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RECOMMENDATIONS OF THE BLUE RIBBON TAX REFORM COMMISSION AND REVIEW OF CREDITS AND EXEMPTIONS ADOPTED SINCE 2003

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OVERVIEW:

Today's presentation provides background on tax reform efforts of recent years. The presentation is organized as follows:

1. A review of the recommendations of the Blue Ribbon Tax Reform Commission:
   a. Provisions subsequently adopted by the Legislature, and
   b. Provisions not adopted by the Legislature;
2. Tax policy principles adopted by the Legislative Finance Committee;
3. Evaluation of recently-adopted tax incentives in light of tax policy principles.

BACKGROUND:

The Blue Ribbon Tax Reform Commission (BRTRC) was created by Laws 2003, Chapter 77 (HB 168) and was charged to "develop recommendations for reform of New Mexico's tax laws to establish a balanced tax system that provides maximum economic development benefits and maintains necessary government services at an appropriate level."

The commission's general goal was to align New Mexico's taxes more closely with its economy and its future. The commission focused on 8 key issues when formulating its recommendations (see Appendix A for detailed descriptions):

a. Tax relief for low and middle-income families
b. Gross receipts tax of medical practitioners and hospitals
c. Gross receipts tax on food for home consumption
d. Tax treatment of commercially active nonprofits
e. Personal income tax rates and capital gains
f. State road fund sources
g. Liquor and other excise taxes
h. Corporate income taxes

In addition, the Commission sought to address a number of concerns about tax administration.

A significant cut in personal income tax rates and capital gains taxation enacted during the 2003 regular session had reduced state revenues significantly. This meant that any Commission proposals that significantly reduced revenue would have to be partly or completely offset by provisions to raise revenue. In addition, since most of the relief in these changes was targeted at middle and upper income households, the Commission focused its attention on ways to provide new relief for lower income households.

Another major constraint on the Commission's deliberations was the limited amount of time – about 5 months -- available for their deliberations. With so many topics to consider and so little time, the Commission opted to defer recommendations on some major issues such as pyramiding of the gross receipts tax and property tax reform.

RECOMMENDATIONS:

Despite these limitations, the Commission and their staff developed a comprehensive set of 196 separate proposals to improve the tax system (see Appendix B-1 of the BRTRC report for a complete listing). Of these 196 proposals considered, 71 specific recommendations were adopted by the commission. Recommendations affecting the General Fund were intended to be approximately revenue neutral, while those affecting the Road Fund were intended to raise revenue. The fiscal impacts of those 71 recommendations are laid out in Appendix A of this brief and a more detailed description of each item and arguments for and against the options are presented in Appendices A-2 through A-10, Volume I of the BRTRC report.

Among the more important proposals that were not recommended were removing GRT from sales of food for home consumption, and imposing GRT on commercially active non-profits.

In the immediate aftermath of the Commission, the 2003 Special Session adopted a number of its recommendations for increasing Road Fund revenue. Subsequent legislative sessions have adopted a number of other recommendations:

- Income tax credits and exemptions targeted at low- and middle-income households;
- GRT deductions for medical service providers;
- GRT credits for hospitals;
- Consolidate the head of household filing status with married filing joint;
- Provide motor vehicle excise tax relief for fuel-efficient vehicles;
- Provide a small business R&D GRT "holiday;"
- Create a high-wage jobs tax credit;
- Expand the Governmental GRT tax base;
- Increase GRT authority for counties;
- Tax administration proposals.

Appendix B of this report provides a list of Commission recommendations that have not been adopted by the legislature along with the estimated fiscal impacts of each provision. Provisions with a fiscal impact greater than $10 million include:

- Phase out capital gains deduction but allow for closely-held businesses, +$14 million;
- Repeal the "next sale taxable" requirement for GRT deduction, -$30 million;
- Reduce the Corporate income tax rate and require unitary reporting, -$2 million;
- Impose local option compensating tax and apply compensating tax to imported services, +$15 million;
- Enact property transfer tax on residential property re-sales, +$12 million;
- Raise motor vehicle excise tax rate to 4.5%, +$41 million;
- Increase School tax rate on oil to 4% from 3.15%, +$30 million.

In addition, the GRT deduction for food sold for home consumption was adopted, along with repeal of the 0.5% credit in municipal areas.

TAX POLICY PRINCIPLES:

In 2009, the Legislative Finance Committee adopted a set of tax policy principles that would provide guidelines to the legislature when considering legislation affecting revenues.

1. **Adequacy:** revenue should be adequate to fund government services.
2. **Efficiency:** tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.
3. **Equity**: taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.
4. **Simplicity**: taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.
5. **Accountability/Transparency:** Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.

In order to implement these policies, decisionmakers will need to be aware of trade-offs between them, and will at times have to place greater emphasis on one policy goal than another. For example, in striving for the goal of a broad tax base with a low tax rate, the gross receipts tax has been applied to many business-to-business transactions, creating "pyramiding" which causes inefficiency and inequity. In addition, lawmakers often must balance non-tax policy principles with these principles.

CREDITS AND EXEMPTIONS ADOPTED SINCE THE BLUE RIBBON COMMISSION:

Appendix C shows the tax credits, deductions and exemptions passed by the Legislature since the BRTRC report was released, along with an indication of whether the provision contributes to or detracts from the state's efforts to achieve each of the tax policy principles. In the remainder of our presentation we will discuss some of the major provisions that have been adopted and their implications for the tax policy principles.

"Family" Tax Relief – Total annual General Fund impacts $138 million:

Providing tax relief to low income households creates a tension between the adequacy principle and the equity principle. Income tax relief like the Working Families Tax Credit and the Low income personal exemption can be carefully targeted to needy households because the needed information is contained on tax returns. Nonetheless, these programs create a drain on state revenues, a large portion of which are used to fund services for the poor like Medicaid and public education. Because it is a refundable credit, the federal Earned Income Tax Credit, on which the Working Families Credit is based, has raised concerns over accountability in the past.

Although originally estimated to be revenue neutral – in a package with a medical services GRT deduction and repeal of the 0.5% credit in municipal areas – the GRT deduction for food sales is now estimated to reduce General Fund revenue by $75 million per year.[1] Thus with hindsight, these provisions raise adequacy concerns that were not addressed at the time they were approved. The proposal raises efficiency concerns because it narrowed the tax base while raising the tax rate. The equity goal was advanced because the food deduction reduced to some degree the regressivity of the GRT. However, this effect was offset to some extent by the increase in the GRT rate and also because food purchased with food stamps was already deductible. Although not the most complicated deduction to interpret, the need for separate reporting for the hold harmless provision has reduced simplicity, both for taxpayers and for the Tax Department.

A variety of other provisions have targeted services for low-income households – housing, back-to-school purchases, etc. These programs fail the efficiency, simplicity and accountability principles because they provide assistance only via indirect and poorly-targeted mechanisms. Direct low-income relief through the personal income tax credits is a more efficient tool.

Medical services – Annual impacts $67 million:

The deduction for medical services reimbursed by managed care organizations (MCO's) was among the recommendations endorsed by the Blue Ribbon Commission. The Commission responded to the non-tax policy concern that failure to provide the deduction could exacerbate the shortage of medical professionals serving the state. Similar concerns gave rise to the GRT deduction for hospital construction, the GRT credit for unreimbursed care, the income tax credit for rural health practitioners, the GRT credit for hospital operations and others.

These proposals raise adequacy concerns because they reduced the future growth of the tax base. In addition, by reducing the portion of the tax base borne directly by consumers, these policies shift more of the base to business-to-business transaction, reducing efficiency. An argument can be made that economic efficiency is enhanced by improving the health of the state's population, but the connection between these provisions and that outcome has not been clearly established. The attempt to limit GRT relief to certain types of reimbursements has reduced the equity and simplicity of the tax system. Finally, the hold harmless provisions associated with some of these provisions have reduced simplicity for taxpayers and for the Tax Department.

Although an argument can be made that subsidizing health care is an important use of public funds, the state and the federal government already contribute so much to the financing of health care on the expenditure side of their budgets that it is not clear why additional subsidy on the tax side of the budget is warranted. In addition, these provisions are largely "off-budget" when the State plans its health care spending, reducing the accountability that should be required for the public use of these funds.

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[1] Approximate fiscal impacts of each provision: Food deduction -$210 million; Medical deduction -$70 million; Eliminate 0.5% credit +$180 million. The $75 million estimate for food assigns a proportionate share of the net negative impacts of all three provisions.

Economic development – Annual impacts $95 million:

Two economic development initiatives endorsed the Commission were subsequently approved by the Legislature: the High-Wage Jobs Tax Credit and the Small Business Research and Development Tax Holiday. Other recent economic development provisions include the Film Production Tax Credit, extension of the manufacturer's investment tax credit, extension of double-weighted sales apportionment for manufacturers, GRT deduction for military base construction, a locomotive fuel tax exemption and tax increment financing for development districts.

Incentives targeted at particular industries raise concerns of <u>adequacy</u> – due to the potential drain on state funds -- <u>equity</u> – the failure to treatment all businesses equally – <u>simplicity</u> – because businesses must jump through so many hoops to qualify – and <u>accountability</u> – because the Tax Department is in no way capable of insuring that funds are being used for the intended purposes. An argument can also be made that these incentives fail the <u>efficiency</u> principle because they substitute political decisions about the allocation of resources for decisions made in the marketplace. Offsetting these is the hope that incentives can be carefully targeted to stimulate activity that would not otherwise occur in the state, thus generating lasting long-term growth with its potential to increase private and public economic resources in the state.

The debate over economic development incentives is unlikely to be resolved soon. Economists and tax policy specialists point out that differences between states in state and local taxes are rarely large enough to cause a company to pick up and move. In response, economic developers point to examples of companies who have cited taxes as a primary determinant of their location decisions. In response to this response, economists point to the lack of statistical evidence that targeted tax policies are important determinants of long-term economic growth. Politicians, who represent specific communities and have little patience with statistical analysis, appear to be more comfortable with the "bird in the hand" of a targeted relocating company, rather than the "two birds in the bush" of potential long term growth by anonymous companies.

By limiting its fiscal exposure on incentives, the state has tried to contain the potential equity, efficiency and simplicity harm these policies can do while deriving as much benefit as possible form targeted relief. This approach guarantees that lawmakers will be approached by a never-ending line of special interests seeking beneficial treatment, with unfortunate consequences for all of the principles of good tax policy endorsed by the LFC. To improve the state's management of this process, the Committee might consider adopting a set of guidelines that could be used to evaluate economic development proposals. One possible set of guidelines is attached as Appendix D to this report.

Renewable energy – Annual impacts $11.2 million:

Numerous tax provisions targeted at encouraging renewable energy have been implemented in recent years: Solar market tax credits, renewable energy production tax credits, Sustainable Building Tax Credits, GRT deductions for wind and solar facilities, tax credits for renewables-powered generating plants, etc.

These policies are not intended to achieve tax policy objectives, they are "tax expenditures" in the sense of using public funds to subsidize certain private activities. They should be evaluated primarily using the criteria of expenditure policy – essentially cost-benefit principles. The challenge to this analysis will be in determining the appropriate level of state subsidy to these activities, because the benefits are so hard to quantify.

Notwithstanding the above discussion, these provisions do have tax policy implications. The electricity sector has traditionally been an important revenue source for the state. Thus, renewable incentives pose a potential threat to revenue adequacy if they are not reduced or eliminated as the sector grows. The good news is that most of the provisions contain sunset language, the bad news is that, when sunsets approach two things tend to happen: (1) advocates for the provisions argue that their continuation is essential, and (2) revenue estimators may not have accurate information with which to evaluate the fiscal impacts of extending the sunset. The result is often a "policy drift" without a serious attempt to evaluate the efficacy of the policies.

In addition, tax policies may not be the most efficient way to subsidize these activities. As an example, the proposal to make some of these credits transferable substantially reduces the efficiency in the use of public funds. This is because tax credit purchasers rarely pay sellers the full face value of the credits. Thus, for every dollar in credits the state gives up, the party that actually performs the desired activity receives less than a dollar and the remainder is wasted.

Conclusions:

Credits and exemption adopted in the last 6 years reduce annual General Fund revenue by $345 million, equivalent to almost 7% of recurring revenue. Although this report does not attempt a comprehensive evaluation of all of these provisions, a comparison with the principles of good tax policy adopted by the LFC suggests that the state has accepted many trade-offs in adopting these policies. In particular, the cumulative impact of these provisions raises serious concerns about adequacy of state revenue. The size of this impact also suggests that a piecemeal approach to tax policy has not served the state well. Not only are tax provisions targeting a particular policy goal not well coordinated, the relation between tax policy and expenditure policy in the same areas is seldom addressed. The implication is that the efficiency, equity, simplicity and accountability in the use of state funds may be seriously compromised.

One policy option being considered in the state is the preparation of a tax expenditure budget. Such documents can become a lightning rod for controversy, used by opponents and proponents of individual provisions to rehash old policy debates indefinitely. However, given the importance of the issues raised here, the LFC may want to take an active hand in the development of such a report, with the goal of insuring that it helps the state to improve accountability in the use of its foregone tax revenues.

BLUE RIBBON TAX REFORM COMMISSION
REVENUE IMPACT TABLE
OPTIONS ADOPTED BY THE COMMISSION

		FY 2005 Full-Year Impacts in Millions of Dollars						
		General Fund	Road Fund			Other State Funds	Local Revenue	Total Revenue
			1st Phase	2nd Phase	3rd Phase			
	STREAMLINED SALES TAX							
1	Participate in streamlined sales tax initiative	NI					NI	NI
	FAMILY							
	Providing Additional Income Tax Relief to Families and Restoring Progressivity of the Income Tax							
2	Increase LICTR using some of the FAIR concepts and provide an increase in personal exemption amounts for certain taxpayers; add food stamps to definition of modified gross income	(45.0)						(45.0)
3	Phase out capital gains deduction for high-income taxpayers	17.0						17.0
4	Provide capital gains deduction for sales of closely held businesses	(3.0)						(3.0)
5	Consolidate filing status to two categories - benefits heads of households who would be combined w/ married filing joint	(2.4)						(2.4)
	MEDICAL SERVICES							
	Reducing, Eliminating or Compensating for the Gross Receipts Tax (GRT) on Health Care Practitioners							
6	Deduction for all practitioners for reimbursements from commercial managed care and Medicare "C"--no hold harmless--add a sunset provision	(21.4)					(18.8)	(40.2)
	ECONOMIC DEVELOPMENT							
	Gross Receipts Tax Pyramiding							
7	Repeal the "next sale taxable" requirement of 7-9-48 except for sales to governments and nonprofits	(30.0)					(20.0)	(50.0)
	Corporate Income Tax							
8	Two-tier rate with a top rate of 6.4%	(18.0)						(18.0)
9	Require all corporations to file using the unitary method; use the current NM definition of unitary corporation and nexus (at 6.4%)*	16.0						16.0

BLUE RIBBON TAX REFORM COMMISSION
REVENUE IMPACT TABLE
OPTIONS ADOPTED BY THE COMMISSION

		FY 2005 Full-Year Impacts in Millions of Dollars						
		General Fund	Road Fund			Other State Funds	Local Revenue	Total Revenue
	*Effective for 2005 tax year; revenue impact would not occur in FY 2005.							
10	Decouple from federal bonus expensing provisions (at 6.4%)*	6.0						6.0
	*Average revenue over 4 years.							
	Economic Development Incentives							
11	Require a study of all economic development incentives	NI					NI	NI
12	Provide a high-wage jobs tax credit	(1.5)						(1.5)
13	Provide a "tax holiday" for small, high-tech research businesses	(1.0)						(1.0)
14	One-time motor vehicle excise tax exemption for purchase of clean, fuel-efficient vehicles	(0.5)						(0.5)
	Franchise Tax							
15	Increase the franchise tax from $50 to $100	2.5						2.5
16	Impose franchise tax on limited liability companies and other flow-through entities at $100	2.4						2.4
17	Increase annual filing fee for for-profits and nonprofits to $100	3.0						3.0
	Administrative Reforms							
18	Implement an independent hearing process	NI					NI	NI
19	Raise the minimum amount of tax for which an assessment may be issued from $10 to $25	NI					NI	NI
20	Taxpayer election to use rules of civil procedure	NI					NI	NI
21	Provide for protective claims	NI					NI	NI
22	Modify interest paid on deficiencies and overpayments	(4.0)						(4.0)
23	Raise the minimum penalty for failing to file from $5 to $25	0.5						0.5
24	Allow taxpayers to request regulations	NI					NI	NI

BLUE RIBBON TAX REFORM COMMISSION
REVENUE IMPACT TABLE
OPTIONS ADOPTED BY THE COMMISSION

		FY 2005 Full-Year Impacts in Millions of Dollars						
		General Fund	Road Fund			Other State Funds	Local Revenue	Total Revenue
25	Eliminate nontaxable transaction certificate (NTTC) conversion deadline	NI					NI	NI
26	Eliminate 60-day limit on NTTCs	NI					NI	NI
	EQUITY							
	Gross Receipts Tax & Compensating Tax Issues							
27	Reporting requirement for certain nonprofits - convert the exemption for 501(c)(3) and (c)(6) organizations with receipts in excess of $250,000 (adjusted for inflation annually) to a deduction, excluding churches	NI					NI	NI
28	Expand 7-9-73.1 deduction for for-profit hospitals from 50% to 100%	(7.0)					(5.0)	(12.0)
29	Tax employee leasing like temporary services	5.0					4.0	9.0
30	Tax bail bondsmen under GRT rather than insurance premiums tax	0.2					0.1	0.3
31	Repeal 7-9-54.1, deduction for R&D sales to one, specific aerospace corporation that did not locate in New Mexico	NI					NI	NI
32	Convert 7-9-55 to a "delivery rule"	(0.1)						(0.1)
33	Put agricultural implements, aircraft and vehicles not required to be registered under the Motor Vehicle Code under the motor vehicle excise tax (4% rate with .5% to road fund)	5.1		1.5			(4.0)	2.6
34	Repeal deduction for newspapers	1.2					0.8	2.0
35	Eliminate deduction in 7-9-65 for sales of chemicals and reagents in excess of 18 tons sold to unspecified entities	0.3					0.2	0.5
36	Repeal 7-9-70 deduction for leasing vehicles used in interstate commerce	0.1						0.1
37	Remove the $5,000 limit in 7-9-74 for property used in the manufacture of jewelry	(0.1)						(0.1)
38	Apply GRT to rental of storage units	0.8					0.5	1.3

BLUE RIBBON TAX REFORM COMMISSION REVENUE IMPACT TABLE OPTIONS ADOPTED BY THE COMMISSION								
		FY 2005 Full-Year Impacts in Millions of Dollars						
		General Fund	Road Fund			Other State Funds	Local Revenue	Total Revenue
39	Reduce municipal GRT credit (reflects .125% reduction); increase municipal distribution to 1.25%	29.0					7.3	36.3
40	Impose local option compensating taxes	(3.8)					14.1	10.3
41	Apply compensating tax to all imported services	14.5					3.6	18.1
42	Impose compensating tax on certain on-reservation purchases	NA						NA
	OTHER STATE-IMPOSED GROSS RECEIPTS TAXES							
43	Expand governmental gross receipts tax (GGRT) base to include receipts from parking, airport fees, marina fees, etc.					5.0		5.0
44	Raise the interstate telecommunications gross receipts tax (ITGRT) to 5%	1.5						1.5
45	Increase leased vehicle GRT surcharge by $2 per day to $4	6.6						6.6
	PROPERTY TAX							
46	Study Property Tax Code administrative provisions and other issues, including ad valorem taxes on state land	NI						NI
47	Enact property transfer tax on residential re-sales with graduated rates of 1% to 2% on amounts over $100,000	12.0					8.0	20.0
	SELECTIVE EXCISE TAXES							
	Motor Vehicle Excise Tax							
48	Raise rate to 4.5%, phased in over 2 years, with .5% to road fund	41.3		20.7				62.0
49	Establish default value for sales of used vehicles (at 4.5% with .5% to road fund)	1.0		0.1				1.1
	Cigarette Tax							
50	Capture tax on sales of tobacco to non-Indians on tribal land following government-to-government negotiations	3.2				1.1	0.2	4.5
51	Combine distributions to local governments						0.0	0.0

BLUE RIBBON TAX REFORM COMMISSION REVENUE IMPACT TABLE OPTIONS ADOPTED BY THE COMMISSION								
		FY 2005 Full-Year Impacts in Millions of Dollars						
		General Fund	Road Fund			Other State Funds	Local Revenue	Total Revenue
52	Eliminate discount for stamping	1.0				0.3	0.1	1.4
	Tobacco Products Tax							
53	Raise rate from 25% to 45%	3.0						3.0
	Insurance Premiums Tax							
54	Subject third-party administrators to GRT	+ ND					+ ND	+ ND
55	Implement a pilot project to enhance Insurance Division funding	NA						NA
	Pari-mutuel Tax							
56	Eliminate economic development credit; earmark 50% of receipts to State Fair for capital improvements, except for casino & racetrack	0.9				0.9		1.8
57	Expand track hours	4.2						4.2
	Boxing and Wrestling Taxes							
58	Change to fee and authorize agreements with tribal govts.	NA						NA
59	Exempt receipts from GRT	(0.7)					(0.5)	(1.2)
	Oil & Gas Emergency School Tax							
60	Increase tax rate on oil to 4% from 3.15%	11.0						11.0
	Other Taxes							
61	Enact 33% tax on collected punitive damages, after attorney fees and expenses, w/ receipts earmarked into a public trust fund					+ ND		+ ND
	TRANSPORTATION FUNDING							
	Gasoline Tax							
62	Increase by 2 cents immediately		16.8					16.8
63	Index tax; impose a 1-cent-per-year limit				8.4			8.4

BLUE RIBBON TAX REFORM COMMISSION
REVENUE IMPACT TABLE
OPTIONS ADOPTED BY THE COMMISSION

		FY 2005 Full-Year Impacts in Millions of Dollars						
		General Fund	Road Fund			Other State Funds	Local Revenue	Total Revenue
	Special Fuels Tax							
64	Increase by 3 cents immediately		13.2					13.2
65	Index tax rate; impose a 1-cent-per-year limit				4.4			4.4
	Weight-Distance Tax							
66	Improve cab-card system and charge an administration fee		+ ND			+ ND		+ ND
67	Increase rate by 26.26%		13.8					13.8
	Oversize/Overweight Permits							
68	Increase fixed fees to equal liquid hauler fee		1.3					1.3
69	Impose additional ton-mile fee for overweight		2.0					2.0
	Vehicle Registration Fees							
70	Increase by an average of $12.50 per year		14.2				7.2	21.4
	COUNTY LOCAL OPTION TAX REORGANIZATION							
71	Consolidate various options and authorize new authority						up to 90.0*	up to 90.0*
							*depends on local decisions	
	Total, General Package (Excluding Road Fund)	50.8				7.3	(2.2)	55.9
	Total, Transportation Package (Road Fund)		61.3	22.3	12.8			96.4

NOTES:

NA: Not enough information on the proposal to enable a fiscal estimate.

ND: Data are not available to permit evaluation.

NI: No fiscal impact.

Revenue amounts provided by the Taxation and Revenue Department and the Department of Transportation. Amounts could change based on specific language in proposed legislation and effective dates.

APPENDIX B

Blue Ribbon Tax Reform Commission Recommendations adopted by commission but NOT adopted by legislation With a General Fund impact As of June 2009		
	FAMILY	FY 05 General Fund Fiscal Impact ($ millions)
3	Phase out capital gains deduction for high-income taxpayers	17.0
4	Provide capital gains deduction for sales of closely held businesses	(3.0)
	ECONOMIC DEVELOPMENT	
	Gross Receipts Tax Pyramiding	
7	Repeal the "next sale taxable" requirement of 7-9-48 except for sales to governments and nonprofits	(30.0)
	Corporate Income Tax	
8	Two-tier rate with a top rate of 6.4%	(18.0)
9	Require all corporations to file using the unitary method; use the current NM definition of unitary corporation and nexus (at 6.4%)	16.0
10	Decouple from federal bonus expensing provisions (at 6.4%)	6.0
	Franchise Tax	
15	Increase the franchise tax from $50 to $100	2.5
16	Impose franchise tax on limited liability companies & other flow-through entities at $100	2.4
17	Increase annual filing fee for for-profits and nonprofits to $100	3.0
	Administrative Reforms	
23	Raise the minimum penalty for failing to file from $5 to $25	0.5
	EQUITY	
	Gross Receipts Tax & Compensating Tax Issues	
29	Tax employee leasing like temporary services	5.0
30	Tax bail bondsmen under GRT rather than insurance premiums tax	0.2
32	Convert 7-9-55 to a "delivery rule"	(0.1)
33	Put agricultural implements, aircraft and vehicles not required to be registered under the Motor Vehicle Code under the motor vehicle excise tax (4% rate with 0.5% to road fund)	5.1
34	Repeal deduction for newspapers	1.2
35	Eliminate deduction in 7-9-65 for sales of chemicals and reagents in excess of 18 tons sold to unspecified entities	0.3

36	Repeal 7-9-70 deduction for leasing vehicles used in interstate commerce	0.1
37	Remove the $5,000 limit in 7-9-74 for property used in the manufacture of jewelry	(0.1)
40	Impose local option compensating taxes	(3.8)
41	Apply compensating tax to all imported services	14.5
42	Impose compensating tax on certain on-reservation purchases	NA
44	Raise the interstate telecommunications gross receipts tax (ITGRT) to 5%	1.5
	Leased Vehicle GRT and Surcharge	
45	Increase leased vehicle GRT surcharge by $2 per day to $4	6.6
	PROPERTY TAX	
47	Enact property transfer tax on residential re-sales with graduated rates of 1% to 2% on amounts over $100,000	12.0
	SELECTIVE EXCISE TAXES	
	Motor Vehicle Excise Tax	
48	Raise rate to 4.5%, phased in over 2 years, with .5% to road fund	41.3
	Cigarette Tax	
50	Capture tax on sales of tobacco to non-Indians on tribal land following government-to-government negotiations *Tobacco Products Tax*	3.2
53	Raise rate from 25% to 45%	3.0
	Insurance Premiums Tax	
54	Subject third-party administrators to GRT	+ND
	Oil and Gas Emergency School Tax	
60	Increase tax rate on oil to 4% from 3.15%*	30.0

Notes:

NA: Not enough information on the proposal to enable a fiscal estimate.

ND: Data are not available to permit evaluation.

NI: No fiscal impact.

Revenue amounts provided by TRD and DOT. Amounts could change based on specific language in proposed legislation and effective dates. All amounts based on original blue ribbon task force information and all amounts are FY05 amounts, today's amounts could be significantly different.

*Estimate updated to FY 2011 by LFC staff to reflect new oil price forecast.

Appendix C

TAX CREDITS & EXEMPTIONS 2004 - Present	Est. Gen. Fd. Impact FY 2011 ($ million)	Principles to guide responsible and effective tax policy decisions: Adequacy	Efficiency	Equity	Simplicity	Accountability / Transparency
FAMILY						
Food Gross Receipts Deduction (Laws 2004, Ch. 15)	(75.0)	×	×	✓	×	×
Working Families Tax Credit (Laws 2007, Ch. 45)	(30.0)	×		✓	✓	×
Low & Moderate Income Tax Exemption (Laws 2005, Ch. 104)	(30.0)	×		✓	✓	✓
Affordable housing tax credit (Laws 2005, Ch. 104)	-			✓	×	×
Back-to-school GRT holiday (Laws 2005, Ch. 104)	(2.7)	×	×	✓	×	×
Income Tax Deduction for Organ Donation (Laws 2005, Ch. 113)	(0.0)			✓		
Low income housing materials GRT deduction (Laws 2007, Ch. 45)	(0.2)		×		×	×
Special needs adoption tax credit (Laws 2007, Ch. 45)	(0.5)			✓		
Subtotal	**(138.4)**					
MEDICAL SERVICES						
Managed Care Reimbursement GRT Deduction (Laws 2004, Ch. 15)	(25.0)	×	±	✓	×	×
Nursing home expense income tax credit (Laws 2005, Ch. 91)	(3.5)	×	±	✓		
Health Facility Construction GRT deduction (Laws 2006, Ch. 35)	(0.4)	×	±	✓	×	×
Hearing and vision aid GRT deduction (Laws 2007, Ch. 361)	(0.9)	×	±	✓		
Indian health service payment GRT deduction (Laws 2007, Ch. 361	(0.3)	×	±	✓		
Hospital GRT credit (Laws 2007, Ch. 361)	(15.0)	×	±	✓	×	×
Unpaid health services GRT credit (Laws 2007, Ch. 361)	(1.8)	×	±	✓		
Rural health care practitioner tax credit (Laws 2007, Ch. 361)	(5.0)	×	±	✓	×	×
Premiums tax relief for certain health insurers (Laws 2007, Ch. 361)	(15.0)	×	±	✓	×	×
Subtotal	**(66.9)**					
ECONOMIC DEVELOPMENT						
High-Wage Jobs Tax Credit (Laws 2004, Ch. 58)	(1.8)	×	±	×	×	×
Rural Jobs Tax Credit (Laws 2005, Ch. 104)	(0.3)	×	±	±	×	×
Film Production Tax Credit (Laws 2005, Ch. 104)	(80.0)	×	±	×	×	×
*Small business R&D tax holiday (Laws 2005, Ch. 104)	-	×	±	×	×	×
Defense transformation GRT deduction (Laws 2005, Ch. 104)	(0.2)	×	±	×	×	×
Aircraft services GRT deduction (Laws 2005, Ch. 104)	(1.6)	×	±	×	×	×
Agriculture equipment GRT deduction (Laws 2007, Ch. 172)	(0.3)	×	±	×	×	×
Aircraft manufacturer GRT deduction (Laws 2007, Ch. 172)	-	×	±	×	×	×
Boxing GRT deduction (Laws 2007, Ch. 172)	(0.1)	×	±	×	×	×
Financial management fee GRT deduction (Laws 2007, Ch. 172)	(0.1)	×	±	×	×	×
Locomotive fuel GRT/Comp. Deduction (Laws 2007, Ch. 172)	(5.0)	×	±	×	×	×
Angel investment credit (Laws 2007, Ch. 172)	(0.8)	×	±	×	×	×
Space program GRT deduction (Laws 2007, Ch. 172)	(0.1)	×	±	×	×	×
Nat'l labs small business partnership (Laws 2007, Ch. 172)	(2.4)	×	±	×	×	×
Military mission transition GRT deduction (Laws 2007, Ch. 172)	(0.5)	×	±	×	×	×
Manufacturing & Investment Tax Credit (Laws 2009, Ch. 147)	(2.1)	×	±	×	×	×
Double-weighted sales apportionament (Laws 2009, Ch. 147)	(16.0)	×	±	×	×	×
Subtotal	**(111.2)**					

Notes:
*Provision has been allowed to sunset.

✓ Denotes a positive effect
× Denotes a negative effect
± Denotes it has both a positive and negative effect

Appendix C (continued)

TAX CREDITS & EXEMPTIONS 2004 - Present	Fd. Impact FY 2011 ($ million)	Adequacy	Efficiency	Equity	Simplicity	Accountability / Transparency
RENEWABLE ENERGY INCENTIVES						
*Excise tax exemption for hybrid vehicles (Laws 2004, ch. 66)	-	×	±		×	×
Biomass-Related Equipment Tax Deduction (Laws 2005, Ch. 179)	(0.1)	×	±		×	×
Solar Market Development Income Tax Credit (Laws 2006, Ch. 93)	(0.6)	×	±		×	×
*Renewable Energy Production Tax Credits (Laws 2005, Ch. 104)	(7.0)	×	±		×	×
Biodiesel incentives (Laws 2007, Ch. 204)	(0.1)	×	±		×	×
Solar system GRT deduction (Laws 2007, Ch. 204)	(0.2)	×	±		×	×
Alternative energy product tax credit (Laws 2007, Ch. 204)	(1.1)	×	±		×	×
Sustainable building tax credits (Laws 2007, Ch. 204)	(1.1)	×	±		×	×
Advanced energy tax credit (Laws 2007, Ch. 229)	(0.5)	×	±		×	×
Certain Geothermal Heat Pump Tax Credit (Laws 2009, Ch. 271)	(0.5)	×	±		×	×
Subtotal	**(11.2)**					
OTHER INCENTIVES						
Veterans' Property Tax Exemption & Rebates (Laws 2005, Ch. 230)	-	×		✓	×	×
School Bus Fuel Excise Tax Deduction (Laws 2005, Ch. 232)	-	×			×	×
School Event Gross Receipts (Laws 2009, Ch. 62)	0.1	×			×	×
National Guard Insurance Taxes (Laws 2006, Ch. 50)	(0.0)	×		✓	×	×
Disabled street vendor GRT deduction (Laws 2007, Ch. 45)	(0.0)	×		✓	×	×
Armed forces income tax exemption (laws 2007, Ch. 45)	(10.0)	×		✓	×	×
Leased vehicle surcharge exemption (Laws 2007, Ch. 172)	(1.5)	×			×	×
Livestock medical treatment GRT deduction (Laws 2007, Ch. 172)	(0.5)	×			×	×
Agriculture water conservation credits (Laws 2007, Ch. 204)	(5.6)	×			×	×
Land conservation tax credit (Laws 2007, Ch. 335)	(0.3)	×			×	×
Veterans' Organization Property Tax Exemption (Laws 2007, Ch. 167)	-	×		✓	×	×
Increase Homestead and Property Exemptions (Laws 2007, Ch. 95)	-	×		✓	×	×
Subtotal	**(17.8)**					
Grand Total	**(345.5)**					

Notes:
*Provisions has been allowed to sunset.

✓ Denotes a positive effect

× Denotes a negative effect

± Denotes it has both a positive and negative effect

Appendix D

Policy Questions for Proposed Tax Incentives: Non-Economic Development Related

1.	What public policy goal is the incentive intended to achieve?
2.	Could the goals be met more efficiently by other means, for example by direct expenditure?
3.	How can we limit the tax expenditure so that we spend no more than needed to achieve the goals?
4.	How will we determine if the goals are met? What information will beneficiaries provide to help us evaluate its success? Who will do the evaluation?
5.	Would the incentive be more properly provided as a credit, exemption or deduction?

Policy Questions for Proposed Economic Development Tax Incentives

1.	What are the specific goals? If increased jobs, for whom? What kind of jobs?
2.	How many taxpayers are likely to benefit? Is the total fiscal impact to the state limited?
3.	How does this incentive interact with other incentives?
4.	How much in total State and Local incentives is being provided per job?
5.	How will we determine if the goals are met? What information will beneficiaries provide to help us evaluate its success? Who will do the evaluation?
6.	Would the incentive be more properly provided as a credit, exemption or deduction?
7.	Is the process for claiming the incentive one that the Tax Department can administer with current personnel? Is the claim process clear enough so that taxpayers will know if they are eligible and the amount of incentive for which they are eligible?
8.	Is the need for this incentive an indication of the need for broader tax reform?

Drafting Questions

1.	What process will taxpayers use to claim credit?
2.	Is the incentive refundable? If not, what carryforward period will apply?
3.	Can taxpayers claim other incentives for the same activity? If so, what stacking order will they apply?
4.	Is the incentive limited to activities or property located in New Mexico?
5.	What are the qualifying periods during which the taxpayer must perform the targeted activity? During what qualifying periods can the taxpayer claim the incentive?
6.	What events trigger incentive recapture and over what period and to what extent is the previously-claimed incentive to be recaptured?
7.	If the incentive targets new or incremental activities, how are the base and incremental amounts of activity to be calculated? If there is a "cliff" in the criteria, can that be converted to a gradual phase-out?
8.	How is the incentive base itself calculated? For example, if the incentive is based on payroll, does it include benefits? If based on investment, how measured?
9.	Does the incentive include a sunset provision?
10.	Is the total amount of incentive capped? How is the cap to be administered?
11.	Is there a pre-certification required to establish eligibility?
12.	What ongoing monitoring and evaluation will be required?
13.	How will the credit be applied against state and local revenues? Which revenues? What stacking order?