



***Tax Increase Discussions
New Mexico's Recent Dialogue,
Likelihood, and Expected Tax Proposals***

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NMTRI Principles of Good Tax Policy

N.M. Tax Research Institute is a non-profit, non-partisan member-supported organization dedicated to advancing the following principles of good tax policy in New Mexico:

- ***Adequacy***
 - Revenues should be sufficient to fund needed services
- ***Efficiency***
 - Interference with the private economy should be minimized
- ***Equity***
 - Taxpayers should be treated fairly
- ***Simplicity***
 - Laws, regulations, forms and procedures should be as simple as possible
- ***Comprehensiveness***
 - All taxes should be considered when evaluating the system
- ***Accountability***
 - Exceptions should be rare and should be carefully evaluated and justified

Economic Environment

– REVENUE FORECAST - NOT PRETTY

- Shortfall could still get worse
- Further uncertainty around federal stimulus funds

Political Environment

- Broadening discussion of budget cuts and tax increases
- Social advocacy groups, religious groups and unions calling for more business and income taxes, less budget cuts
- Business advocacy and others calling for greater focus on gov't spending and no tax increases targeting business

Political Environment

- Most agree cuts are necessary
- Many concede tax increases may be inevitable
- Debate: If taxes are to be raised, which taxes and how much?
- Complication: Don't know how much tax revenue may be needed.

Tax Policy Issues

- Taxes are necessary in that they pay for public services, but:
 - Taxes can cause economic distortions, inefficiencies, and sometimes inequities
 - Economic implications of different tax increase proposals vary
 - The state needs to minimize negative impact of increased taxes on job creation as well as impacts on the most vulnerable

Executive Response

- Governor's "Balanced Budget Task Force:
 - 42 member representing general and special interests to discuss pros and cons of various tax increase options
 - Chair - Tax & Rev Secretary Rick Homans
 - NMTRD provided options and analysis
 - Useful effort in anticipation of upcoming session
 - Approach led to "man on the street" reactions in addition to special interest advocacy

Executive Response –Cont'd

- Balanced Budget Task Force Charge:
 - Not to vote on options or make recommendations
 - Keep in mind state competitiveness, improving the state's overall system, and be consistent with good tax policy principles
 - Reviewed list of varying and predictable tax options as compiled by the NMTRD

Legislature's Response

- Interim Committee Hearings Agendas Expanded:
 - Included tax increase options
 - Attempted focus on policy with expert panels
 - Coordinated with governor's task force
 - Differed in part with incentive restriction options not discussed by task force

Recent Developments

- Legislative Finance Committee:
 - Proposes reduced state budget but leaves \$200 million in unfunded appropriations
- Executive:
 - Proposes reduced budget with \$200 million shortfall
 - Suggest working with legislature to find \$200 million in “temporary” tax increases to make up difference

How Do New Mexico's Business Taxes Compare?

Tax	New Mexico	U.S. Average	NM – U.S. Aver.
	(% of GSP)	(% of GSP)	Annual Revenue
Property Tax	0.8%	1.7%	(\$600 million)
Sales Tax on Inputs	1.9%	1.1%	\$520 million
Excise	0.5%	0.6%	(\$60 million)
Corp. Income Tax	0.5%	0.5%	--
UI Tax	0.2%	0.3%	(\$70 million)
Ind. Income Tax on Bus. Income	0.1%	0.2%	(\$45 million)
Other	2.1%	0.5%	\$955 million
Total	6.0%	4.9%	\$700 million

Source: "Total state and local business taxes," Ernst & Young, Council on State Taxation, January 2009.

Tax Proposals

- Include most significant tax programs
- Are often “retreads” of previous proposals
- Don’t represent the only options
 - Endless options/“variations on a theme” possible
- Some options from blue ribbon tax reform commission
- Include compliance enhancement proposals that don’t “raise taxes”

Tax Proposals-Personal Income Tax

- “Roll Back Richardson Tax Cuts”
- Tax rate “surcharge” at varying income levels
 - NM rates similar to surrounding states currently
- Reduce capital gain tax preference
 - NM more generous than most states
- Add-back state tax deduction to NM taxable income
 - Majority of states and neighbors require add-back

Tax Proposals - Corporate Income Tax

- Impose mandatory combined reporting
 - NM currently imposes highest rates and least favorable reporting rules relative to surrounding states but for filing group elections
- Impose higher franchise tax (currently \$50/yr)
- Franchise tax based on apportionment factors

Tax Proposals - Gross Receipts Tax

- Increase rates
 - Compensating tax implications
- Eliminate or alter “hold harmless” provisions
- Repeal or alter “food tax” deduction
 - Candy & soda
- Other

Other Taxes

- Oil and gas taxes
 - “Equalize” oil and gas tax rates
 - Progressive rate structure
- Impose higher “sin” taxes
 - Alcohol
 - Cigarettes
 - Tribal exemption issue
- Increase gasoline taxes
 - Tax currently goes to road fund

Other Taxes

- Motor vehicle excise tax
 - NM low at 3% with little ED implication
 - Turnover taxes so rate should be less than GRT
 - Sector still in downturn.
- Insurance premiums tax
 - Increase health premiums 1% - why health
 - Many health services now out of GRT base
 - Retaliatory taxes

Business Incentives

- Governor's Task Force
 - Adopt uniform language and requirements, performance standards, recapture, etc.
 - Require additional reporting, evaluation
- Legislative Options
 - Reduce credit percentages (i.e. film credit from 25% to 15%, HWJTC from 10% to 7% of wages)

Note: Film Credit more costly than all business incentives combined

Other Taxes

- Uranium and Coal Taxes
 - Repeal coal surtax exemption
 - Not general fund revenue source
 - Increase uranium tax
 - No uranium mining currently taking place in NM
- Estate Taxes
 - De-couple from federal credit

Non-Tax Revenue Enhancement Proposals

- Pass-through entity (“PTE”) and oil and gas proceeds withholding
- Tax remittance on government purchases by governmental entities
- Require in-state contractors to post bonds
- Increases penalties and reallocation authority
- Reduce O&G severance taxes with commensurate increase in emergency school tax rate

Summary

- Revenue/budget situation uncertain but bleak
- Taxes increase proposals WILL be introduced
- Taxes increases of some sort are probable
- How you tax matters – do the least harm

Post Session Wrap-Up

- Two Tax Increases Passed Both Houses
 - HB 144 raises the unemployment compensation contribution by employers having a positive balance in their reserve account of at least one percent. The contribution increases by two-tenths percent of payroll for the period July 1, 2010 through December 31, 2011.
 - HB 208 creates relatively small increase in the Oil and Gas Conservation Tax for the remediation of facilities used for the storage, transportation or disposal of waste from oil and gas operations. New Mexico's tax burden on oil and gas leans to the high side in the region, but the increase was a modest change from .19% to .24% on oil and only when the average price of West Texas Intermediate crude averages over \$70 in the prior quarter.

Post Session Wrap-Up

- Tax Credits and Other Measures
 - Las Cruces Tax Increment Project (HB 112)
 - Transport of Dairy Waste for Gas Tax Credit (HB 171)
 - Business Retention Gross Tax & Gaming Tax (HB 203)
 - Withholding Tax Changes (PTE/O&G) (HB 120)
 - Solar & Wind Energy Equipment Gross Receipts (HB 261)
 - Economic Development Tax Incentive Changes (SB 47)
 - Affordable Housing Tax Credit Use & Vouchers (SB 144)
 - County Gross Receipts for Certain Projects (SB 162)

Special Session Begins with a “Deal”

- Increase GRT .25%
- Eliminate State Food Deduction and Replace with State Credit
- Impose 50 Cent Cigarette Tax Increase
- “Fix” Compensating Tax Problem
- Reduce State Spending Close to 2% (House wanted 1%, Senate wanted 3%)