FISCAL IMPACT REPORT

SPONSOR	Trujillo, J / Stapleton / Martinez, J / Herrera / Maestas	**ORIGINAL DATE** **LAST UPDATED**	1/22/19	**HB**	6
SHORT TITLE	Tax Changes			**SB**	
				ANALYST	Clark/Iglesias

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY19	**FY20**	**FY21**	**FY22**	**FY23**		
NFI	($27,000.0)	$58,000.0	$127,000.0	$112,000.0	Recurring	General Fund
NFI	$35,443.1	$66,449.9	$102,744.3	$126,841.4	Recurring	Local Governments (inc. local road funds)
NFI	NFI	$123,853.9	$124,073.9	$124,301.9	Recurring	State and Local Road Funds*

Parenthesis ( ) indicate revenue decreases

*Fuel tax impacts only – does not yet include estimated revenues from increased and additional motor vehicle fees

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY19	FY20	FY21	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	Significant	Significant	Significant	Significant	Nonrecurring	TRD Operating Budget

Parenthesis ( ) indicate expenditure decreases

SOURCES OF INFORMATION

LFC Files

Responses Received From

New Mexico Municipal League

New Mexico Department of Transportation (preliminary analysis)

Responses NOT Received From

Taxation and Revenue Department

SUMMARY

Synopsis of Bill

House Bill 6 is a tax reform bill that makes multiple changes to the gross receipts tax (GRT) and other taxes and fees, notably including lowering the GRT rate by 0.5 percent effective July 1, 2019. The bill generates revenue to lower the GRT rate by:

- **Hospital Tax Reform.** Enacting hospital tax reform similar to a reform measure in the last two sessions (but retaining the existing 50 percent deduction GRT deduction for hospitals instead of increasing it), bringing nonprofit, for-profit, and governmental hospitals into more of an even playing field at the state tax level (effective July 1, 2019);
- **Remote Sellers and Marketplace Facilitators.** Taxing online sales immediately and then applying local GRT increments and moving to destination-based sourcing (sourcing at the location of the buyer rather than the seller) for tangible personal property with a two-year delay (effective July 1, 2019 and July 1, 2021, respectively);
  - The transition to destination-based sourcing is a significant change to the structure of the GRT and will require much preparation by the Taxation and Revenue Department and taxpayers
- **Motor Vehicle Excise.** Aligning the motor vehicle excise tax with the new, lower GRT rate to bring parity to the taxes at the state level (effective July 1, 2019);
- **Personal Income Tax Rates and Brackets.** Broadening personal income tax (PIT) brackets to provide a more gradually progressive tax structure with a new top rate of 6.5 percent versus the current 4.9 percent (effective beginning tax years starting on or after January 1, 2020);
- **Capital Gains.** Repealing part of the PIT capital gains deduction, removing the 50 percent deduction but leaving in place the full deduction up to $1,000 (effective beginning tax years starting on or after January 1, 2020);
- **Hold Harmless.** Ending hold harmless distributions to local governments after other revenue-increasing provisions for the locals take effect (effective July 1, 2021); and
- **Tax Expenditure Repeals.** Repealing nearly 30 tax expenditures to generate revenue and clean up the tax code (mostly effective July 1, 2019). *See the attachment for a list of these tax expenditures.*

In addition to these provisions to raise state general fund revenue, the bill also performs the following key actions:

- **Compensating Tax.** Applying local government GRT increments to the compensating tax to equalize the rates (effective July 1, 2021);
- **Fuel Taxes.** Increasing gasoline and special fuel tax revenues, by 10 cents and 5 cents respectively, to state and local road funds, including newly enacted state and local road maintenance funds (effective July 1, 2020);
- **Motor Vehicle Fees.** Increasing motor vehicle registration fees for passenger vehicles and trucks and instituting an additional fee for hybrids and electric vehicles, sending the revenue to the road fund (effective July 1, 2019);
- **Combined Reporting and Market-Based Sourcing.** Implementing corporate income tax (CIT) combined reporting and market-based sourcing (effective beginning tax years starting on or after January 1, 2020); and

- **Nonprofit Deduction.** Creating an annual GRT deduction of $10 million for nonprofits with federal tax exempt status, bringing company receipts over that amount into the tax base, protecting the majority of the existing GRT revenue stream if a national laboratory contractor receives tax exempt status.

FISCAL IMPLICATIONS

Tax Reform General Fund Impacts (millions $)					
GENERAL FUND IMPACTS	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**
General fund revenue as a result of tax reform -- ***gain (loss)***	**-**	**(27)**	**58**	**127**	**112**
SOURCES	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**
General fund revenues used (excess generated) through tax reform	-	27	(58)	(127)	(112)
Hospital tax reform		130	134	137	142
Internet sales (state only for two years, then local increments)		44	45	47	49
Increase MVX from 3% to equal new state GRT rate		84	86	88	90
Broaden PIT brackets and add new top rate of 6.5%		48	120	122	125
Repeal PIT 50% deduction for capital gains		35	36	36	37
End food hold harmless distributions in FY22		-	-	71	63
End medical hold harmless distributions in FY22		-	-	20	18
Miscellaneous tax expenditure repeals		34	47	78	78
TOTAL SOURCES OF REVENUE	**-**	**402**	**409**	**472**	**490**
USES	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**
GRT rate reduction of 0.5%		(364)	(369)	(400)	(413)
Reduce comp tax rate (must be no more than lowest GRT rate) in FY20 and repeal the municipal equivalent distribution in FY22		(15)	(16)	0	(2)
State cost of local sharing for Internet sales (inc. destination sourcing)		(24)	(24)	(73)	(76)
TOTAL USES OF REVENUE	**-**	**(402)**	**(409)**	**(472)**	**(490)**

The general fund impact declines from FY22 to FY23 and will continue declining gradually over time due to the phase-out of food and medical hold harmless payments to local governments in existing statute. Repealing the payments creates a significant initial savings that wanes over time and eventually dissipates. For this reason, the local governments gain additional revenues from FY22 to FY23 and will continue gaining throughout the phase-out period in statute (through FY29). It is important to note these estimates assume repealing the payments will not impair bonding; otherwise, the bill obligates the state to continue making those payments as scheduled.

Hospital Tax Reform

The bill takes the existing 50 percent deduction applicable to for-profit hospitals and applies it to nonprofit and governmental hospitals as well, subjecting the remaining gross receipts to the state tax rates. No additional local taxes, beyond those already imposed on for-profit hospitals, are permitted. Finally, the hospital credit is repealed. The combination of direct revenue from the credit repeal and the additional gross receipts base results in estimated additional revenues of $130 million in FY20, growing to $142 million by FY23. Part of the additional revenue could be used to increase Medicaid provider rates, offsetting the additional taxes levied on hospitals by leveraging federal funds, and this could be done in the General Appropriation Act.

Personal Income Tax Rates and Brackets

The proposed (and current) income tax rates and brackets are shown in the *Significant Issues* section, and impacts on sample potential taxpayers is shown in the appendix. The changes will begin creating a fiscal impact in FY20, generating an estimated $48 million. In FY21, the state sees a full-year impact of $120 million, and the impact grows gradually over time by the growth rates in the consensus revenue estimate.

Remote Sellers and Marketplace Facilitators

The estimated fiscal impact is particularly uncertain. These are highly imprecise estimates that use limited, publicly available data to represent a ballpark amount of GRT revenue lost through untaxed internet sales (note the state currently receives tax revenues from some online sellers, such as sales made directly by Amazon, otherwise the estimate would be higher). The estimate assumes nearly full compliance, and gaining revenues from the handful of largest marketplace facilitators and remote sellers would likely result in receipt of the vast majority of possible revenues.

For the first two years, the state would capture all the large online sellers, but local GRT increments would not yet apply due to the time needed to switch over to destination-based sourcing, which would provide for these sales to be deemed to take place at the buyer's location instead of the "out-of-state" GRT coding. In order to provide local governments with a portion of this revenue stream for those two years, $24 million would be sent annually from the general fund to local governments, apportioned on a population basis.

After these two years, GRT for tangible personal property switches to destination-based sourcing, with all such sales deemed to take place at the buyer's location, and local increments would apply. Local governments should see a significant surge in revenues due to taxing the online sales the state currently taxes, taxing all the new online sales, and taxing other sales that are currently booked as out-of-state.

Combined Reporting

This bill provides a common method of combined reporting for corporate entities, an option sometimes referred to as combined filing (see discussion in the *Significant Issues* section). This provision would simultaneously increase general fund revenues from certain changes and for certain taxpayers and decrease revenues from other changes and for other taxpayers. It is impossible to estimate the impact or determine whether the total effect would be positive or negative. However, the primary purpose of a state moving to combined filing or combined reporting is to prevent income-shifting, which can cause state revenue losses, so the long-term impact is likely to be positive.

Motor Vehicle Fees and Taxes and Fuel Taxes

The motor vehicle excise fee would be set equal to the new state GRT rate of 4.625 percent, up from the current 3 percent.

NOTE: The fiscal impact tables do not yet reflect the revenue from increased and additional motor vehicle fees – this will be calculated and added into the tables and analysis.

This bill increases the gasoline tax by 10 cents per gallon from $0.17 to $0.27 and increases the special fuels tax by 5 cents per gallon from $0.21 to $0.26. Of the revenue increase in both the gasoline and special fuels tax, about half goes to the state road fund, totaling nearly $60 million. The remaining half is split evenly between a newly created state road maintenance fund and an additional distribution to municipalities and counties for improvement or maintenance of existing public roads or bridges. The bill designates the new state road maintenance fund as a non-reverting fund in the state treasury to be administered by the Department of Transportation and cannot be used for bonding. Additionally, the new money distributed to municipalities and counties for road maintenance cannot be used for bonding.

Estimated Revenue (in thousands)			Recurring or	Fund
FY21	**FY22**	**FY23**	**Nonrecurring**	**Affected**
$30,965.0	$31,020.0	$31,077.0	Recurring	NEW State Road Maintenance Fund (fuel)**
$20,656.0	$20,693.0	$20,731.0	Recurring	NEW Municipalities - maintenance fund
$10,313.0	$10,331.0	$10,350.0	Recurring	NEW Counties - maintenance fund
$11.2	$11.2	$11.2	Recurring	Municipalities and Counties Fund - (excl. P&I)
$66.5	$66.5	$66.5	Recurring	State Aviation Fund
$20.6	$20.6	$20.6	Recurring	Motorboat Fuel Tax Fund
$8.4	$8.4	$8.4	Recurring	County Government Road Fund
$8.4	$8.4	$8.4	Recurring	Municipal Roads Fund
$8.4	$8.4	$8.4	Recurring	Municipal Arterial Program of Local Governments Road Fund
$1.2	$1.2	$1.2	Recurring	Local Governments Road Fund
$2,400.0	$2,400.0	$2,400.0	Recurring	Tribal Tax Sharing Agreements (Pueblo of Santo Domingo and Nambe)
$59,395.0	$59,505.0	$59,619.0	Recurring	State Road Fund
$123,853.9	**$124,073.9**	**$124,301.9**	Recurring	**TOTAL**

Local Government Impacts

LFC analysis shows the following aggregate impacts to local governments, demonstrating in total, local governments should see increased revenues in FY20, and the increase should rise quickly over time.

Local Government Impacts (thousands)				
Funding Increases	**FY20**	**FY21**	**FY22**	**FY23**
Internet sales (local sharing of state increase, then local increments)*	$ 24,000.0	$ 24,000.0	$ 75,010.7	$ 80,261.5
Apply local GRT increments to comp tax	$ -	$ -	$ 94,052.3	$ 103,457.6
Miscellaneous tax expenditure repeals	$ 11,443.1	$ 11,443.1	$ 11,443.1	$ 11,443.1
Local road funds	$ -	$ 31,006.7	$ 31,061.8	$ 31,118.8
Funding Reductions				
Repeal food hold harmless distributions	$ -	$ -	$ (70,704.8)	$ (63,449.1)
Repeal Municipal Equivalent	$ -	$ -	$ (18,000.0)	$ (18,000.0)
Repeal medical hold harmless distributions	$ -	$ -	$ (20,118.8)	$ (17,990.4)
TOTAL	**$ 35,443.1**	**$ 66,449.9**	**$ 102,744.3**	**$ 126,841.4**

It is important to note the fiscal impact estimates do not include the GRT switch in FY22 to destination-based sourcing, which will change the allocation of some sales among local governments.

Contrary to the LFC analysis, the New Mexico Municipal League reports it lacks adequate data to specifically estimate the fiscal impact of the legislation on its' members but that it can state with certainty that passage of this reform will have a real aggregate negative impact on local government finances such that it will result in a real loss of revenues and negatively impact local governments ability to provide essential services to their constituents. However, the organization did not provide a summary table demonstrating how these aggregate losses would occur.

SIGNIFICANT ISSUES

The recent surge in revenues significantly increased volatility in the state's already volatile revenues, making the state more dependent on the energy industry. This instability and looming potential for sharp revenue declines in the future adds to the need to reform the state's taxes. The first LFC tax policy principle, adequacy, is perhaps the most important because the state must fund education and other essential services. A broader, more diverse general fund tax base and lower tax rates can reduce volatility and improve adequacy during downturns.

Discussions about tax reform focus on GRT issues because of the significant state and local rate increases over the last 15 years. Numerous tax credits, deductions, and exemptions – tax expenditures – have narrowed the tax base, leading to the need for higher rates to maintain equivalent revenue levels. Most notably, removing food and certain medical services out of the tax base in the mid-2000s during an economic and revenue boom led to higher tax rates and were coupled with hold harmless distributions from the state to local governments. As these payments gradually phase out, and end in FY30, counties and municipalities are left with tax bases often insufficient to cover essential services. Apart from property taxes, many smaller communities have essentially no tax base due to the state's removal of food from the base and the inability to tax online sales under current statute.

This narrowing of the tax base also often results in inequities in taxation and uneven playing fields for businesses providing the same products or services and creates a significant advantage for out-of-state sellers. Still an issue in many industries, the increase in GRT rates has also exacerbated the effect of tax "pyramiding" – the addition of extra layers of taxes when the GRT is applied to each business-to-business transaction at each state of production. Pyramiding leads to higher effective tax rates for the final product or service sold to the end customer. When rates are low, pyramiding does not create as many distortions in the markets, but as rates rise, the effective tax rate can become so burdensome it shifts business and consumer behavior.

Achieving GRT rate reduction would be easy if policy makers could reach a consensus to repeal many of the most costly tax expenditures. However, the history in this state and others has shown it is exceedingly difficult to repeal these tax preferences once in place.

<u>Broadening the Base and Lowering Rates</u>

While broadening the tax base and using the revenues to lower GRT rates would reduce the state's revenue volatility, New Mexico's tax revenue will remain highly volatile as long as the state remains heavily dependent on revenues from the oil and gas industry. Long-term economic diversification efforts would complement the benefits of tax reform to reduce volatility. Nevertheless, broadening the GRT base would reduce volatility, although it will be a challenge. Reforming hospital taxation, which would better align the application of GRT to nonprofit and government hospitals with private hospitals, and repealing the food deduction would significantly broaden the base; hospital tax reform passed the Legislature in the 2017 special session, but the food deduction has many ardent supporters.

Property taxes are one of the most stable revenue sources, but the state's constitution requires a public vote to increase rates. In the absence of increased property taxes, adding food and hospital receipts into the GRT base would have the greatest impact on improving revenue stability and would provide significant revenue to reduce the tax rate. Repealing the capital gains deduction from income tax and the medical insurance pool credit for health insurers against costs from the state's high risk pool would provide lower, but still significant, sources of revenue for rate reduction. Taxing the receipts of nonprofits and more broadly taxing healthcare expenditures, such as prescription drugs, could also help significantly but appear even more challenging. Beyond those high-cost items, every tax expenditure added to the repeal list incrementally improves rate reduction and helps simplify the tax code.

Through the base broadening and revenue increase measures in this bill, it is able to lower the state GRT rate by 0.5 percent, undoing the last state rate increase from 2010 of 1/8 percent and also largely undoing the 2004 repeal of a 0.5 percent credit against the state GRT rate.

Internet Tax Reform

Untaxed Internet sales are eroding New Mexico's retail sales tax base and reducing general fund revenues by tens of millions of dollars annually. Taxing local retailers but not large, online retail operations creates significant disparities and makes it very difficult for local shops to compete with remote sellers. Amazon is now paying tax on direct sales but not on sales by other parties that use Amazon as a sales platform. Recent reporting in *The Wall Street Journal* noted third-party sales represent 70 percent of all sales through Amazon, indicating New Mexico continues to lose tax revenue on the majority of Amazon sales. Further, Amazon is only paying the state portion of the GRT, not the local government portion, which creates a disparity in the total rate that favors out-of-state sellers over local businesses and means local governments are not receiving any tax revenue.

This bill levels the playing field for local businesses by requiring all remote sellers that sell more than a specified base level within New Mexico to collect and pay GRT on all sales, including third-party platform sales. Under this bill, sales will be determined to take place at the location to which the product is delivered, and after a short period of revenue sharing with local governments, local GRT rates will apply to these sales beginning in FY22.

Hospital Tax Reform

The healthcare landscape changed significantly in the last decade. Over the last five years, the industry was one of few bright spots in New Mexico for job growth, yet it remains largely untaxed. Hospitals are virtually untaxed at the state level despite more than $5 billion in annual gross receipts. The uneven tax playing field for hospitals interferes with the market, creating economic inefficiencies with strong incentives for hospitals to adopt preferential corporate structures.

This bill mostly corrects this decades-old inequity, subjecting 50 percent of gross receipts of for-profit, nonprofit, and government hospitals to the state portion of the GRT and GGRT, leaving a 50 percent deduction (currently in statute for for-profit hospitals). Taxing nonprofit and government facilities along with for-profits would be a key step to apply the tax in a more equitable manner.

This reform measure would bring nonprofit hospitals into the state GRT base and governmental hospitals into the governmental gross receipts tax (GGRT) base and prevent local governments from adding on local taxes. It repeals the for-profit hospital tax credit of Section 7-9-96.1 NMSA 1978, helping to better level the playing field for hospitals at the state tax level.

Hospital Tax Reform						
	Current Law			**Proposed Changes**		
	For-Profit	Nonprofit	Government	For-Profit	Nonprofit	Government
Tax Rate	5.125% GRT	n/a	n/a	4.625% GRT	4.625% GRT	5.0% GGRT
Credits	3.75% to 5%	n/a	n/a	n/a	n/a	n/a
Deductions	50% GRT	n/a	n/a	50% GRT	50% GRT	50% GGRT

Personal Income Tax Brackets and Rates

When the state reduced the top personal income tax rates in the mid-2000s, the bracket structure was not revised to provide a gradually progressive structure. Instead, the top two brackets were eliminated, creating a sharply progressive income tax at first, followed by a flat income tax for taxable income levels above $16 thousand for singles and $24 thousand for married filing jointly.

This bill restructures rates and brackets to allow for more gradual progressivity. This could result in small tax cuts for some New Mexicans toward the lower end of the income spectrum. Rate restructuring will also increase revenues from this source. However, increasing the top personal income tax rate from 4.9 percent to 6.5 percent makes state revenues more dependent on top income earners, adding a measure of volatility to a tax currently far less volatile than the GRT.

CURRENT Tax Rate Schedules

	over	not over	tax =	plus	times amt over
Single					
	$0	$5,500	$0.00	1.70%	$0
	$5,500	$11,000	$93.50	3.20%	$5,500
	$11,000	$16,000	$269.50	4.70%	$11,000
	$16,000		$504.50	4.90%	$16,000
Married Joint & Head of Household					
	$0	$8,000	$0.00	1.70%	$0
	$8,000	$16,000	$136.00	3.20%	$8,000
	$16,000	$24,000	$392.00	4.70%	$16,000
	$24,000		$768.00	4.90%	$24,000
Married Separate					
	$0	$4,000	$0.00	1.70%	$0
	$4,000	$8,000	$68.00	3.20%	$4,000
	$8,000	$12,000	$196.00	4.70%	$8,000
	$12,000		$384.00	4.90%	$12,000

PROPOSED Tax Rate Schedules

	over	not over	tax =	plus	times amt over
Single					
	$0	$6,500	$0.00	1.70%	$0
	$6,500	$10,000	$110.50	3.20%	$6,500
	$10,000	$23,500	$222.50	4.70%	$10,000
	$23,500	$50,000	$857.00	5.20%	$23,500
	$50,000	$100,000	$2,235.00	5.50%	$50,000
	$100,000	$200,000	$4,985.00	5.80%	$100,000
	$200,000		$10,785.00	6.50%	$200,000
Married Joint & Head of Household					
	$0	$10,000	$0.00	1.70%	$0
	$10,000	$15,000	$170.00	3.20%	$10,000
	$15,000	$35,000	$330.00	4.70%	$15,000
	$35,000	$75,000	$1,270.00	5.20%	$35,000
	$75,000	$150,000	$3,350.00	5.50%	$75,000
	$150,000	$300,000	$7,475.00	5.80%	$150,000
	$300,000		$16,175.00	6.50%	$300,000
Married Separate					
	$0	$5,000	$0.00	1.70%	$0
	$5,000	$7,500	$85.00	3.20%	$5,000
	$7,500	$17,500	$165.00	4.70%	$7,500
	$17,500	$37,500	$635.00	5.20%	$17,500
	$37,500	$75,000	$1,675.00	5.50%	$37,500
	$75,000	$150,000	$3,737.50	5.80%	$75,000
	$150,000		$8,087.50	6.50%	$150,000

Motor Vehicle Excise Taxes

Motor vehicle excise taxes in New Mexico are less than half the rates in many locations in Arizona, Colorado, and Texas. New Mexico’s rate is 3 percent, while rates in surrounding areas can be as high as about 8 percent after adding in local rate increments. The Arizona and Texas statewide rates alone are nearly double those in New Mexico. The motor vehicle excise tax rate is less than half the effective GRT rate across most of New Mexico, creating a disparity in rates for consumer goods.

The taxable base for motor vehicles is much more stable than the base for the GRT, which has become more volatile over time; the higher tax rate applied to the more volatile revenue source and the lower rate applied to the more stable source amplify the volatility. Each additional percent added to New Mexico’s excise rate generates about $50 million for the general fund.

Combined Reporting for Corporate Income Tax

This bill provides a common method of combined reporting for corporate entities, an option sometimes referred to as combined filing. More than half the states that impose a corporate income tax require combined reporting, and the Multistate Tax Commission recently testified before an interim committee that this is one of the most important steps New Mexico can take to update and reform our tax code.

One of the principal purposes for enacting combined reporting is to protect state revenues against income-shifting. There are generally two ways to prevent income-shifting: (1) required combined reporting, which eliminates the intercompany transactions that permit the shift; or (2) "addback" statutes, which require separate entity filers to "add back" to their income certain intercompany payments.

Some tax experts estimate that corporate income-shifting structures, which largely result from a separate entity filing regime, can cost states billions of dollars in lost revenues. Historical examples have included the establishment of a trademark holding company in a tax haven state to increase the business expense deduction of the in-state separate entity filer, and thereby reduce taxable income. Income-shifting structures can be complex, but most derive from the inability of separate entity filing regimes to treat the unitary group of related companies as a single taxpayer.

As more than half the states that impose corporate income tax already require combined reporting, most multistate taxpayers are familiar with unitary rules, principles, and reporting mechanics. However, combined reporting can result in increased tax burdens to certain taxpayers depending on facts and circumstances.

Market-Based Sourcing

Market-based sourcing provides an additional measure of CIT reform by amending the Uniform Division of Income for Tax Purposes Act (UDITPA) to determine the sourcing of certain sales and services; it updates the tax code to assess the tax based on sourcing services and intangibles to New Mexico if delivered to a customer in the state or used in the state. The current assessment method using "cost of performance" does not allow New Mexico to tax companies that incur the majority of costs of providing the service or intangible outside the state but which sell to customers inside the state.

PERFORMANCE IMPLICATIONS

This bill addresses the LFC tax policy principles of adequacy and efficiency by raising revenues from sources that are less volatile that some of the other sources of general fund revenues. For example, motor fuels tax and motor vehicle excise tax revenues fluctuate over time, but the revenue streams are much more stable than taxes more susceptible to changes in oil and gas prices (see the *Significant Issues* section).

ADMINISTRATIVE IMPLICATIONS

TRD will likely report there will be significant, nonrecurring impacts to make changes to GenTax and reporting forms until all changes are made by the end of FY21.

OTHER SUBSTANTIVE ISSUES

The New Mexico Municipal League notes that while it might be easier to change the rules for only one big segment of the economy at a time, taxing services on the basis of the seller's location and tangibles and at least some intangibles on the basis of the buyer's location could be both confusing and difficult to report for businesses selling both services and tangibles. Additionally, failure to require apportionment of the state compensating tax base's services component among taxing local governments could lead to significant taxpayer complaints. If, for example, the state compensating tax base includes the receipts from advertising included in television programming, each local jurisdiction in which the programming airs would impose its local tax on the same base as the state. This could easily lead to a total tax burden of 30 percent or more.

Does the bill meet the Legislative Finance Committee tax policy principles?

1. **Adequacy**: Revenue should be adequate to fund needed government services.
2. **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity**: Different taxpayers should be treated fairly.
4. **Simplicity**: Collection should be simple and easily understood.
5. **Accountability**: Preferences should be easy to monitor and evaluate

Does the bill meet the Legislative Finance Committee tax expenditure policy principles?

1. **Vetted**: The proposed new or expanded tax expenditure was vetted through interim legislative committees, such as LFC and the Revenue Stabilization and Tax Policy Committee, to review fiscal, legal, and general policy parameters.
2. **Targeted**: The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals.
3. **Transparent**: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies.
4. **Accountable**: The required reporting allows for analysis by members of the public to determine progress toward annual targets and determination of effectiveness and efficiency. The tax expenditure is set to expire unless legislative action is taken to review the tax expenditure and extend the expiration date.
5. **Effective**: The tax expenditure fulfills the stated purpose. If the tax expenditure is designed to alter behavior – for example, economic development incentives intended to increase economic growth – there are indicators the recipients would not have performed the desired actions "but for" the existence of the tax expenditure.
6. **Efficient:** The tax expenditure is the most cost-effective way to achieve the desired results.

JC/gb/al

ATTACHMENTS

Tax Expenditure/Distribution Repeals

		FY20	FY21	FY22	FY23
1	GRT deduction for sales to nonprofits	9.0	9.0	9.0	9.0
2	GRT exemption for textbook sales	5.3	5.3	5.3	5.3
3	GRT deduction for hosting World Wide Web sites	0.2	0.2	0.2	0.2
4	GRT deduction for durable medical equipment	0.2	0.2	0.2	0.2
5	GRT deduction for resale of certain mf'd homes	5.7	5.7	5.7	5.7
6	GRT/comp deduction for jet fuel	-	-	-	-
7	GRT exemption for fuel for space vehicles				
8	GRT deduction for sale of aerospace services to the US				
9	GRT deduction for travel agents' commissions				
10	GRT deduction for military transformational acquisition programs				
11	GRT deduction for certain purchases by the state				
12	GRT deduction for converting electricity				
13	GRT deduction for electricity exchange				
14	GRT & comp deductions for certain electric facilities				
15	Distribution adjustment for hospital credit				
16	GRT credit for welfare-to-work				
17	GRT credit for electronic equipment				
18	GRT credit for physician participation in cancer treatment				
19	GRT credit for hospitals				
20	GRT credit for penalty pursuant to repealed 7-1-71.2				
21	PIT & CIT credits for qualified business facility rehab				
22	PIT & CIT credits for welfare-to-work				
23	PIT & CIT credits for blended biodiesel fuel				
24	PIT credit for certain electronic equipment to verify age				
25	PIT credit for venture capital investments				
26	Premium tax credit for medical insurance pool (MIP) assessments	13.3	26.7	40.0	40.0
27	Comp tax municipal equivalent distribution			18.0	18.0

Sample Changes in Personal Income Tax Liabilities										
Example	Status	Income	Std Ded	AGI After Std Ded	Base Tax	Marginal Tax	Total Tax	Difference from Current	% Change in Tax	Effective Tax Rate
PT Min Wage	Single	10,500	12,000	-	$ -	$ -	$ -	$ -	n/a	0.0%
Min Wage Full Time	Single	15,600	12,000	3,600	$ -	$ 61.20	$ 61.20	$ -	0.0%	0.4%
Nurse's Aide	Single	26,500	12,000	14,500	$ 222.50	$ 211.50	$ 434.00	$ -	0.0%	1.6%
Avg. Teacher/Cop	Single	45,000	12,000	33,000	$ 857.00	$ 494.00	$ 1,351.00	$ 14	1.0%	3.0%
State Employee	Single	50,000	12,000	38,000	$ 857.00	$ 754.00	$ 1,611.00	$ 29	1.8%	3.2%
Programmer	Single	75,000	12,000	63,000	$ 2,235.00	$ 715.00	$ 2,950.00	$ 143	5.1%	3.9%
Engineer	Single	100,000	12,000	88,000	$ 2,235.00	$ 2,090.00	$ 4,325.00	$ 293	7.3%	4.3%
CEO	Single	350,000	12,000	338,000	$ 10,785.00	$ 8,970.00	$ 19,755.00	$ 3,473	21.3%	5.6%
FT min + PT	MJ	23,400	24,000	-	$0.00	$ -	$ -	$ -	n/a	0.0%
Dual min wage	MJ	31,200	24,000	7,200	$0.00	$ 122.40	$ 122.40	$ -	0.0%	0.4%
20K each	MJ	40,000	24,000	16,000	$330.00	$ 47.00	$ 377.00	$ (15)	-3.8%	0.9%
FT plus PT min wage	MJ	52,800	24,000	28,800	$330.00	$ 648.60	$ 978.60	$ (25)	-2.5%	1.9%
35K each	MJ	70,000	24,000	46,000	$1,270.00	$ 572.00	$ 1,842.00	$ (4)	-0.2%	2.6%
45K each	MJ	90,000	24,000	66,000	$1,270.00	$ 1,612.00	$ 2,882.00	$ 56	2.0%	3.2%
90K each	MJ	180,000	24,000	156,000	$7,475.00	$ 348.00	$ 7,823.00	$ 587	8.1%	4.3%
200K each	MJ	400,000	24,000	376,000	$16,175.00	$ 4,940.00	$ 21,115.00	$ 3,099	17.2%	5.3%
Min Wage FT	HOH	15,600	18,000	-	$0.00	$ -	$ -	$ -	n/a	0.0%
Nurse's Aide	HOH	26,500	18,000	8,500	$0.00	$ 144.50	$ 144.50	$ (8)	-4.9%	0.5%
Teacher/Cop	HOH	45,000	18,000	27,000	$330.00	$ 564.00	$ 894.00	$ (21)	-2.3%	2.0%
Asst. Professor	HOH	65,000	18,000	47,000	$1,270.00	$ 624.00	$ 1,894.00	$ (1)	-0.1%	2.9%
Programmer	HOH	80,000	18,000	62,000	$1,270.00	$ 1,404.00	$ 2,674.00	$ 44	1.7%	3.3%
Engineer	HOH	100,000	18,000	82,000	$3,350.00	$ 385.00	$ 3,735.00	$ 125	3.5%	3.7%
Director	HOH	125,000	18,000	107,000	$3,350.00	$ 1,760.00	$ 5,110.00	$ 275	5.7%	4.1%
Investment Officer	HOH	250,000	18,000	232,000	$7,475.00	$ 4,756.00	$ 12,231.00	$ 1,271	11.6%	4.9%
Corporate VP	HOH	550,000	18,000	532,000	$16,175.00	$ 15,080.00	$ 31,255.00	$ 5,595	21.8%	5.7%