Description of Additional Revenue Raising Options for the 2010 Legislative Session: Excise Taxes and Tax Expenditures

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Revenue Stabilization and Tax Policy Committee

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Increase Motor Vehicle Excise Tax

- Current rate of 3% in effect since 1987
- 100% revenue distributed to the General Fund since 1994; previously as much as 100% was distributed to the Road Fund
- Revenue fell roughly 25% from FY08 to FY09
- Other states' tax rates:
  - AZ 8% +/- (applicable sales tax rate with local options)
  - CO 2.9% + RTD and city taxes (7.72% in Denver)
  - OK 3.25%
  - TX 6.25%
  - UT 6%+/- (applicable sales tax rate)

General Fund Revenue Impacts

(Dollar amounts in Millions)

Option:	**Effective Date**	**FY10**	**FY11**	**FY12**
Increase Motor Vehicle Excise Tax 1%	4/1/2010	$7.7	$34.3	$37.7

Increase O&G Emergency School Tax

- Current rate of 3.15% on oil in effect since 1983; 4.0% on gas since 1993
- FY10 revenue = $121 million (oil), $171 million (gas)
- Combined revenue is down over 50% from FY08
- Gas volume down 10% over last two years; oil down slightly
- NM GRT increases burden relative to other states by about 1%
- Combined oil and gas effective tax rates (taxes as percent of sales value):
  - CO 5.7%
  - OK 6.9%
  - **NM 7.5%**
  - TX 4.4%
  - WY 11.8%

General Fund Revenue Impacts

(Dollar amounts in Millions)

Option:	Effective Date	FY10	FY11	FY12
Increase School Tax rate on oil by 1%	4/1/2010	$10.1	$40.4	$41.8
Increase School Tax rate on gas by 1%	4/1/2010	$10.8	$52.8	$53.8

Increase Liquor Excise Tax

- Current rates in effect since 1994:
  - Beer: 41 cents/gal. 3.8 cents/drink
  - Wine: 45 cents/liter 6.7 cents/drink
  - Spirits: $1.60/liter 7.1 cents/drink
- Reduced rates for small wineries, microbreweries
- FY10 revenue $40 million, up 2.4% from FY09
- 34.57% of revenue goes to DWI grant fund
- Current NM rates highest in region (beer), second highest (spirits)
- Liquor sales are also subject to GRT

General Fund Revenue Impacts

(Dollar amounts in Millions)

Option:	**Effective Date**	**FY10**	**FY11**	**FY12**
Increase liquor excise tax on beer 5 cents/drink	4/1/2010	$6.1	$24.7	$25.1
Increase liquor excise tax on wine 5 cents/drink	4/1/2010	$1.1	$4.4	$4.5
Increase liquor excise tax on spirits 5 cents/drink	4/1/2010	$2.8	$11.3	$11.5

Increase Premiums Tax on Health Insurance

- Current rate of 4.003% in effect since 2004
- Expected gross revenue before credits $200 million in FY11
- Credits for NMMIP assessments expected to reach $50 million in FY11
- 10% of revenue goes to Law Enforcement Protection Fund
- Current NM rates highest in region
- Insurance companies are exempted from all other taxes except property tax
- Tax is imposed on a calendar year basis under present law

General Fund Revenue Impacts

(Dollar amounts in Millions)

Option:	**Effective Date**	**FY10**	**FY11**	**FY12**
Increase health insurance premiums tax rate 1%	7/1/2010	--	$22.0	$47.0

Increase Cigarette Tax

- Current $0.91 per pack rate in effect since 2003
- FY10 revenue $62 million, down 4.7% from FY09
- 71% of revenue goes to General Fund; Rest to UNMH, NM DOH; Local governments
- Cigarette sales are also subject to GRT
- Other states' rates per pack of 20 cigarettes:
  - AZ $2.00
  - CO $0.84
  - OK $1.03
  - TX $1.41
  - UT $0.695

General Fund Revenue Impacts

(Dollar amounts in Millions)

Option:	**Effective Date**	**FY10**	**FY11**	**FY12**
Increase cigarette tax by $1.00 per pack	4/1/2010	$7.5	$30.0	$30.0
Increase cigarette tax by $1 with no tribal exemption for the increase	4/1/2010	$11.9	$47.5	$47.5

Increase Tobacco Products Tax

- Current 25% rate of wholesaler's purchase price in effect since 1986
- FY10 revenue $5.8 million, up 2% from FY09
- 100% of revenue goes to General Fund
- Tobacco product sales are also subject to GRT
- Other states' rates:
  - AZ $0.238/oz (about 10%)
  - CO 40% manufacturer's price
  - OK 60% of factory price
  - TX 35.2% of manufacturer's price
  - UT 35% of manufacturer's price

General Fund Revenue Impacts

(Dollar amounts in Millions)

Option:	**Effective Date**	**FY10**	**FY11**	**FY12**
Increase tobacco products tax to 40%	4/1/2010	$0.8	$3.5	$3.6

Reduce Tax Expenditures

General Fund Revenue Impacts of Options to Reduce Tax Expenditures
(Dollar amounts in millions)

Option:	Effect. Date	FY10	FY11	FY12
Repeal angel investor tax credit	Tyba 1/1/2010	-	0.8	0.8
Reduce film production credit rate from 25% to 15% of expenditures	Tyba 1/1/2010	6.5	26.0	28.6
Reduce rate of high wage jobs tax credit from 10% to 7% of wages	7/1/2010	-	5.0	5.5
Reduce rate of technology jobs tax credit from 8% to 6% of expenditures	7/1/2010	-	1.5	1.7
Reduce rate of investment credit from 5% to 4% of expenditures	7/1/2010	-	1.6	1.8
Reduce renewable energy production credit by 20%	Tyba 1/1/2010	-	1.0	1.1
Freeze hospital GRT credit at FY10 level	7/1/2010	-	4.0	8.0
Reduce rate of credit for NMMIP assessments by 20%	7/1/2010	-	10.0	14.0
Eliminate GRT back to school tax holiday	7/1/2010	-	2.7	2.7
Reduce lab small business partnership credit by 50%	7/1/2010	-	2.0	2.1

"Tyba" = Tax years beginning after.

- Table shows only a partial list for which data are readily available.
- Dozens of additional provisions reduce GRT and income tax revenue.

Reduce Tax Expenditures (continued)

- Main problem with tax expenditures is lack of accountability:
  - Credit bases are broadly defined
  - Targeted activities are loosely defined
  - TRD cannot provide oversight
  - "Layering" of incentives masks true state investment
- Major problem = who benefits?
  - E.g. back to school holiday may be captured in higher prices
- Another major problem = lack of ability to control through the budget process, like a set of entitlement programs
- Job-related subsidies are better administered through JTIP:
  - More thorough oversight
  - Subject to annual appropriations
- Renewable energy subsidies could also be administered as a grant program
- Medical subsidies deprive the general fund of revenue which could be used to match federal funds in Medicaid. Net health care revenue would increase if the subsidies were repealed.

Summary & Conclusions

- Most NM excise tax rates are relatively high compared with neighboring states, exception = Motor Vehicle Excise Tax
- Cigarette tax, tobacco products tax rates are about average
  - Tribal exemption reduces revenue yield of cigarette tax by one-third
  - Also limits health benefits
- Tax expenditures are a growing, and largely invisible, part of the state's budget, currently well in excess of $100 million per year
  - Direct expenditure programs are better for targeted relief
    - Overall budget cap would force prioritizing
  - Comprehensive tax reform is better to resolve systemic tax problems
    - Improves efficiency and equity