

Tax Matters

The Newsletter of the New Mexico Tax Research Institute

Issue No. 2008-12

August 20, 2008

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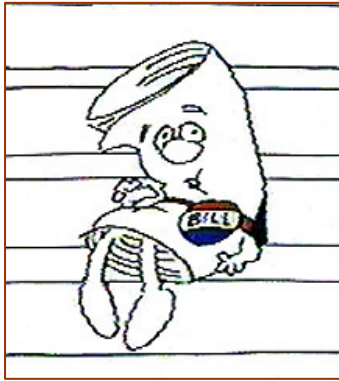
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Legislature Adjourns - Sends Fewer and Cheaper Bills to Governor

The 2008 Special Session called by Governor Richardson ended yesterday, August 20, 2008. The Governor had originally promoted a wide slate of tax cuts, highway and healthcare spending, with a total cost of about \$400 million. The General Fund portion of the proposals was scaled back to about \$200 million prior to the Session in response to lower oil and gas prices. Another \$150 million in Severance Tax Bond-funded spending was proposed. Lawmakers

remained concerned about revenue volatility however, and scaled the proposals back even further. In the end they provided one-time tax relief of \$56 million this year, and recurring tax relief of \$8 million per year. General Fund spending was increased by \$44 million this year and by \$59 million in FY 2010. \$150 million in Severance Bond spending was authorized for highway projects that have been previously approved. It is anticipated that the Governor will sign most if not all the bills.

Summary of Tax Bills Approved by Both Houses:

HB 4: Increase Working Families Tax Credit (Rep. Sandoval)

Increases the Working Families Tax Credit from 8% to 10% of the federal Earned Income Tax Credit to which a taxpayer is entitled. Changes are effective in tax year 2008, which is the first year the Credit has been available. TRD estimates the bill will reduce recurring revenue by about \$8 million per year beginning in FY 2009. The bill and Legislative Finance Committee's (LFC's) Fiscal Impact Report (FIR) can be found [here](#). The Taxation and Revenue Department's (TRD's) FIR can be found [here](#).

Senate Floor Substitute for SB 24: Refundable Personal Income Tax Credit—Senator B. Sanchez

Refundable income tax rebates would be provided against 2007 personal income tax liability. Eligible taxpayers do not include non-residents, trusts, estates, dependents of other taxpayers or inmates of public institutions for more than 6 months. Credits will be issued as refunds to taxpayers who have already paid their 2007 liability and will be applied against outstanding liability for those who have not yet filed. Credit amounts are as described in the table:

Married Taxpayers Filing Jointly:

Adjusted Gross Income		Credit Amount Per Taxpayer and Spouse	Credit Amount Per Dependent
Over	Not Over		
\$0	\$30,000	\$100.00	\$50.00
\$30,000	\$50,000	\$80.00	\$40.00
\$50,000	\$70,000	\$50.00	\$25.00
\$70,000		\$0.00	\$0.00

Single, Head of Household, Surviving Spouse and Married Filing Separately:

Adjusted Gross Income		Credit Amount Per Taxpayer	Credit Amount Per Dependent
Over	Not Over		
\$0	\$30,000	\$50.00	\$50.00
\$30,000	\$50,000	\$40.00	\$40.00
\$50,000	\$70,000	\$25.00	\$25.00
\$70,000		\$0.00	\$0.00

TRD estimates the fiscal impacts of the credit at \$55.8 million in FY 2009. TRD expects that the credit will not be treated as income for federal income tax purposes, but taxpayers who claim a deduction for state income taxes will be required to reduce the deduction amount claimed by the amount of the credit. As amended, the bill appropriates \$750,000 to TRD to administer the credit. The bill carries an emergency clause, meaning it will become effective immediately upon the Governor's signature. The bill and LFC FIR can be found [here](#). The NMTRD FIR can be found [here](#).

Non-Tax Bills:

HB 2: Appropriates \$3.2 million to the Public Education Department for school bus fuel expenses. The bill and LFC FIR can be found [here](#). The TRD FIR can be found [here](#).

HB 7: Appropriates \$7.2 million to provide child care assistance for Temporary Assistance to Needy Families ("TANF") recipients. The bill and LFC FIR can be found [here](#). The TRD FIR can be found [here](#).

HB 10: Provides funding for road projects previously approved by the Legislature. \$150 million of funding would come from Severance Tax Bonds issues in FY 2009, 2010 and 2011 provided that no more than \$75 million be issued for this purpose in any one year. \$50 million would come from General Fund non-recurring revenue in either FY 2009 or FY 2010. The General Fund appropriations are contingent on the projected level of reserves remaining above 10% of recurring appropriations after the road fund appropriations. The bill and LFC FIR can be found [here](#). The TRD FIR can be found [here](#).

Senate Floor Substitute for SB 21: \$1.9 million non-recurring appropriation for low-income household heating assistance. The bill and LFC FIR can be found [here](#). The TRD FIR can be found [here](#).

Senate Floor Substitute for SB 22: \$32.5 million in recurring appropriations is authorized for expanding Medicaid coverage of children, expanding services to developmentally disabled persons and expanding behavioral health services. The bill and LFC FIR can be found [here](#). The TRD FIR can be found [here](#).

SB 23: \$1.6 million in recurring appropriations is authorized for election expenses. The bill and LFC FIR can be found [here](#). The TRD FIR can be found [here](#).

SB 29a: \$5 million in non-recurring appropriations is made to repair roads and bridges damaged by flooding in Lincoln and Otero Counties. The bill and LFC FIR can be found [here](#). The TRD FIR can be found [here](#).

The following table summarizes the budget impacts of the bills that passed both houses. Recurring revenues will decrease by about \$8 million per year, while recurring appropriations increase by about \$34 million. This will reduce the “new money” available in the 2009 legislative session for new programs and/or tax cuts by \$42 million. FY 2009 Year-end General Fund reserves will be reduced by \$108 million.

Budget Impacts of 2008 Special Session

	<u>FY 2009</u>	<u>FY 2010</u>
State General Fund		
Revenue:		
Non-Recurring:		
SB 24: Refundable PIT Credits	(55,778.0)	
Subtotal: Non-Recurring	(55,778.0)	-
Recurring:		
HB 4: Increase Working Families Tax Credit	(7,600.0)	(7,800.0)
Subtotal: Recurring	(7,600.0)	(7,800.0)
Appropriations:		
Non-Recurring:		
HB 2: School bus fuel costs	3,200.0	
HB 7: Child care support	7,200.0	
HB 10: Road projects	25,000.0	25,000.0
SB 21: Low-income heating assistance	1,900.0	
SB 24: Refundable PIT Credits	750.0	
SB 29: Lincoln County flood damage repairs	5,000.0	
Subtotal: Non-Recurring	43,050.0	25,000.0
Recurring:		
SB 22: Health care spending		32,500.0
SB 23: Election costs	1,637.0	1,637.0
Subtotal: Recurring	1,637.0	34,137.0
Net Change to General Fund Reserves	(108,065.0)	(66,937.0)

Severance Tax Bonding Fund:

Appropriations:

Non-Recurring:		
HB 10: Road projects	75,000.0	75,000.0
Subtotal: Non-Recurring	75,000.0	75,000.0

KNICK KNACKS

Legislative Committees Staying Busy

With a focus on the racing industry, the interim Revenue Stabilization and Tax Policy Committee (“RSTP”) is still holding its August meeting in Ruidoso on August 27th and 28th. Ruidoso is still recovering from serious flooding resulting from heavy rainfall from the remnants of Hurricane Dolly, but is completely open for business and the recipient of legislative assistance in the Special Session that concluded yesterday (assuming the Governor signs the bill, Lincoln and Otero counties will receive \$5 million in additional flood assistance dollars). Non-racing related topics include a revised state revenue forecast, which should be interesting on the heels of the Special Session. Oil and natural gas prices have continued to fall since the forecast was revised immediately prior to the Special Session. The agenda is on the LCS website [here](#).

Federation of Tax Administrators (“FTA”) Selects New Executive

The FTA has selected Jim Eads to replace long time head Harley Duncan as their Chief Executive. After twenty years of service, Harley recently chose to pursue further career opportunities with founding member KPMG LLP. Jim, most recently at consulting firm Ryan in Austin, Texas, is most remembered by our members as NMTRI’s President and Executive Director who successfully led the organization through its infancy. The NMTRI Board and staff congratulate Jim on his new appointment and wish him the best of luck! The press release is [here](#).

Not all States’ are Calling Special Sessions to Spend and Expand Programs

Most states, including New Mexico, began their new fiscal years July 1st. According to the Center on State Taxation (“COST”) recent legislative alert, many states' revenue projections are already looking overly optimistic (refer to the National Conference of State Legislatures' [State Budget Update: June 2008](#)). As a result, a handful of states have taken a proactive approach and have either begun immediate budget cuts or have scheduled special sessions.

- New York – Having identified a \$26.2 billion budget deficit over the next three years, Gov. Patterson (D) is convening an "emergency economic session" of the legislature today, August 19th. Gov. Patterson is calling for \$1 billion in budget cuts by reducing financing for Medicaid, assistance to municipal governments and the City University of New York, while legislative leaders, however, have only identified \$200 million in cuts. Further, the Gov. recently created a Council of Economic Advisors to review the state's budget situation and provide the Gov. with additional recommendations to address the state's fiscal crisis. Click [here](#) to view the Council's membership.
- Florida – Now leading the nation in the jobless rate ([Miami Herald](#)), paired with the fallout from the subprime mortgage crisis and surging energy prices, the states' tax collections fell approximately \$1.8 billion below estimated March projections for FY 2009, according to a [report](#) issued by state economists August 15th. Pressure is mounting on Gov. Crist (R) to call a special session to address the growing budget shortfall.
- Georgia – As July tax collections plummeted 6.6% from this time last year, Gov. Perdue (R) ordered across-the-board spending cuts of 6%. The state faces a \$1.6 billion budget

deficit and there are increasing calls for a special session to consider further budget cuts or raise taxes.

- Virginia – On August 15th, Gov. Kaine (D) called for \$32 million in new spending cuts to balance the state's current two-year budget. These cuts are in addition to the \$17 million in reductions made to the budget in the last fiscal year that will be carried forward into the current state spending plan. In addition, earlier this year, the Gov. and lawmakers eliminated \$1 billion from the original spending plan the Gov. had proposed for fiscal year 2009.

Note: this is not an exhaustive list of states addressing budget shortfalls but rather is representative of the economic trends states are currently encountering.

TAX QUOTABLE:

There may be liberty and justice for all, but there are tax breaks only for some.

~Martin A. Sullivan



COMMENTS: Your suggestions and comments on this newsletter, the conferences (past or future), the Distinguished Lectures Series, our research or any aspect of NMTRI's operation and programs are welcome. Please send them to richard.anklam@nmtri.org, call 505-269-6791 or mail them to P.O. Box 91657, Albuquerque, New Mexico 87199-1657. You may also e-mail them to tom.clifford@nmtri.org or call him at 505-228-7129. We genuinely solicit your input and thank you for your support.



"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" Campaña General de Tabacos v. Collector, 275 U.S. 87, 100 (1927), Justice Oliver

Wendell Holmes, dissenting.

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