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How Does the Tax Burden of New Mexico Compare?

Background

One way of assessing the extent to which a state is being taxed too much or too little is by comparing that state with others, or with national averages.

It would seem ineffective to analyze comparative data from FY 2004, since FY 2007 is already underway, but the fiscal data just released by the Census Bureau are treated in such a way that allow comparisons among states.

Based on the September issue of State Policy Reports (SPR), this short paper reports on the comparisons of New Mexico vis a vis other states, in terms of revenue collections per capita, per income, and dependency from federal funds to finance state governments.

Results

General revenue is defined as the sum of revenues obtained from the state itself—own source—plus intergovernmental revenues or federal transfers. Per capita General Revenues in New Mexico are reported to be \$6,557 per capita, which places our state in position 17th in a ranking of the 50 states, as Table 1 indicates. The country's average is \$6,447 per year.

Table 1. Ranking of General Revenue Per Capita

Highest Ranking States	Position of New Mexico	Lowest Ranking States
Alaska	17	Oklahoma
Wyoming		Tennessee
New York		Arkansas
Delaware		Georgia
Connecticut		Arizona

In the United States as a whole, intergovernmental revenues or federal transfers to the states represent 22.5% of General Revenue of the states. According to SPR this percentage has been increasing primarily due to Medicaid reimbursements.

Out of the \$6,557 per capita New Mexico General Revenues \$1,998 come from the federal government, which represent about 30%. New Mexico ranks in position 8 as far as these transfers, together with other geographically large states with large federal land holdings and relatively low populations, such as Alaska, Wyoming, North Dakota and Montana.

States that show the least dependency on intergovernmental revenues are Colorado, Georgia, Florida, Virginia and Nevada. Intergovernmental revenues in these states average about 16% of general revenues.

Table 2. Intergovernmental Revenues
per Capita

Highest Ranking States	Position of New Mexico	Lowest Ranking States
Wyoming	8	Colorado
Alaska		Georgia
New York		Florida
Vermont		Virginia
North Dakota		Nevada

Table 3 shows Own-Source General Revenue per capita, which more accurately reflects the burden of the tax system on the citizens of a state (Federal Transfers are excluded in this case). Each New Mexican contributes \$4,558 yearly, on average, to the finance of local and state governments, which places our state in the 31st position. Alaska is the state with the heaviest burden (\$9,248), while Tennessee is the state with the least burden (\$3,757).

Table 3. Own-Source General Revenues
Per Capita

Highest Ranking States	New Mexico	Lowest Ranking States
Alaska \$9,248	\$4,558 Position 31 st	Arizona \$3,939
Wyoming \$7,276		S. Dakota \$3,921
New York \$6,934		Mississippi \$3,886
Delaware \$6,214		Arkansas \$3,806
Connecticut \$6,112		Tennessee \$3,757

Besides per capita calculations, another approach of obtaining the tax burden over the citizens of one state is by using the concept of “ability to pay.” Using this methodology Own-Source General Revenues are calculated as a percentage of income. For example, for a wealthy state such as Connecticut the burden calculated on a per capita basis is high as it is shown in Table 3, with \$6,112 per capita. However, if this burden is calculated as a percentage of income, Connecticut is listed among the states with the lowest burden, as it is depicted in Table 4, which shows that the burden is only 13.5% for this high income state.

The case of New Mexico is important here, because it comes up among the five states with the heaviest burden. New Mexico Own-Source General Revenues are 17.4% of income, which places our state in position 5th in the nation. Another way of expressing this result is that the per capita Own-Source Revenue in New Mexico is relatively low, but it is significantly high considering the low level of income in the state.

New Hampshire is the state placed with the lowest burden, according to this methodology. This is explained by the fact that New Hampshire does not have income tax, nor sales tax.

Table 4. Own-Source General Revenues
As a Percent of Personal Income

Highest Ranking States		New Mexico	Lowest Ranking States	
Alaska	27.3%	17.4% Position 5	Connecticut	13.5%
Wyoming	21.2%		Maryland	13.4%
W. Virginia	18.2%		S. Dakota	13.0%
New York	18.1%		Tennessee	12.6%
New Mexico	17.4%		N Hampshire	12.3%

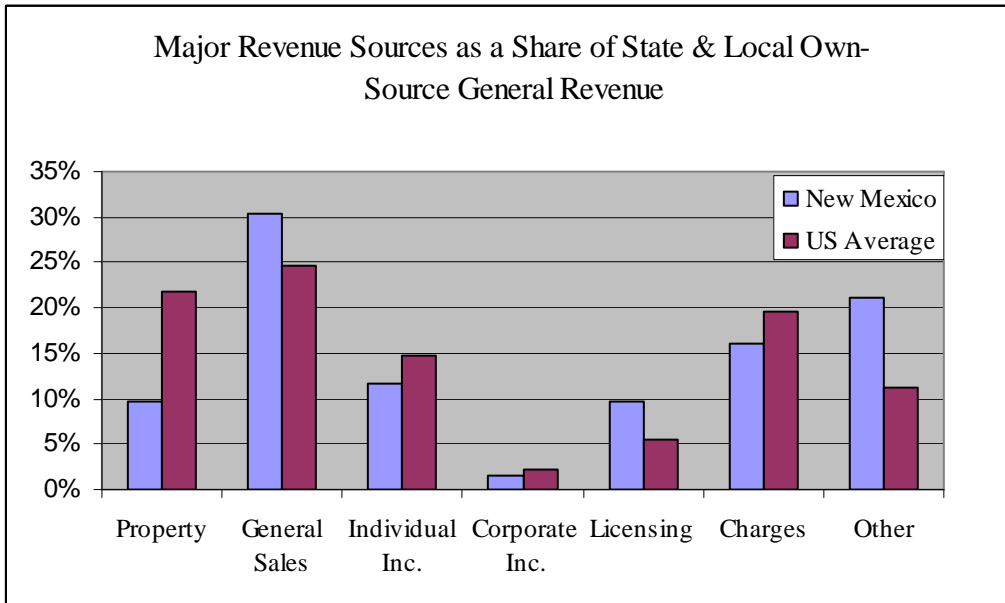
Graph 1 shows a comparison of each major revenue source as a share of State & Local Own Source general revenue. The most salient result is that New Mexico relies heavily on the Gross Receipts Tax, or General Sales, with more than 30% of its own source revenue being generated by this tax, which by definition is regressive. Likewise, in the US Sales Taxes is the most important source of revenue, but it represents less than 25% of own-source revenues.

Another salient result is the extent to which the property tax generates revenues in the rest of the US, compared to New Mexico. In New Mexico collections from property taxes represent only 10%, compared to almost 22% in the US.

The third most salient result is the extent to which New Mexico relies on licensing and other miscellaneous charges. In the US, miscellaneous sources of revenue represent about 12%, while in New Mexico they represent more than 20%. The Index of Revenue

Sources in New Mexico (2006) lists 258 revenue sources for the state, which include taxes, fees, licenses and miscellaneous.

Graph 1



Conclusions

General Revenue per capita is relatively high in New Mexico, but that it mostly due to the fact that 30% of revenues come from intergovernmental sources. When one looks at the revenue that is generated from the state itself, the results are mixed. On a per capita basis the tax burden of New Mexicans is relatively low, compared with other states.

However, when one looks at the burden in the light of the “ability to pay” of the state, the state of New Mexico comes up among the five states with the highest burden. The conclusion that can be made is that, taking in consideration the low incomes in New Mexico, the tax burden is very high.

Another interesting conclusion is the heavy reliance of the state of New Mexico on Licenses and Miscellaneous charges. Could it be that anti-tax policies are shifting the burden to less clear and newly created sources of revenue?

Other conclusions are relatively standard and well known: 1) Heavy reliance of New Mexico on the GRT system, 2) Low collections from property taxes, 3) Low reliance on corporate taxes at the national and New Mexico levels.

At the theoretical level, the results of these comparisons support the hypothesis that there are economies of scale in the services provided by the government. Densely populated states seem to be less burdened, on a per capita basis, than states that are sparsely populated. Under this hypothesis, the per capita tax burden of states like New Mexico would have to be consistently higher, because economies of scale can not be easily reached.

References

State Policy Reports. State and Local Finances in FY 2004. State Policy Reports, Issue 17, Volume 24. September 2006.

Legislative Council Service. The Index to Revenue Sources in New Mexico. Jan. 2006. <http://www.nmtri.org/associations/3740/files/Index%20to%20Revenue%20Sources.pdf>