

State Tax Policy: 2011 Update

**Presented to the
Revenue Stabilization and Tax Policy Committee**

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Overview

- Goals for tax policy
- Income tax return processing
- 2011 session review
- Regulation initiatives
- Research/report initiatives
- Other initiatives

Tax Policy Goals

- As our economy evolves, our tax system must also evolve
 - Global competition is increasing
 - NM's industries are changing
 - NM continues to lag in economic growth
- New Mexico's tax treatment of business has fundamental flaws:
 - GRT major provisions are over 40 years old
 - CIT provisions not updated in 30 years
 - Recent E&Y study: Without incentives **NM tax rate on new investment is highest in the country** due to GRT on business inputs, CIT rate, 3-factor apportionment
- Pro-growth tax reform is needed
 - Reduce Pyramiding of the GRT
 - Update Corporate income tax
 - Reduce Property tax lightning
 - Tax incentive reform

Income Tax Returns Processed

Personal Income Tax returns processed from January 1 through June 17:

Processing Period:	Tax year 2007 <u>2008</u>	Tax year 2008 <u>2009</u>	Tax year 2009 <u>2010</u>	Tax year 2010 <u>2011</u>
Total Electronic returns	755,689	791,307	779,823	827,747
Share	79%	82%	87%	86%
Paper returns	199,541	171,696	111,810	134,234
Total PIT received	955,230	963,003	891,633	961,981
Change from prior year		1%	-7%	8%
Revenue Deposits*	\$350,137,566	\$273,470,101	\$207,170,189	\$259,433,252
Change from prior year		-22%	-24%	25%
Refunds paid:				
Count	688,639.00	718,819.00	661,363.00	683,591.00
Amount	\$292,841,056	\$336,026,208	\$301,358,163	\$297,391,265
		15%	-10%	-1%

- Number of returns is up 8% from last year
- Revenue is up \$52 million in part due to S&L tax deduction disallowance
- Underlying revenue is flat

2011 Session Review: Bills Passed & Signed

1. Film credit reform:

- \$50 million cap
- Delayed payments for large credits
- Withholding on performers
- Disclosure requirements
- No interest on refunds
- “Luxury” expenditures not eligible

2. Railroad fuel deduction:

- Targeted to new/expanded facilities
- Overcomes a major competitive disadvantage for NM

2011 Session Review: Bills Passed & Signed (continued)

- 3. Compensating tax clean-up:**
 - Preserves integrity of sales tax system
- 4. Alternative evidence for wholesale GRT deduction**
 - Prevents “gotcha” audits
 - Allows prudent flexibility
- 5. Renewable energy incentives**
 - Solar and Biodiesel incentives expanded
- 6. \$1,000 safe harbor for underpayment of tax**
 - Thousands fewer small penalties will be assessed
- 7. Jet fuel GRT deduction**
 - Preserves NM competitiveness with other states

2011 Session Review: Bills Not Passed or Signed

1. Tax increases:

- No significant increases were passed

2. Property tax lightning:

- “Rollback” values to 2004, No increase upon sale
- Value new property at average assessment ratio

3. Tax expenditure budgets:

- Executive Order will address

4. Corporate income tax relief:

- Rate reduction, Single-weighted sales
- Fiscal impacts?

Regulation Initiatives

- Alternative evidence: Public hearing July 6

Pending projects:

- Film credit changes
- Definition of livestock & hunting licenses
- Tax credit clarifications
- Clarify Oil & Gas Payment and PTE Withholding
- E-filing requirements -- thresholds

Reporting & Research Initiatives

- Tax expenditure report:
 - Multi-agency effort with outside input required
 - TRD input on fiscal impacts, administrative & compliance issues
- Tax reform initiative:
 - Stakeholder input will be crucial
- Legislative requests:
 - Study of employment incentives

Other Initiatives

- Oil & gas and Pass-through Entity Withholding:
 - Forms are being finalized
 - System modifications are being tested
 - Annual returns will be used to verify compliance
- Stakeholder meetings:
 - Input from practitioners & taxpayers
 - How to improve regulations, procedures, statutes
- Information system upgrade:
 - How to fund needed improvements?

Possible Department Legislation

- Tax credit clean-up & reform
- PTE withholding clean-up & clarification
- Tax Administration Act changes
- Motor vehicle code re-organization
- REAL-ID compliance

Summary & Conclusions

- **2011 session successes:**
 - Balanced budget without tax increases despite sharp drop in federal funding
 - Film credit reform creates a more accountable, affordable incentive
 - Locomotive fuel deduction improves competition, growth
 - Alternative evidence will avoid “gotcha” audit problem
 - Compensating tax clean-up protects integrity of tax system
- **2011 session unfinished business:**
 - Property tax lightning
 - Tax expenditure reports
 - Corporate tax reform
- **Goal = Pro-growth tax reform**