Possible Improvements to New Mexico Tax Policy

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Introduction

Two main discussion points.

1. Structural Changes to Legislative Tax Strategy

2. Possible PolicyChange: NM GRT to “Sales Tax”

Structural Change #1- Examination of Exemptions/Deductions/Credits

Currently, while there are many requests every year for new exemptions, deductions, and credits there is no system to analyze them

During committee (Senate Finance, House Tax and Rev), it might be worthwhile to set up a system for re-examining at least some of these devices every year.

Structural Change #1- Examples

- Health care/hospital tax credits that total over $280 million. Do all of these still make good policy with the implementation of the Affordable Care Act?
- 50% deduction on Capital Gains tax that totals between $47-$50 million. According to LFC, no discernable impact on economy.
- Automobile excise tax. New Mexico's excise tax is significantly lower than our neighboring states. NM Excise Tax is 3%. TX= 6.25%, CO= $7.72%. Would raising the tax to be concurrent with statewide GRT provide needed revenue to the general fund and/or transportation accounts?
- The Economic Development Department has identified numerous small deductions and credits that may not be worth the cost of implementation. 21 Credits= $418 Million.
- Medical Marijuana. Currently, the law is very unclear on whether or not non 501c3 privders are taxable. Total not paid is $815k per year.
- Others?

Structural Change #2- Standardization of Tax Policy

In his presentation to the LFC in September, Jim O'Niell talked about the inconsistencies in New Mexico's Tax code for “special cases”..

Standardition and simplification of these may have a positive impact on the economy as businesses will have an easier time deciphering when and how much they have to pay.

Examples include Government GRT, interstate telecommunications GRT, and lease vehicle GRT.

Structural Change #3- Tracking

Currenty, deductions and exemptions are not measurable because they are not reported separately (see Tax and Rev assessment). Without this information, it is impossible to detemrine the worth of a particular policy.

In the future, the legislature should consider a blanket sunset provision changing all business tax incentives to credits so that they are trackable and available for examination.

Structural Change #4- Sunset Clauses

Some of the credits/exemptions issued over the last 40 years have sunset clauses in them that allow for periodic review of the effectiveness of the policies.

Most do not. The legislature should consider a blanket sunset provision where all beneficiaries of incentives have to return to the legislature every 5 years so that their benefits can be re-examined for effectiveness.

Removal of Tax Pyramiding (GRT on Services) to change our GRT to a "Sales Tax".

At the September LFC meeting, both the the group of Richard Anklam, Jim O'Niell, and Helen Hecht and the Secretary of Taxation and Revenue, Tom Clifford agreed that tax pyramiding is bad for New Mexico's economy. Clifford even referenced a study in Canada showing a direct correlation with business recruitment and tax pyramiding.

Furthermore, both Steve Vierck from the New Mexico Partnership and Davin Lopez from the Mesilla Valley Economic Development Association agreed that this is a major stumbling block in recruiting businesses to the state. Vierck even said that some out of state businesses call this the "New Mexico Penalty".

Removal of Tax Pyramiding- Cont.

Would it be possible to eliminate the pyrading in a revenue nuetral manner by repealing some of the exemptions/credits in part 1a of this presentation?

If not, are there other sources that might be repealed, allowing us to broaden and simplify?

If so, we could change our "GRT" in to a "Sales Tax", easing the burden on small businesses and making business recruitment easier.

The rough estimates for eliminating B to B services are between $300 million and $500 million, depending on how comprehensive any policy ends up being.

Possible Problems

Who gets “hurt”- To do this in a revenue neutral manner, exemptions will have to reduced. The legislature will then have to determine who has to see their costs increase to lower the burden on the larger population.

Effect on Cities and Counties- Since cities and counties rely on all sources of GRT for their budgets, what will the effect on thier services be and can there be strategies put in place to mitigate them?