New Mexico

#28

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
28 ▲ 3	14 ▲ 7	35 ▲ 1	46 –	2 ▼ 1	17 –

IN THE 2027 *Index*

New Mexico improved three places, from 31st to 28th overall, because the state automatically conformed to the restoration of first-year expensing for research and experimentation expenses, and to the higher cap for small business expensing under Section 179, while some of its peer states did not.

FORTHCOMING, NOT YET REFLECTED

In early 2026, New Mexico lawmakers enacted a law decoupling the state from the expensing provisions in Sections 168(k) and 168(n) of the IRC. The same act newly expands the corporate tax base to include NCTI, an aggressive change that can create double taxation of foreign income. As these changes do not take effect until January 1, 2027, they will negatively impact New Mexico's score in future *Index* editions.

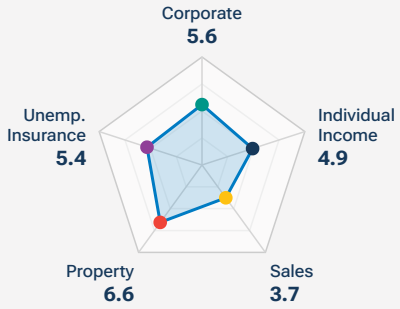
New Mexico has a graduated state individual income tax with a top rate of 5.9 percent. In 2025, New Mexico replaced its graduated-rate corporate income tax with a top rate of 5.9 percent with a single-rate tax of 5.9 percent on all income, a relatively rare case of a corporate income tax rate increase in recent years.

New Mexico also has a 4.875 percent tax on sales, with an average combined state and local rate of 7.68 percent. As a hybrid between an ordinary sales tax and a gross receipts tax, this tax does not apply to all intermediate transactions like a pure gross receipts tax but does apply to many more business inputs than are included in a typical sales tax, including manufacturing machinery and research and development (R&D) equipment. When this gross receipts-like tax applies to business-to-business transactions, it causes tax pyramiding throughout the supply chain, hampers investment, and negatively affects low-margin businesses.

The state's corporate income tax also features a throwback rule, which exposes in-state businesses to additional tax when they sell into other states with which they do not have nexus, discouraging some businesses from locating operations in New Mexico. The state's corporate income tax currently conforms to the federal treatment of capital investment under Section 168(k) and Section 174A, but 2026 legislation will decouple the state from these provisions beginning with the 2027 tax year. New Mexico also currently does not include net CFC tested income in its corporate income tax base, but beginning with the 2027 tax year, this income will be added back.

Component scores

out of 10



New Mexico and its neighbors

Overall rank, 2027 Index, with change from 2026

Texas	#5	▲ 2
Utah	#10	▲ 5
Oklahoma	#15	▲ 4
Arizona	#17	▼ 3
New Mexico	**#28**	▲ 3
Colorado	#33	▲ 1