

Federal Tax Reform Conformity, Personal Income Tax Reform, and Gross Receipts Tax Reform in New Mexico

Revenue Stabilization and Tax
Policy Committee

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Outline

- Historical and economic context for current tax reform discussion
- Issues for NM in conforming/responding to federal Tax Cuts and Jobs Act changes to personal income taxes (non-business)
 - Abbreviated version of 5/18 presentation by Institute on Taxation and Economic Policy to NMTRI annual policy conference
- Observations on tax policy priorities, addressing revenue volatility, and gross receipts tax reform

New Mexico Was Kansas before Kansas

Top rate of New Mexico's personal income tax cut more deeply than that of any state in recent memory (ever?)

| | Rate cut enacted | Top rate cut from/to | Percent cut in top rate | Percentage point cut in top rate |
|----------------|------------------|----------------------|-------------------------|----------------------------------|
| New Mexico | 2003 | 8.2% to 4.9% | 40% | 3.3 |
| Ohio | 2005, '13, '15 | 7.5% to 4.997% | 33% | 2.5 |
| Kansas | 2012 | 6.45% to 4.6% | 29% | 1.85 |
| North Carolina | 2013, '15, '17 | 7.75% to 5.25% | 32% | 2.5 |

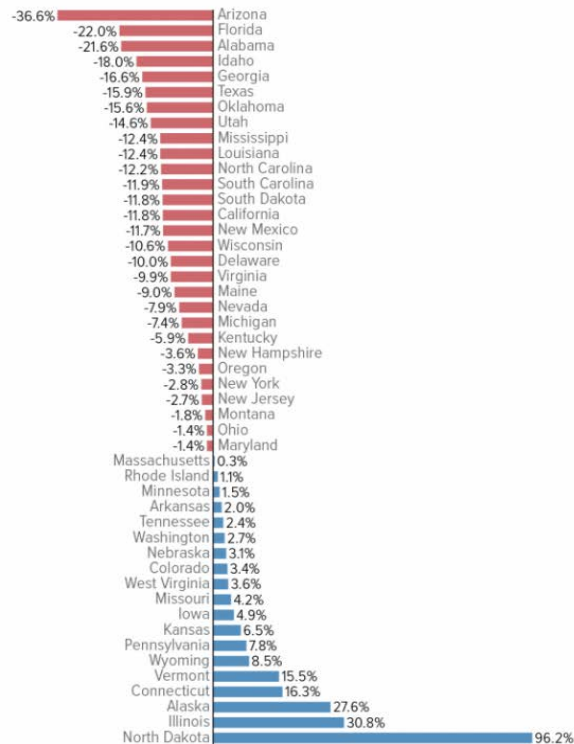
Other Components of New Mexico's Supply-Side Tax Cut Experiment

- 2003 tax cut package included 50% exclusion for long-term capital gains; still in place (1 of only 9 states with any capital gains break)
- Current annual revenue forgone from 2003 tax cuts ~\$500 million
- 2013 HB 641: top corporate top rate cut from 7.6% to 5.9%; single sales factor apportionment for manufacturers
- Current annual revenue forgone from 2013 tax cuts +\$145 million

New Mexico Has Cut State Per-Pupil K-12 Spending Deeply Since the Great Recession

Total State K-12 Funding Below 2008 Levels in Most States

Percent change in total state funding per student, inflation adjusted, fiscal years 2008-2015

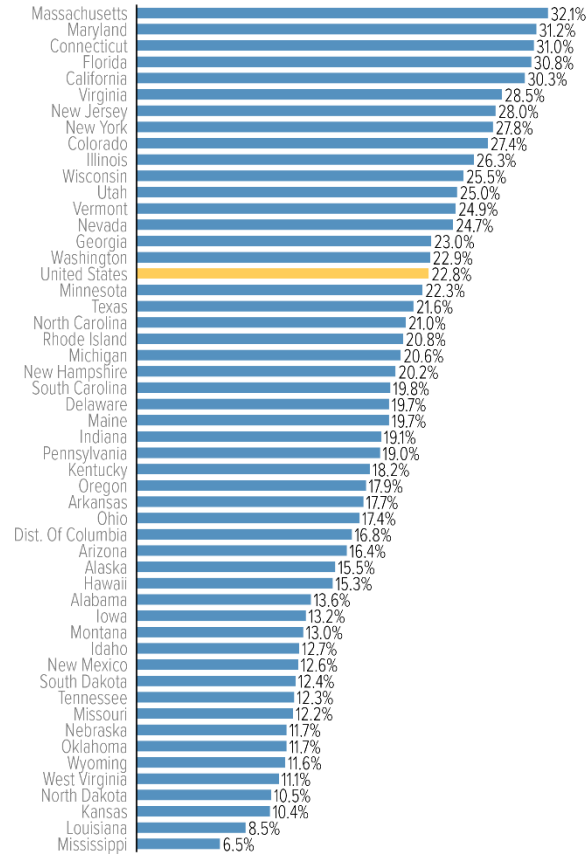


Note: Hawaii and Indiana are excluded because the data necessary to make a valid comparison are not available. Iowa and Wisconsin shifted funds from the local to the state level during the 2008-2015 period. We counted these funds as state funds in 2008 for an apples-to-apples comparison across the period.

Source: CBPP analysis of Census Bureau's Public Elementary-Secondary Education 2015 Data and National Center for Education Statistics enrollment estimates.

New Mexico Ranks Well Below Average on One Key Measure of High-School Performance

Percentage of the Class of 2017 Scoring a 3 or Higher on an Advanced Placement Exam



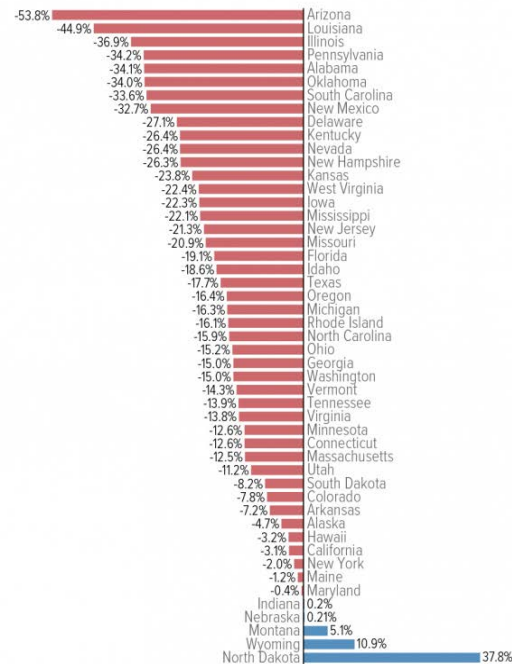
Source: AP Program Results: Class of 2017, College Board

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New Mexico Has Cut Per-Pupil Higher Education Spending Deeply Since the Great Recession

State Funding for Higher Education Remains Far Below Pre-Recession Levels in Most States

Percent change in state spending per student, inflation adjusted, 2008-2017

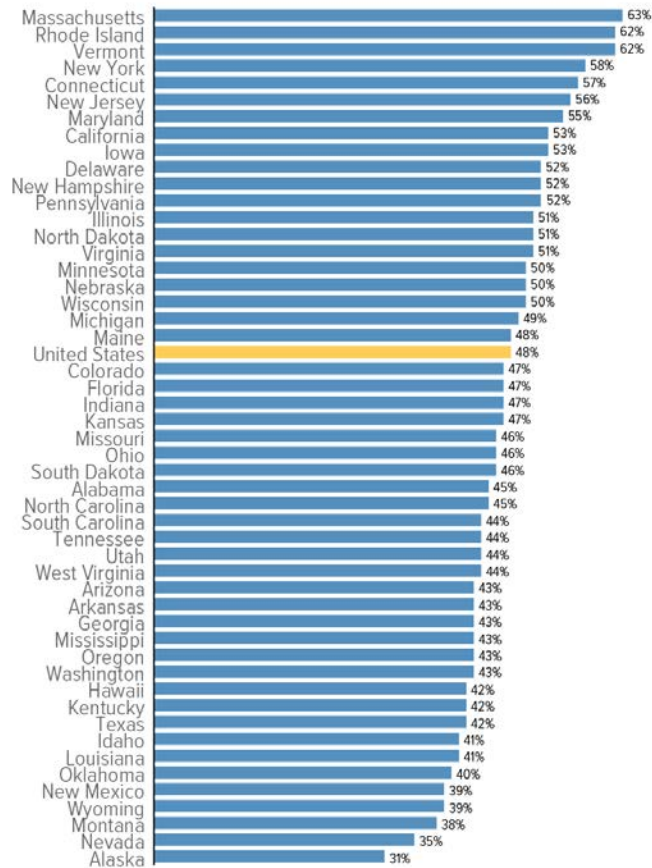


Note: Wisconsin was excluded because the data necessary to make a valid comparison are not available. Since enrollment data is only available through the 2015-16 school year, we have estimated enrollment for the 2016-17 school year using data from past years.

Source: CBPP calculations using the "Grapevine" higher education appropriations data from Illinois State University, enrollment and combined state and local funding data from the State Higher Education Executive Officers Association, and the Consumer Price Index, published by the Bureau of Labor Statistics. Illinois funding data is provided by Voices for Illinois Children.

New Mexico Can't Afford to Make College Less Affordable

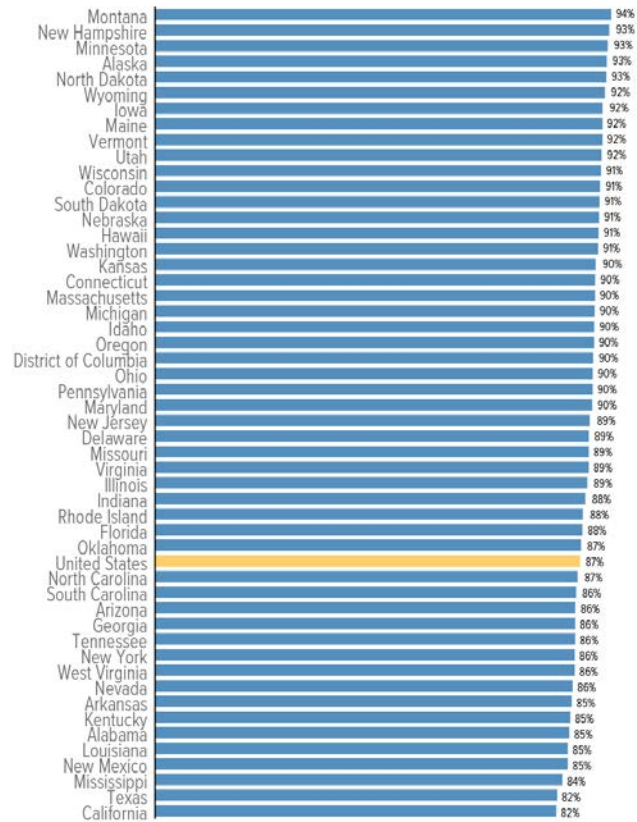
Percent of Young Adults 18-24 Enrolled in or Completed College, 2015



Source: Kids Count, Annie E. Casey Foundation

New Mexico Needs a More Highly-Educated Workforce to Be Economically Competitive

Percent of Residents with a High School Degree or Higher, 2015

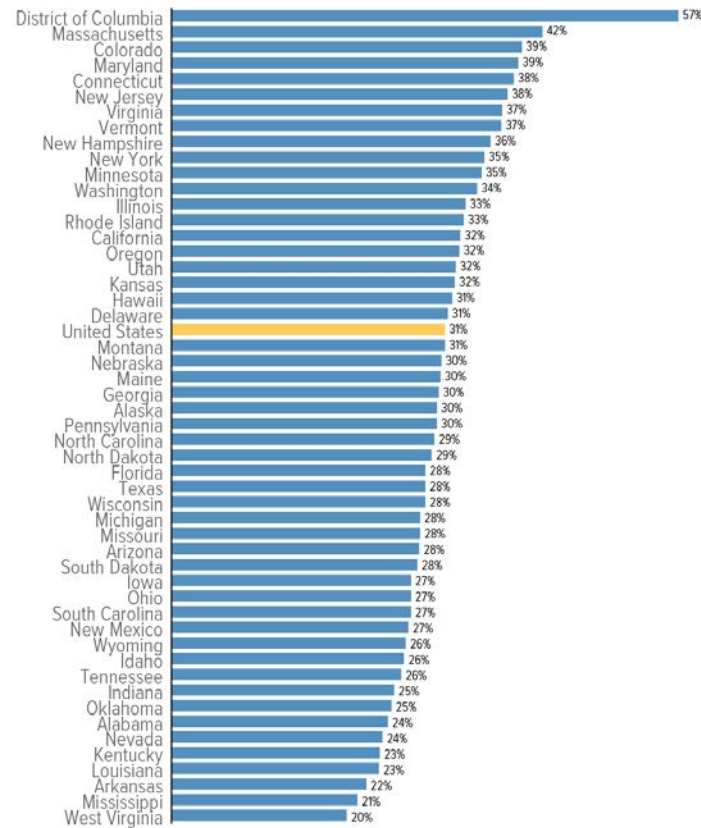


Source: ProQuest Statistical Abstract, 2016

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New Mexico Needs a More Highly-Educated Workforce to Be Economically Competitive

Percent of Residents with a Bachelor's Degree or Higher, 2015



Source: ProQuest Statistical Abstract, 2016

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Child Well-Being

- New Mexico ranked last among all states in index of overall child well-being in 2018 Kids Count Data Book (Annie E. Casey Foundation)
- New Mexico tied with Mississippi for highest child poverty rate in 2016, 30%

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