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

Presentation to the
Revenue Stabilization and Tax Policy Committee
December 15, 2009

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Dan White, Financial Economist
N.M. Legislative Finance Committee
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)

<table>
<thead>
<tr>
<th>Option:</th>
<th>Effective Date</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase Motor Vehicle Excise Tax 1%</td>
<td>4/1/2010</td>
<td>$7.7</td>
<td>$34.3</td>
<td>$37.7</td>
</tr>
</tbody>
</table>
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%

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(Dollar amounts in Millions)

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</thead>
<tbody>
<tr>
<td>Increase School Tax rate on oil by 1%</td>
<td>4/1/2010</td>
<td>$10.1</td>
<td>$40.4</td>
<td>$41.8</td>
</tr>
<tr>
<td>Increase School Tax rate on gas by 1%</td>
<td>4/1/2010</td>
<td>$10.8</td>
<td>$52.8</td>
<td>$53.8</td>
</tr>
</tbody>
</table>
**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)

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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Increase liquor excise tax on beer 5 cents/drink</td>
<td>4/1/2010</td>
<td>$6.1</td>
<td>$24.7</td>
<td>$25.1</td>
</tr>
<tr>
<td>Increase liquor excise tax on wine 5 cents/drink</td>
<td>4/1/2010</td>
<td>$1.1</td>
<td>$4.4</td>
<td>$4.5</td>
</tr>
<tr>
<td>Increase liquor excise tax on spirits 5 cents/drink</td>
<td>4/1/2010</td>
<td>$2.8</td>
<td>$11.3</td>
<td>$11.5</td>
</tr>
</tbody>
</table>
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)

<table>
<thead>
<tr>
<th>Option: Increase health insurance premiums tax rate 1%</th>
<th>Effective Date</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7/1/2010</td>
<td>--</td>
<td>$22.0</td>
<td>$47.0</td>
</tr>
</tbody>
</table>
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)

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<th>FY12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase cigarette tax by $1.00 per pack</td>
<td>4/1/2010</td>
<td>$7.5</td>
<td>$30.0</td>
<td>$30.0</td>
</tr>
<tr>
<td>Increase cigarette tax by $1 with no tribal exemption for the increase</td>
<td>4/1/2010</td>
<td>$11.9</td>
<td>$47.5</td>
<td>$47.5</td>
</tr>
</tbody>
</table>
### 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)

<table>
<thead>
<tr>
<th>Option: Increase tobacco products tax to 40%</th>
<th>Effective Date</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4/1/2010</td>
<td>$0.8</td>
<td>$3.5</td>
<td>$3.6</td>
</tr>
</tbody>
</table>
Reduce Tax Expenditures

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

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

"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