

Tax Matters

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IN THIS ISSUE OF *TAX MATTERS*:

- **Into the Legislative Session**
- **List of Tax Related Legislation**
- **District of Columbia Tax Burden Study**
- **Happenings Leading Up to the Legislative Session**
- **Knick Knacks**
- **Tax Quotable**
- **Don't Forget the Principles - Redux**

INTO THE LEGISLATIVE SESSION



The 2011 Regular Session of the New Mexico Legislature convened at noon on Tuesday, January 18, and ends at noon on March 19. The deadline for bill introduction is February 17. Legislation not acted on by the governor is pocket vetoed on April 8. The effective date of legislation without an emergency clause or effective date is June 17. Being a “long” or 60-day session, non-budgetary legislation and items not related to the budget are fair game and not limited by the call of the Governor. It is expected to be a very busy session, given the state’s ongoing fiscal crisis, as

high profile, contentious and painful budget and revenue issues are center stage along with anything else legislators wish to consider.

New Mexico has an uncompensated volunteer legislature comprised of a 70 member House of Representatives and a 42 member Senate. Legislative sessions alternate between 30-day budget related sessions in even numbered years, and unconstrained 60-day sessions in odd-numbered years.

And the beat goes on...

So far, 233 House and 302 Senate bills have been introduced. We mentioned last time that that given the Governor’s and predominant legislative attitude about tax increases, we’d expected fewer tax increase proposals. Being broke and unable to increase revenue, we also expected fewer tax credits, deductions, or rate reductions to be proposed since those would all require additional contentious spending cuts. Apparently, most got the memo. We also expected that we’d see more “accountability” measures, “loophole” closers and the like... and we do. So, we’re still tracking close to 50 tax and significant revenue related bills introduced thus far (we missed a few last time and added the new ones... let us know if you notice a bill not on the list that should be).

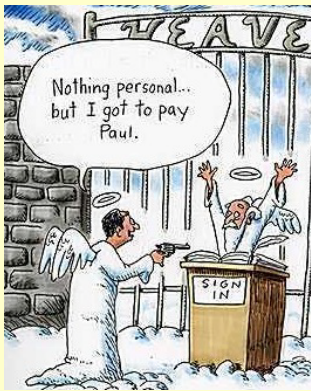
Film Continues to Garner Attention



As was true last week, only three film related bills have been introduced thus far. Representative Kintigh’s [House Bill 19](#) repeals the credit entirely. It was heard before a packed HTRC committee room for over two hours before the bill’s first stop, the House Labor and Human Resources Committee tabled the bill. Senator Keller’s [Senate Bill 44](#) would attempt to impose greater accountability and control over the incentive program, as well as requiring greater study. It is scheduled to be heard in Senate Corporations tomorrow afternoon. Senator Smith’s [Senate Bill 169](#) caps credit amounts per production to \$2 million and has not yet been scheduled

for hearing. Governor Martinez has gone on record supporting a reduction in the film subsidy from 25% of expenses to 15%. However, no legislation limiting the credit percentage has yet to be introduced.

Robbing Peter to Pay Paul



Representative Sandoval and Senator Ulibarri, carrying legislation endorsed by the Veterans Affairs committee, introduced [House Bill 89](#). The proposal would create a really expensive and highly inequitable gross receipts tax deduction for services performed for the federal government by veteran owned businesses. Peter of course is the New Mexico businessman that isn't a veteran and loses his business over time when Paul gets a benefit varying with the tax rate to over 8%. A related provision amending the state procurement code to achieve a similar result was also introduced by Sen. Ulibarri in [Senate Bill 149](#). Speaking of robbing Peter to Paul, the first bill has a fiscal impact of as much as \$48-288 million in the out years, coming out of schools, education, or other state funded programs. Senator Sharer introduced a version of the annual effort to exempt military retirement pay in [Senate Bill 217](#). Senator Ingle's [SB 160](#) would re-instate the gross receipts deduction for construction services performed on Cannon AFB through 2014. Technical flaws relative to the original bill's intent have not been rectified in this proposal. It isn't likely to induce additional construction activity, but will make the cost of construction less for the federal government.

A surprising proposal to reduce corporate income tax rates to that of the lowest current bracket, 4.8%, was introduced ([House Bill 200](#)). While there are policy arguments in favor of rate reduction, the revenue loss would have to be made up somewhere nevertheless. New Mexico's corporate income tax rates are the highest regionally, but closer to average nationally.

And those unallowable tax increases

A couple of new soft drink taxes have been proposed. Senator Ortiz y Pino has added a proposal to eliminate certain soft drinks from the present law gross receipts tax deduction for food ([House Bill 256](#)), and another creating an excise tax on distributors of certain soft drinks, along with fairly onerous bonding and reporting requirements ([House Bill 288](#)).

Senator Harden is proposing narrowing the tribal tax exemption for cigarettes to that which is constitutionally allowable (the state can't tax tribal sales to tribal members, but is not required to exempt sales for resale to non-tribal members) ([Senate Bill 264](#)). Senator Fischmann is proposing an increase in the motor vehicle excise tax to 5% from 3%, but only on the value in excess of \$10K, along with a phased-in elimination of the trade-in deduction ([Senate Bill 244](#)). Senator Bernadette Sanchez has proposed another significant increase in the liquor tax ([Senate Bill 258](#)), with this one creating a "mental health and substance abuse treatment fund".

And other stuff

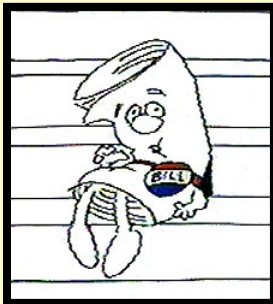
Last time we missed Senator Eichenberg's approach to solving the tax lightning problem (in addition to Senator Neville's). His [Senate Bill 108](#) limits the applicability of the 3% valuation limitation to owner occupied residences, eliminates the revaluation upon change in ownership, and provides for revaluation if owner-occupation ends. Sunset reviews of most credits are put into law by another proposal carried by Representative Sandoval ([House Bill 166](#)) for the interim Revenue Stabilization and Tax Policy Committee. It appears that all of the interim Revenue

Stabilization and Tax Policy Committee endorsed legislation has been introduced, including tax credits for electric cars ([House Bill 39](#)), natural gas powered cars ([House Bill 198](#)), as well as an extension of the exemption for jet fuel ([Senate Bill 84](#)). A list and drafts of the proposals before the committee can be found on their website [here](#). Proposals not endorsed by the interim tax committee included a tax credit for above ground storage tanks, an expansion of the “tax break for Texans” employed near the border, favorable treatment of federal low-income housing tax credits for use in property valuation, changes to taxpayer confidentiality provisions for incentive reporting, and a notion to have the insurance premiums tax administered by the Taxation and Revenue Department.

More will come, of course...

The Legislative Council Service maintains copies of bills, compiles locators, and publishes lists of bill conflicts during the course of the session. Most information is available in a timely and electronic fashion from their rather robust website, which can be reached at <http://legis.state.nm.us/lcs/>. The New Mexico Taxation and Revenue Department publishes their fiscal impact reports (“FIR’s”) and provides access to proposed legislation [here](#) on their website. The TRD’s FIR’s are the primary source relied upon by the LFC’s for their FIR’s.

Bills with significant tax or revenue implications introduced in 2011 Legislative Session:



If no effective date is mentioned, the bill lacks one and would take effect upon enactment, June 17, 2010. Effective date for GRT bills is July 1, 2011 unless otherwise noted. Income Tax bills are effective tax years beginning on or after January 1, 2011 unless otherwise noted. “TYBA” = Tax years beginning on or after. Other notes: “CS” indicates committee substitute; “a” indicates amended

Bill Number/ Sponsor:	Title: Link to bill language: Description	Assignments -Location:
HB 19 D.Kintgh	No Film Tax Credit & Limit film Investments HB 19 Repeals the Film Production Tax Credit and limits the film related investment that can be made from the severance tax permanent fund (no more that 3% of the fund in total), requires market rates, and SIC approval with substantial NM presence.	HLC/HTRC- HLC (tbl)
HB 23 M.H. Garcia	Liquor Excise Tax Distribution to Schools: HB 23 Increases the liquor excise tax across all beverage categories (i.e. beer from \$.41to \$1.48/gal, and spirits from \$1.60 to \$3.85/liter) and changes distributions in an effort to to distribute the additional increase to the public school fund and hold the DWI grant fund to current distributions. Small wineries and local microbreweries are held harmless under this proposal.	HBIC/HTRC -HBIC
HB 25	Reduce Hospital Tax Levy For Hospital Funding: HB 25	HHGAC/HT

Rehm	Effectively phases-out the property tax mill levy for UNMH in Bernalillo county to 10% of 2011 mill rates over four years.	RC-HHGAC
HB 39 Trujillo/P. Griego	Plug-in Electric Car Exemption: HB 39 Exempts qualified electric plug-in vehicles from the Motor Vehicle Excise Tax, changes the exemption from the GRT and compensating tax from vehicles held for sale or lease to plug-ins instead, and include it in the definition of “alternative energy vehicle” for purpose of the Alternative Energy Products Manufacturers Tax Credit. The proposal is a Revenue Stabilization and Tax Policy Committee endorsed bill.	HBIC/HTRC -HBIC
HB 44 Williams Stapleton	Severance Tax Fund Investment in Energy: HB44 Provides for the investment of up to 10% of the severance tax permanent fund in “New Mexico renewable energy” only if the investment is in a “New Mexico renewable energy private equity fund”.	HENRC/HT RC-HENRC
HB 61 Rehm	“Net Income” Definition For Income Taxes: HB 61 Eliminates the requirement to add back state and local taxes itemized for federal purposes. The proposal essentially undoes the prior year’s change to require the add back, but fails to require taxpayers to include in income refunds of taxes previously deducted.	HCPAC/HT RC-HCPAC
HB 75 Gonzales	Geothermal Pump Tax Credit Refundability: HB 75 Makes the credit refundable above and beyond any existing taxpayer income tax liability, requires taxpayers to obtain certificates of eligibility, and requires an annual report on the credit be prepared jointly by the EMNRD and TRD.	HBIC/HTRC -HBIC
HB 89 Sandoval/UI ibarri	Veteran Owned Business Gross Receipts: HB 89 Creates an exorbitantly expensive gross receipts tax deduction for sales of services pursuant to a contract or sub-contract with the federal government, if the seller is a veteran-owned business. This bill was endorsed by the Military and Veterans’ Affairs committee.	HBIC/HTRC -HBIC
HB 102 E. Chavez	Internet Sales Gross Receipts: HB 102 Eliminates the exception from “engaging in business” for third party content owners on a world wide web site located in NM for purposes of imposition of the GRT. Also creates a presumption of taxability of non-New Mexico businesses that are referred by potential customers to the seller via agreement with a NM resident and has cumulative gross receipts tax from such referrers in excess of \$10,000 (so-called “Amazon” proposal).	HBIC/HTRC -HBIC
HB 119 D. Chavez	Income Tax Exemption For People Over 65: HB 119 Exempts from New Mexico personal income tax the income of <u>individuals</u> with adjusted gross income of \$70,000 or less, who are 65 years of age or older.	HCPAC/HT RC-HCPAC
HB 156 E. Chavez	Budget and Corporate Transparency: HB 156 Requires a tax expenditure budget of sorts, beginning with an incorrect definition of tax expenditure. Makes certain reporting requirements for “corporations” but not other business or non-business entities or individuals similarly situated. Adds agency reporting requirements regarding procurement of services.	HBIC/HHG AC/HTRC- HBIC
HB 161	Tax Expenditure Budget Development and Report: HB 161	HHGAC/HT

E. Chavez	Requires the TRD to prepare an annual “tax expenditure budget” by October 15 of every year for the three preceding years, the current and upcoming fiscal years. Included are all tax expenditures in excess of \$5 million in the for all “significant general fund revenue sources” – meaning the primary tax programs.	RC-HHGAC
HB 165 Crook	Define "Modified Combined Tax Liability: HB 165 Makes a consistent definition of “Modified Combined Tax Liability” across tax credit programs (narrows some to gross receipts, compensating, and withholding taxes only... a change with little or no taxpayer impact). The proposal also makes clear that “modified combined tax liability” does not include local option taxes. The proposal is a Revenue Stabilization and Tax Policy Committee endorsed bill.	HBIC/HTRC -HBIC
HB 166 Sandoval	Review Certain Tax Credits: HB 166 Inserts language into most business tax credits requiring the credits be reviewed every six years, usually by the Taxation and Revenue Department and other applicable agencies such as the Economic Development Department. Credits. Such reviews are intended to be evaluate the effectiveness of the credits relative to their cost, and intent, current circumstances with the notion that ineffective credits be amended or repealed. The proposal is a Revenue Stabilization and Tax Policy Committee endorsed bill.	HBIC/HTRC -HBIC
HB 198 B. Lujan	Tax Credits for Natural Gas as Vehicle Fuel: HB 198 The proposal is a Revenue Stabilization and Tax Policy Committee endorsed bill.	HBIC/HTRC -HBIC
HB 200 Strickler	Reducing Corporate Income Tax Rates: HB 200 Phases in rate/bracket reduction by eliminating resulting in a single and top rate of 4.8% for tax years beginning on or after January 1, 2014.	HBIC/HTRC -HBIC
SB 6 Wirth	Combined Tax Reporting for Some Corporations: SB 6 Mandates that all unitary corporations report as a combined group for corporate income tax purposes, but provides an exception – an election to file separately for manufactures. Repeals the option for a corporation to report on a federal consolidated basis.	SCORC/SFC -SCORC
SB 7 Wirth	Net Taxable Income Determination SB 7 Imposes requirements to “addback” certain related party expenses separate company filers for purposes of determining taxable income for corporate income tax purposes.	SCORC/SFC -SCORC
SB 39 Keller	Tax Forms Itemizing Gross Receipts Exemptions: SB 39 Requires taxpayers with gross receipts to report most exemptions and all but one deduction separately by category, requiring substantially more effort on the part of taxpayers and the TRD in an effort to garner more detailed information from taxpayers. The proposal is a Revenue Stabilization and Tax Policy Committee endorsed bill.	SCORC/SFC -SCORC
SB 44 Keller	Film Production Tax Credit Tracking & Review: SB 44 Requires additional information be disclosed and reported by film production companies utilizing film production tax credits. The proposal is a Revenue Stabilization and Tax Policy Committee endorsed bill.	SCORC/SFC -SCORC

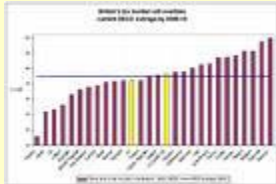
SB 46 Griego	Extend Jet Fuel Gross Receipts Tax Credit: SB 46 Extends the present law deductions of 55% for jet fuel from the gross receipts and compensating tax from 6/2012 to 6/2017, and reduces the deduction to 40% in years thereafter.	SCORC/SFC -SCORC
SB 47 Keller	Tax & Rev Dept. Tax Expenditure Budget: SB 47 Requires the TRD to prepare an annual “tax expenditure budget” by October 15 of every year for the three preceding years, the current and upcoming fiscal years. Included are all tax expenditures in excess of \$5 million for all “significant general fund revenue sources” – meaning the primary tax programs. The proposal is a Revenue Stabilization and Tax Policy Committee endorsed bill.	SCORC/SFC -SCORC
SB 81 Feldman	Tobacco Products Tax & Definitions: SB 81 Expands the definition of “tobacco products” to include cigars and any product containing tobacco that is consumed without combustion. The proposal also more than doubles the rate of tax from 25% to 57% of the product value	SCORC/SFC -SCORC
SB 84 P. Griego	Jet Fuel Gross Receipts Credit: SB 84 Extends the present law deductions of 55% for jet fuel from the gross receipts and compensating tax from 6/2012 to 6/2017, and reduces the deduction to 40% in years thereafter. The proposal is a Revenue Stabilization and Tax Policy Committee endorsed bill.	SCORC/SFC -SCORC- DP-SFC
SB 94 E. Griego	Income Surtax, Distribution, & School Funds: SB 94 Creates a personal income tax “surtax” for taxable years 2011 through 2013, and distributes the proceeds to the public school fund and Medicaid program. The surtax is 3.3% of taxable income in excess of \$100K for singles and \$150K for married, head of household and surviving spouse filer. Married individual filing separately would pay the surtax on taxable incomes above \$75K.	SCORC/SFC -SCORC
SB 95 E. Griego	Internet Sales Gross Receipts: SB 95 Eliminates the exception from “engaging in business” for third party content owners on a world wide web site located in NM for purposes of imposition of the GRT. Also creates a presumption of taxability of non-New Mexico businesses that are referred by potential customers to the seller via agreement with a NM resident and has cumulative gross receipts tax from such referrers in excess of \$10,000 (so-called “Amazon” proposal).	SCORC/SJC/ SFC - SCORC
SB 108 Eichenberg	Extend Annual Property Valuation Increases: SB 108 Limits the applicability of the 3% valuation limitation to owner occupied residences, eliminates the revaluation upon change in ownership, and provides for revaluation if owner-occupation ends.	SCORC/SFC -SCORC
SB 113 Boitano	Tax Credit for Certain Scholarship Donations: SB 113 Creates a personal income tax credit for donations to private school scholarship fund of up to \$500/yr. The TRD must analyze the effectiveness of the credit and report to the Revenue Stabilization and Tax Policy Committee on their findings every 4 years.	SEC/SFC- SEC
SB 135 Beffort	Family Assistance Employer Tax Credits: SB 135 Updates names and references of the former welfare-to-work personal and	SCORC/SFC -SCORC

	corporate income tax credits, and creates additional accountability and reporting requirements on the part of the TRD.	
SB 149 Ulibarri	Veteran Owned Business Preference: SB 149 Amends procurement code to creates new preference categories (“veteran-owned business”, “veteran owned-manufacturer”), and changes preference factors to favor the new veteran categories relative to resident non-veteran businesses, who in turn maintain a preference to nonresident businesses.	SPAC/SJS- SPAC
SB 160 Ingle	Military Construction Service gross Receipts: SB 160 Reinstates the deduction for construction services performed on Cannon AFB from 7/1/11 – 12/31/14.	SCORC/SFC -SCORC
SB 169 Smith	Film Production Tax Credit Cap: SB 169 Limits allowable film tax credits for production and post production recipients to \$2 million dollars.	SCORC/SFC -SCORC
SB 170 Smith	Tax Itemization & Return Filing: SB 170 Requires taxpayers with gross receipts to report most exemptions and all but one deduction separately by category, requiring substantially more effort on the part of taxpayers and the TRD in an effort to garner more detailed information from taxpayers like SB39. Also requires more detailed reporting on the part of gasoline retailers, wholesalers, distributors, and rack operators as well as interstate telecommunications gross receipts taxpayers.	SCORC/SFC -SCORC
SB 178 Cisneros	Dialysis Facility Service Gross Receipts: SB 178 Adds and defines “dialysis facilities” to the ever-growing list of medical related professions and operations deductible when sold to Medicare or Tricare pursuant to Section 7-9-77.1	SCORC/SFC -SCORC
SB 189 Neville	Property Tax Increases & Revaluations: SB 189 Provides for a phased-in return to current and correct value for residential properties for purposes of tax valuation and assessment. The proposal would limit property tax increases, regardless of change in ownership, to 3% per year for years following 2016.	SJC/SFC- SJC
SB 194 Smith	Repeal Venture Capital Investment Act: SB 194 Repeals a never used tax credit found in Article 2D of Chapter &, NMSA 1978. The proposal is a Revenue Stabilization and Tax Policy Committee endorsed bill.	SCORC/SFC -SCORC
SB 210 Cisneros	Hydrogen Fuel Production Tax Credits: SB 210 Creates a personal and corporate income tax credit in an amount equal to generation costs, but not to exceed \$1/kilogram for the for the first 4 million kilograms of hydrogen sold by a qualified fuel generator or resource generator. The credit can be carried forward for ten years and creates reporting requirements for the TRD.	SCORC/SFC -SCORC
SB 217 Sharer	Military Retirement Pay Tax Exemption: SB 217 Creates an exemption in the amount of 100% of military retirement benefits included in income.	SCORC/SFC -SCORC
SB 234 Leavell	Solar Energy Gross Receipts: SB 243 Expands the GRT deduction for sales of solar energy systems to include	SCONC/SC ORC/SFC-

	the lease of such systems. It also expands the definition of solar energy system to one that supplies public utilities in addition to the property it's on.	SCONC
SB 243 Fischmann	Tax Increment District Requirements: SB 243 Limits Tax Increment District authorizations to only those districts that include at least twenty private property owners without business or family interests in the district, is limited to redevelopment of public improvements to existing infrastructure for urban renewal ("brown field redevelopment"). Improvements must remain owned by the local government or state, approved by the board of finance, and authorized by law.	SCORC/SFC -SCORC
SB 244 Fischmann	Motor Excise Tax Increase & Offset: SB 244 Increases the Motor Vehicle Excise Tax from 3% to 3% of the first \$10K of value and 5% on any excess. The proposal also phases-out the trade-in deduction over time, to zero beginning 7/1/2013.	SCORC/SFC -SCORC
SB 256 Ortiz y Pino	Soft Drink Sales Gross Receipts: SB 256 Amends the gross receipts tax deduction for food (Section 7-9-93) to exclude the "soft drinks." The proposal also creates a new distribution in the amount of the additional tax to the county-supported Medicaid fund. Implicit implications are more detailed and complicated reporting will likely be required to implement the distribution requirements of the bill.	SPAC/SCOR C/SFC- SPAC
SB 258 B. Sanchez	Adjust Liquor Tax Distribution: SB 258 Increases the liquor excise tax across all beverage categories (i.e. beer from \$.41 to \$1.48/gal, and spirits from \$1.60 to \$3.85/liter) and changes distributions in an effort to hold the DWI grant fund to current distributions. Small wineries and local microbreweries are held harmless under this proposal. A new "mental health and substance abuse treatment fund" is created with and distributes 25.26% of the receipts from the tax to the new fund.	SCORC/SFC -SCORC
SB 264 Harden	Cigarette Taxes on Tribal Land: SB 264 Narrow's the tribal exemption of the cigarette tax to apply only to sales of cigarettes to a tribe or licensed tribal member for sale to a tribal member on that tribe's land. A "tax-credit stamp" is also created.	SIAC/SCOR C/SFC-SIAC
SB 282 Jennings	Tax Liability For Certain Physician Services: SB 282 Creates a credit for <i>doctors</i> in the amount of \$1000/ <i>patient</i> (up to 4) participating in cancer clinical trials. The purpose is to encourage physicians to participate as clinical trial investigators. The department is required to track the credit, along with all new credits, and report on its use and effectiveness annually.	SCORC/SFC -SCORC
SB 288 Ortiz y Pino	Sweetened Beverage Excise Tax: SB 288 Creates an excise tax on distributors for the sale of certain sweetened beverages at the rate of .5cents/ounce. Sales to the federal government, to vendors on tribal or pueblos lands, and to other retailers would be exempt. The proposal also requires distributors to obtain surety bonds. 95% of the proceeds would be distributed to the county-supported Medicaid fund, with the remaining 5% going to the new child obesity prevention fund	SCORC/SFC -SCORC

	created by the proposal. The money distributed to the county-supported Medicaid fund would explicitly not be subject to appropriation and is required to be spent on Medicaid.	

District of Columbia Tax Burden Study Released



The District of Columbia’s Office of Revenue Analysis recently issued its September 2010 report on 2009 tax burdens titled “Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison.” Like the prior years’ studies discussed in previous newsletters, the study compares tax burdens on a hypothetical family of three (two wage earning spouses and a school aged child), at five different gross income levels (\$25K, 50K, 75K, 100K, and 150K), and making certain consistent assumptions regarding spending, modeled the relative state and local tax burden of the District of Columbia compared to the largest city in each state. Taxes included in the study were sales, property, personal income, and automobile taxes. With a rank of 1 being the highest burden, the District found itself losing some ground relative to the prior year, appearing in the middle of the pack with scores in the 20’s and 30’s across income levels, scoring 25 overall. This year, Bridgeport Connecticut won the title as the city offering the highest tax burden to residents, followed – but not that closely - by Philadelphia which presented the highest overall burden in 2007 (and like last year, still scored number one in the \$25K category, leaving them with the title of most regressive as a consolation). Otherwise, Bridgeport managed some consistency by presenting the highest tax burden to its residents in all other income categories. Other states making it into the top five in some income category included Detroit, New York, Columbus, Portland, Louisville, Charlotte, Honolulu, Des Moines, Baltimore, and Birmingham. In aggregate across income levels, Bridgeport was followed by Philadelphia, New York City, Des Moines, and Detroit as the most burdensome.

Anchorage was the least burdensome overall, followed by Cheyenne, Jacksonville, Sioux Falls, Las Vegas, and Manchester. lost some ground by losing its title as the city with the lowest burden in the lowest three income categories. Billings, Montana again presented the lowest burden in the lowest income category, but failed to do so again the next lowest income category where they fell to 47.

Albuquerque fared the same as last year with a ranking of 37th highest burden in the \$25K gross income category , 26th highest in the \$50K category (also the same as last year), 30 in the \$75K category (down from 32), 34th in the \$100K category (down from 36), and 37 highest in the \$150K category (up from 35). Surrounding states’ largest cities of Houston, Phoenix, and Denver still tend to offer lower tax burdens to residents in the upper income categories, but not always in the lower. Salt Lake City and Oklahoma City ranked more burdensome at the \$25K level and at the \$50K level. At the \$75K level, Oklahoma City’s tax burden was higher than Albuquerque’s, with Salt Lake City’s slightly lower. Albuquerque was less burdensome at the remaining upper income categories. On a combined basis, Albuquerque ranked 36th least burdensome – same as last year - behind neighboring states Las Vegas, Houston, Phoenix and Denver, but ahead of Salt Lake and Oklahoma City – as was true last year.

The publication also includes a second report that compares tax rates of the fifty states and the District from sixteen tax program categories. The study can be found on the District's website [here](#). If you have trouble downloading it, you can find the PDF file on our website [here](#).

{NMTRI note: the study cautions that “readers are advised not to compare the hypothetical tax burdens across years; any number of small changes in state and/or local tax policy or in the assumptions of the study can result in misleading information under such comparisons. The purpose of the study remains to compare tax burdens on a hypothetical household in different jurisdictions in a specific year, and not over time.” This is particularly true at times like these with tax laws and rates in such a state of flux in so many jurisdictions. This study is a version of the “representative-firm” model in the context of families. As one can see, it is quite detailed and labor intensive, but limited as a result in the spectrum of variables it can explore (one family size/type and five gross income levels). As the authors point out, and are always true with this approach, the results are in part determined by the assumptions given and used, and the results may differ significantly with seemingly minor changes to those assumptions.}



Before the Sessions Started

In December and January, plenty of information was released. The consensus revenue forecast was revised for the last time in December. Some controversy and confusion was created prior to that with the Governor Richardson's estimates of the cost of providing current services differed dramatically from the Legislatures (\$450M vs. \$250M). The difference was assumptions (i.e. Legislative Finance Committee (“LFC”) assumed continuation of the austerity measures already in place and the Governor did not). Good news followed with an optimistic revision to the revenue forecast, reducing the less daunting LFC budget shortfall to \$211M. Both the LFC and Martinez administration issued proposed budgets that manage towards the LFC shortfall number, and aren't really that far apart in terms of approach. The December consensus forecast can be found on the LFC website [here](#). The LFC budget recommendations can be found on the LFC website [here](#), and the Martinez administration's proposal can be found on the Department of Finance and Administration website [here](#).

KNICK KNACKS

Californians Don't Understand Their Problems

According to an article in this morning's New York Times, only six percent of Californian's know where the majority of the state's money is spent and where it comes from. The result is not surprising and true in other states as well (not that the article's description of California's public finance system as “byzantine” that “even the professionals barely understand” isn't pretty accurate). The point being it's hard for the public to take positions on tax and spending issues when they don't understand how the fiscal system works. The article, which correctly identifies

over-reliance on volatile revenue sources like income and sales taxes as primary source of revenue loss (rather the Prop 13 or other issues), can be found on the Times website [here](#).

[NMTRI note: CA is not alone as plenty here in NM seem quite comfortable taking tax and spending positions in the absence of understanding our system]

TAX QUOTABLE:

“People who complain about taxes can be divided into two classes: men and women.”

~ Unknown

DON'T FORGET THE PRINCIPLES - REDUX



It is important, particularly when dealing with tough economies, tough budget decisions, and the emotionally charged subject of tax increases, to view the world from the framework of sound principles. Taxes serve an important purpose in that they raise the money to pay for the government services we need. But taxes can also create inefficiencies, distortions, and sometimes inequities. It is a better approach to look at our entire tax system rather than getting lost in the weeds focusing only on a particular rate or some item we choose to tax or not tax. Apart from the debate about how much money our state government should spend and on what, the state has to raise that money in ways which don't harm the economy, don't get in the way of job creation and that are seen as fair and equitable. Accordingly, we've taken the opportunity to reprint our principles of good tax policy here:

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.



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. We genuinely solicit your input and thank you for your support.



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"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.