

**MINUTES
of the
THIRD MEETING
of the
REVENUE STABILIZATION AND TAX POLICY COMMITTEE**

**October 19-20, 2023
State Capitol, Room 322
Santa Fe**

The third meeting of the Revenue Stabilization and Tax Policy Committee for the 2023 interim was called to order by Senator Benny Shendo, Jr., chair, on Thursday, October 19, 2023, at 9:12 a.m. in Room 322 of the State Capitol in Santa Fe.

Present

Sen. Benny Shendo, Jr., Chair
Rep. Derrick J. Lente, Vice Chair (10/19)
Sen. Craig W. Brandt (10/19)
Sen. William F. Burt
Rep. Micaela Lara Cadena
Sen. Pete Campos
Rep. Christine Chandler
Rep. Mark Duncan
Rep. Jason C. Harper
Rep. Susan K. Herrera
Sen. George K. Muñoz (10/19)
Sen. Harold Pope
Sen. Peter Wirth

Absent

Rep. Doreen Y. Gallegos
Sen. Ron Griggs
Rep. Larry R. Scott
Rep. Linda Serrato
Sen. Elizabeth "Liz" Stefanics

Designees

Sen. Antonio Maestas (attending as a guest)
Rep. Kristina Ortez (10/19)
Sen. Antoinette Sedillo Lopez

Rep. Ambrose Castellano
Sen. Katy M. Duhigg
Rep. Joanne J. Ferrary
Rep. Yanira Gurrola
Rep. Alan T. Martinez
Rep. Rod Montoya
Sen. Gerald Ortiz y Pino
Sen. Shannon D. Pinto
Sen. William E. Sharer

Special Advisory Members

Rep. Cynthia Borrego
Sen. Joshua A. Sanchez (10/19)
Sen. Bill Tallman (10/19)

(Attendance dates are noted for members not present for the entire meeting.)

Staff

Pam Stokes, Staff Attorney, Legislative Council Service (LCS)

Ric Gaudet, Researcher, LCS

Rebecca Griego, Records Officer, LCS

Sonya Snyder, Committee Coordinator, LCS

Clinton Turner, Research and Fiscal Policy Analyst, LCS

Guests

The guest list is in the meeting file.

Handouts

Handouts and other written testimony are in the meeting file and posted on the legislature's website.

References to Webcast

The time reference noted next to each agenda item in this document is cross-referenced to the webcast of the committee meeting, which can be found at www.nmlegis.gov, under the "Webcast" tab. The presentations made and committee discussions for agenda items can be found on the recorded webcast for this meeting.

Thursday, October 19**Welcome and Introductions (9:12 a.m.)**

Senator Shendo welcomed committee members, staff, presenters and those attending in person and via the webcast. Members of the committee introduced themselves.

Long-Term Revenue Outlook (9:15 a.m.)

Ismael Torres, chief economist, Legislative Finance Committee; Leo Delgado, DED, chief economist, Department of Finance and Administration; Michael Morrison, chief economist, Department of Transportation (DOT); and Lucinda Sydow, chief economist, Taxation and Revenue Department, discussed the long-term economic and revenue outlook for the state. Mr. Delgado began by discussing economic indicators and oil and gas production trends. Mr. Morrison discussed various transportation taxes and fees that fund DOT operations, including expected down trends from electric vehicle and fuel-efficiency standards taking effect. Ms. Sydow discussed long-term general fund revenue trends, including expected income revenues from the state's trust funds. Mr. Torres discussed risks to revenue growth, including the usage of debt for capital outlay expenditures; the impact of recent legislation setting aside more revenue for investment; and models of surplus versus deficit under various budget growth scenarios. The presentation materials can be found here:

<https://www.nmlegis.gov/Committee/Handouts?CommitteeCode=RSTP&Date=10/19/2023&ItemNumber=1>.

Approval of Minutes

Upon a motion made and without any objections, the committee approved the minutes of the September 18-19, 2023 meeting without any changes.

Economic Trends Affecting State Taxation (10:51 a.m.)

Scott Pattison, deputy executive director, Multistate Tax Commission, discussed recent economic trends that have been impacting state taxation, including inflation, economic growth, international conflicts, natural disasters, energy prices and supply issues. He discussed the potential for an upcoming recession, inflation versus unemployment and interest rates and the potential impacts of those on state revenues. The presentation can be found here:

<https://www.nmlegis.gov/handouts/RSTP%20101923%20Item%202%20Pattison%20Economic%20Trends%20Affecting%20State%20Taxation.pdf>

Who Pays New Mexico Taxes? (1:28 p.m.)

Carl Davis, research director, Institute on Taxation and Economic Policy (ITEP), discussed state tax incidence analyses performed by the ITEP. These analyses study the impact of proposed or actual taxes on different segments of the population. New Mexico, like most states, has a fairly regressive tax system, in which lower income residents pay a higher share of their income in taxes than wealthy residents do. Mr. Davis provided information showing state and local taxes as a share of family income in New Mexico, which included the impact of recent legislative changes such as expanding the low-income comprehensive tax rebate and the child tax credit. Mr. Davis also provided considerations as to whether cascading in the gross receipts tax can improve or worsen neutrality. The presentation can be found here:

<https://www.nmlegis.gov/handouts/RSTP%20101923%20Item%203%20Davis%20Who%20Pays%20NM%20Taxes.pdf>

Gross Receipts Taxes Versus Sales Taxes: Tradeoffs for New Mexico (2:43 p.m.)

Andre Barbe, Ph.D., economist, discussed whether a textbook gross receipts tax is more efficient than a sales tax. He presented a study he performed that found that a textbook gross receipts tax with no exemptions is more efficient than a sales tax that exempts certain services. While New Mexico does not have a textbook gross receipts tax because it exempts most taxes on food, exempts some services and treats the oil and gas industry and federal facilities differently, it is likely more efficient than the sales tax he modeled in his study. The presentation can be found here:

<https://www.nmlegis.gov/handouts/RSTP%20101923%20Item%204%20Barbe%20GRTs%20vs%20RSTs%20Tradeoffs%20for%20NM.pdf>

Perspectives on Pyramiding (3:27 p.m.)

Michael Mazerov, senior fellow, Center on Budget and Policy Priorities, discussed pyramiding in sales and gross receipts taxes. Taxing business inputs tends to increase the overall tax rate that final users pay because a portion of the final cost paid has already been subject to

taxation. However, not all business inputs that are taxed are subject to pyramiding because many final sales of goods and services are not subject to taxation. Mr. Mazerov cautioned against blindly exempting more business inputs from taxation in New Mexico because many inputs are already not subject to taxation, including 78 percent of taxable manufacturing gross receipts, 73 percent of agricultural receipts and 86 percent of wholesaling receipts. Due to these existing provisions, Mr. Mazerov stated that it is debatable as to whether additional deductions for business inputs are warranted and that New Mexico already has a reasonably competitive business tax structure. The presentation can be found here:

<https://www.nmlegis.gov/handouts/RSTP%20101923%20Item%205%20Mazerov%20Perspectives%20on%20Pyramiding.pdf>.

Recess

The committee recessed at 4:20 p.m.

Friday, October 20

Reconvene

Senator Shendo reconvened the meeting at 9:12 a.m.

Overview of Certain Studies on Open and Closed Economies, Business Inputs and the Gross Receipts Tax (9:13 a.m.)

Mr. Turner discussed challenges in modeling effects of taxation on business inputs in open and closed economies, including how tax pyramiding is not as simple as it may appear initially. He discussed how the standard tax pyramiding economic model breaks down in New Mexico because many business inputs are not taxed and some final products and services are also not taxed. The model gets more complicated if the stages of production for a product cross state or national boundaries. Mr. Turner discussed several studies that attempted to measure the actual impact and level of tax pyramiding versus tax exporting, including a major study performed for New Mexico, and he identified that more complex economic models should be explored to inform the potential policy choices facing New Mexico, a state with an open economic system. The presentation materials can be found here:

<https://www.nmlegis.gov/Committee/Handouts?CommitteeCode=RSTP&Date=10/19/2023&ItemNumber=6>.

Economic Aspects of Gross Receipts Tax Policy Issues (10:00 a.m.)

James Nunns, Ph.D., former tax policy director, Taxation and Revenue Department, and former senior fellow, Urban Institute, and Richard Anklam, president and executive director, New Mexico Tax Policy Institute, discussed the economic aspects of New Mexico's gross receipts tax and possible improvements to the tax system. Mr. Nunns suggested that policymakers consider broadening the gross receipts tax base, reducing differential rates between

municipal and non-municipal areas, removing pyramiding provisions in the tax base, using the personal income tax system to address fairness issues that arise from the regressive gross receipts tax system and using the current surplus to reduce the gross receipts tax rate. The presentation materials can be found here:

<https://www.nmlegis.gov/Committee/Handouts?CommitteeCode=RSTP&Date=10/19/2023&ItemNumber=7>.

Adjournment

There being no further business before the committee, the meeting adjourned at 11:34 a.m.