.62                  | 5.74              | 9.03                  | 4.85          | 25.92                        | 3.09                         | 9.51                 | 2.97                     | 20.59             |
| 551 Management of companies                | 18.86         | 3.00               | 0.19          | 0.16             | 0.72        | 0.14             | 0.74          | 2.13                | 1.58               | 6.95                  | 3.60                   | 2.87                   | 4.25                  | 3.36              | 4.88                  | 3.02          | 9.66                         | 1.52                         | 3.33                 | 1.15                     | 7.97              |
| 561 Admin support svcs                     | 5.50          | 0.45               | 0.07          | 0.06             | 2.10        | 0.04             | 0.66          | 0.59                | 0.75               | 3.56                  | 0.68                   | 1.13                   | 1.45                  | 1.59              | 1.91                  | 0.84          | 9.16                         | 0.69                         | 1.33                 | 0.66                     | 2.78              |
| 562 Waste mgmt & remediation svcs          | 2.13          | 0.37               | 0.02          | 0.02             | 0.04        | 0.02             | 0.26          | 0.42                | 0.33               | 2.37                  | 0.57                   | 0.58                   | 0.84                  | 1.65              | 0.92                  | 0.35          | 1.79                         | 0.13                         | 0.46                 | 0.23                     | 1.05              |
| 611 Educational svcs                       | 0.35          | 0.03               | 0.00          | 0.00             | 0.01        | 0.00             | 0.03          | 0.08                | 0.08               | 0.91                  | 0.28                   | 0.14                   | 0.06                  | 0.09              | 0.22                  | 0.07          | 0.24                         | 0.01                         | 0.54                 | 0.02                     | 0.12              |
| 711 Performing arts & spectator sports     | 0.98          | 0.08               | 0.01          | 0.01             | 0.04        | 0.01             | 0.10          | 0.10                | 0.11               | 0.67                  | 0.13                   | 0.18                   | 0.22                  | 0.28              | 0.31                  | 0.14          | 0.51                         | 0.07                         | 0.22                 | 0.08                     | 0.42              |
| 713 Amusement- gambling & recreation       | 0.24          | 0.02               | 0.00          | 0.00             | 0.01        | 0.00             | 0.03          | 0.02                | 0.03               | 0.16                  | 0.03                   | 0.04                   | 0.05                  | 0.07              | 0.07                  | 0.03          | 0.11                         | 0.02                         | 0.05                 | 0.02                     | 0.10              |
| 721 Accommodations                         | 2.95          | 0.23               | 0.03          | 0.03             | 0.12        | 0.02             | 0.32          | 0.30                | 0.33               | 1.96                  | 0.35                   | 0.55                   | 0.68                  | 0.81              | 0.94                  | 0.41          | 1.39                         | 0.20                         | 0.61                 | 0.24                     | 1.20              |
| 722 Food svcs & drinking places            | 3.59          | 0.32               | 0.05          | 0.05             | 0.21        | 0.03             | 0.51          | 0.42                | 0.47               | 2.68                  | 0.49                   | 0.82                   | 0.99                  | 1.26              | 1.40                  | 0.70          | 2.09                         | 0.33                         | 0.93                 | 0.38                     | 2.08              |
| 811 Repair & maintenance                   | 20.75         | 1.17               | 0.43          | 0.21             | 0.27        | 0.08             | 4.02          | 5.76                | 2.99               | 18.83                 | 3.40                   | 6.22                   | 14.24                 | 17.31             | 8.44                  | 2.30          | 5.63                         | 1.29                         | 28.76                | 1.24                     | 7.11              |
| 812 Personal & laundry svcs                | 0.29          | 0.07               | 0.03          | 0.01             | 0.01        | 0.00             | 0.01          | 0.01                | 0.00               | 0.01                  | 0.02                   | 0.01                   | 0.04                  | 0.06              | 0.08                  | 0.03          | 0.20                         | 0.01                         | 0.06                 | 0.06                     | 0.16              |
| 813 Religious- grantmaking- & similar orgs | 0.81          | 0.06               | 0.01          | 0.01             | 0.03        | 0.00             | 0.08          | 0.08                | 0.09               | 0.53                  | 0.09                   | 0.15                   | 0.18                  | 0.22              | 0.26                  | 0.11          | 0.38                         | 0.05                         | 0.19                 | 0.06                     | 0.32              |
| 92 Government & non NAICs                  | 11.07         | 0.78               | 0.24          | 0.20             | 0.50        | 0.10             | 1.27          | 4.92                | 1.15               | 12.29                 | 4.70                   | 3.08                   | 8.26                  | 44.21             | 4.99                  | 1.86          | 11.78                        | 1.23                         | 2.86                 | 0.88                     | 7.88              |
| Total Services Inputs                      | 123.6         | 12.9               | 1.7           | 1.4              | 6.4         | 0.9              | 13.1          | 19.6                | 17.6               | 85.9                  | 25.7                   | 27.4                   | 45.4                  | 83.9              | 46.9                  | 20.4          | 91.6                         | 11.0                         | 56.3                 | 11.4                     | 69.6              |



Table D examines only the manufacturing sector. The sector is disaggregated in 21 sub-sectors. This table indicates then the amount of dollars spent in services, by each one of the 21 disaggregated sectors. The same detailed disaggregated analysis could be conducted with each of the 20 sectors reported in Table 1. (However, the Manufacturing sector is the one that has the most sub sectors).

The rows in Table D, which correspond to services, have also been disaggregated into 24 sub sectors. Likewise, the significant amounts are highlighted in yellow. For example, the sub sector of Food Products purchases \$25.2 million in Professional, Scientific and Technical Services. The sub sector of Petroleum and Coal Production spends about \$19.3 million in Professional, Scientific and Technical Services.

The data reported in Table D can be useful to policy makers who are trying to identify sectors that may need Pyramiding relief, particularly regarding their purchases of services. There are almost no direct suspension mechanisms in the form of deductions or exclusions in the GRT that are associated with the purchase of these services in the manufacturing sector.

The bottom line is that pyramiding **is** either a major problem requiring swift and extensive relief by the Legislature or **it is not**. It depends on your perspective. The answer probably lies, as it often does, in the middle and possessed of several complexities. Selective relief may be necessary to ameliorate the negative impact that is unique to New Mexico, based on the taxation of business supplies or services, but that relief should be applied without eviscerating the Gross Receipts Tax system that serves the state so well.

## **Pyramiding Relief Options**

- ❖ Targeted Relief Based on Identity of Purchaser

Grant relief to those businesses who are most detrimentally impacted by pyramiding of the Gross Receipts Tax through deductions, exemptions or credits.

- ❖ Targeted Relief Based on Nature of Purchases

Grant relief to those businesses who purchase heavily those goods and/or services taxed in New Mexico and not taxed by competing states.

- ❖ General Relief for Businesses

Grant relief across the board to all businesses predicated on the taxability of goods and/or services in New Mexico not taxed by competing states.

## **Considerations to Guide a Choice**

- ❖ The cost to the State of New Mexico's revenue stream.
- ❖ The nature of the relief (exclusion, deduction, credit)
- ❖ The kind of tax system New Mexico wants to have, i.e., pro economic development, economically pure, politically popular, adequate, efficient, easy to deal with, etc