State of New Mexico
Legislative Council Service

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Information Memorandum

DATE: June 1, 2026

TO: Revenue Stabilization and Tax Policy Committee Members

FROM: Representative Derrick Lente, Chair

SUBJECT: REVENUE AND TAX POLICY PROPOSAL GUIDELINES FOR FISCAL YEAR 2028

I. Purpose

The Revenue Stabilization and Tax Policy Committee will use a structured tax budget process to develop, vet and recommend tax proposals for the upcoming legislative session. The process is intended to make tax policy development more consistent, transparent and comparable to the budget development process, which uses committee priorities, the fiscal outlook, performance expectations and evidence-based review to guide recommendations.

These guidelines are intended to help legislators, agencies, stakeholders and staff develop and evaluate tax proposals that are fiscally responsible, clearly justified and aligned with the state's goals and long-term revenue needs. The committee's goal is not only to decide which tax proposals should be recommended, but also to build a disciplined tax budget process that treats changes to the tax code with the same rigor, transparency and fiscal discipline used in the state budget process.

II. Fiscal Year (FY) 2028 Priority and Approach

The Revenue Stabilization and Tax Policy Committee's goal is to propose a revenue framework that supports a balanced budget and provides for policies that result in better outcomes and improved quality of life for New Mexico residents.

The general approach to tax policy development should emphasize balancing today's needs for improved outcomes with the long-term sustainability and prioritization of today's financial investments. This balance occurs as the state faces new challenges and opportunities stemming from federal budget reconciliation, a softening economic outlook, a changing energy landscape and an ever-evolving labor market. Long-term revenue forecasts signal the need for reforming existing tax expenditures to ensure responsible use of taxpayer dollars and prioritization of the highest-return investments, given the future decreased potential revenue from oil and gas.

Tax policy should be developed as part of the state's overall fiscal plan. Tax reductions in credits, deductions, exemptions, earmarks and rate changes affect the same recurring revenue base used to fund public schools, higher education, Medicaid, public safety, infrastructure and other state priorities. Therefore, tax proposals should be evaluated against competing budget and tax priorities, revenue sustainability and the opportunity cost of reducing or redirecting recurring revenue.

The committee will prioritize proposals that improve the structure of the tax code; support long-term economic growth, especially through increases in earned income; promote fairness; improve New Mexico residents' quality of life; and maintain sufficient revenue for essential public services as evaluated against principles and guidelines set forth in this document. When proposals are analyzed, consideration should be given to the return on investment, protections from revenue instability, future revenue needs, existing policy redundancy and recent uptake of tax programs.

III. Tax Policy Principles

Tax proposals considered by the committee should be evaluated using the following principles:

- **Adequacy** The tax system should raise sufficient revenue to fund needed government services and maintain long-term fiscal stability.
- **Efficiency** The tax base should be as broad as possible, avoid unnecessary distortions in taxpayer behavior and avoid excessive reliance on a single revenue source. Tax incentives and preferences should

prioritize the highest return and lowest cost per intended behavior to ensure that taxpayer dollars are used effectively.

- **Equity** Similarly situated taxpayers should be treated fairly, and proposals should consider impacts across income groups, industries, regions and local governments.
- **Simplicity** Tax provisions should be understandable, administrable and easy for taxpayers and the Taxation and Revenue Department to comply with and enforce.
- **Accountability** Tax preferences should be measurable, monitorable and subject to review, reporting and repeal if they do not meet their stated purposes.

IV. Treatment of Tax Proposals

Tax policy proposals should include the following information when presented to the committee:

- **<u>Clearly stated purpose.</u>** A proposal should identify the problem that it is intended to solve and explain why a tax policy change is the appropriate tool. The lack of or inability to identify a clearly stated purpose prevents the evaluation of proposals and the appropriate designing necessary to effectively craft prudent policies. For economic development incentives, the purpose should be included in the language of the proposal itself.
- **<u>Theory of change or logic model.</u>** A proposal should explain how the tax change is expected to produce the intended outcome, including the taxpayer behavior it is intended to affect.
- **<u>Measurable goals and targets.</u>** A proposal should identify expected outcomes, the population or activity affected and how success will be measured.
- **<u>Fiscal impact.</u>** A proposal should include estimated impacts to the General Fund, local government funds and other funds, including whether the impacts are recurring or nonrecurring.

- **Expiration date.** A tax preference should include a sunset date and a delayed repeal for regular evaluation of effectiveness.
- **Expenditure caps where possible.** A credit, rebate or other tax expenditure should include an annual or aggregate cap when administratively feasible to protect the state from open-ended and volatile liabilities.
- **Effective targeting.** A proposal should clearly identify eligible taxpayers or activities and avoid benefits that are broader than necessary to achieve the stated purpose.
- **Reporting requirements.** A proposal should require sufficient reporting to allow the legislature and the public to monitor utilization, fiscal cost and outcomes. A proposal should provide for data collection, sharing and analysis necessary to evaluate performance.

Tax expenditures that are proposed without a clear purpose, have no measurable outcomes, cannot be evaluated, provide benefits unrelated to the stated policy goal or are lacking in the above criteria may receive lower priority. The tool kit included in the appendix of these guidelines serves to support requests in meeting and addressing the criteria and questions of this section.

Appendix: Seven Elements to Tax Policy Design*

1 Tax policy Premise

What public problem does this tax policy seek to address? How will this tax policy address the problem?

2 Needs Assessment

What is the extent of the problem stated in numerical, geographic, and equity terms? What portion of the total need identified does this tax policy seek to address?

3 Tax policy Description

What specific activities affected or incited by the tax policy will achieve these expected outcomes? How many individuals do you expect to affect? Once the tax policy is fully operational, what are the estimated annual costs?

4 Research and Evidence

Is the tax policy based on evidence or research or a promising practice? Will it need formal evaluation?

5 Implementation Plan

What activities like outreach, marketing, auditing, or certifications are needed to effectively implement the tax policy? How much will it cost? What is the timeline for each activity?

6 Fidelity Plan

Will the tax policy be implemented equitably and with fidelity? Does the research literacy include a checklist of the tax policy components need to achieve the impacts?

7 Measurement and Evaluation

What specific outcomes are expected? Does the project logic model include measures of tax policy outputs, outcomes, quality, and efficiency? How often will the tax policy be measured and evaluated?

***Based on the Legislative Finance Committee's Budget Development Tool in its Fiscal Year 2027 Budget Request Guidelines, available online at the link below:**

https://www.nmlegis.gov/entity/lfc/Documents/Information_For_State_Agencies/FY27%20Budget%20Guidelines%20with%207%20Elements%20Tool%20FINAL.pdf.