

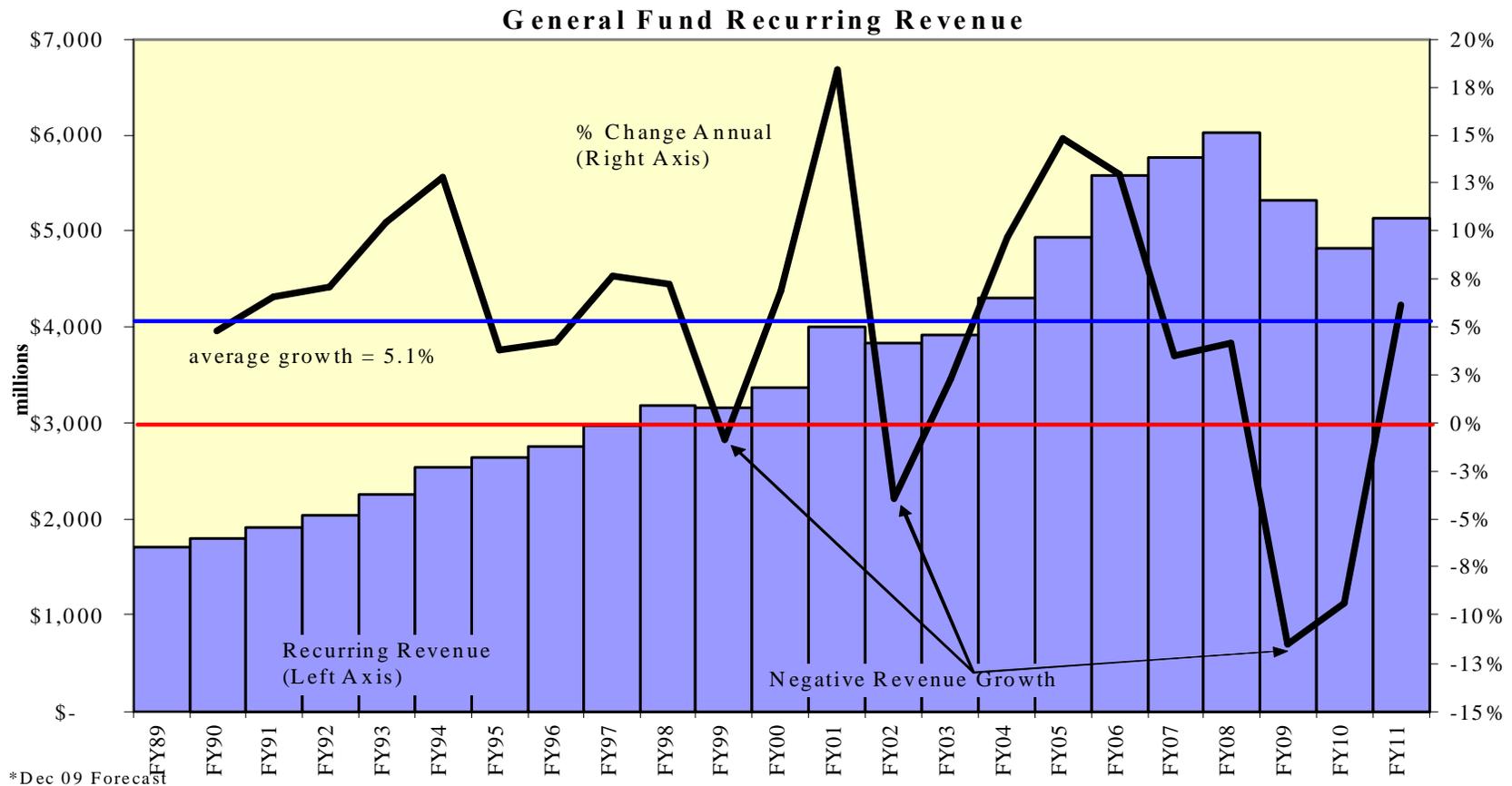
# ***New Mexico State Tax Structure and Update on Recent Trends***

**Presentation to the  
Government Restructuring Task Force  
May 25, 2010**

**Thomas Clifford PhD, Chief Economist  
N.M. Legislative Finance Committee  
Tom Pollard PhD, Legislative Fiscal Analyst  
Legislative Council Service**

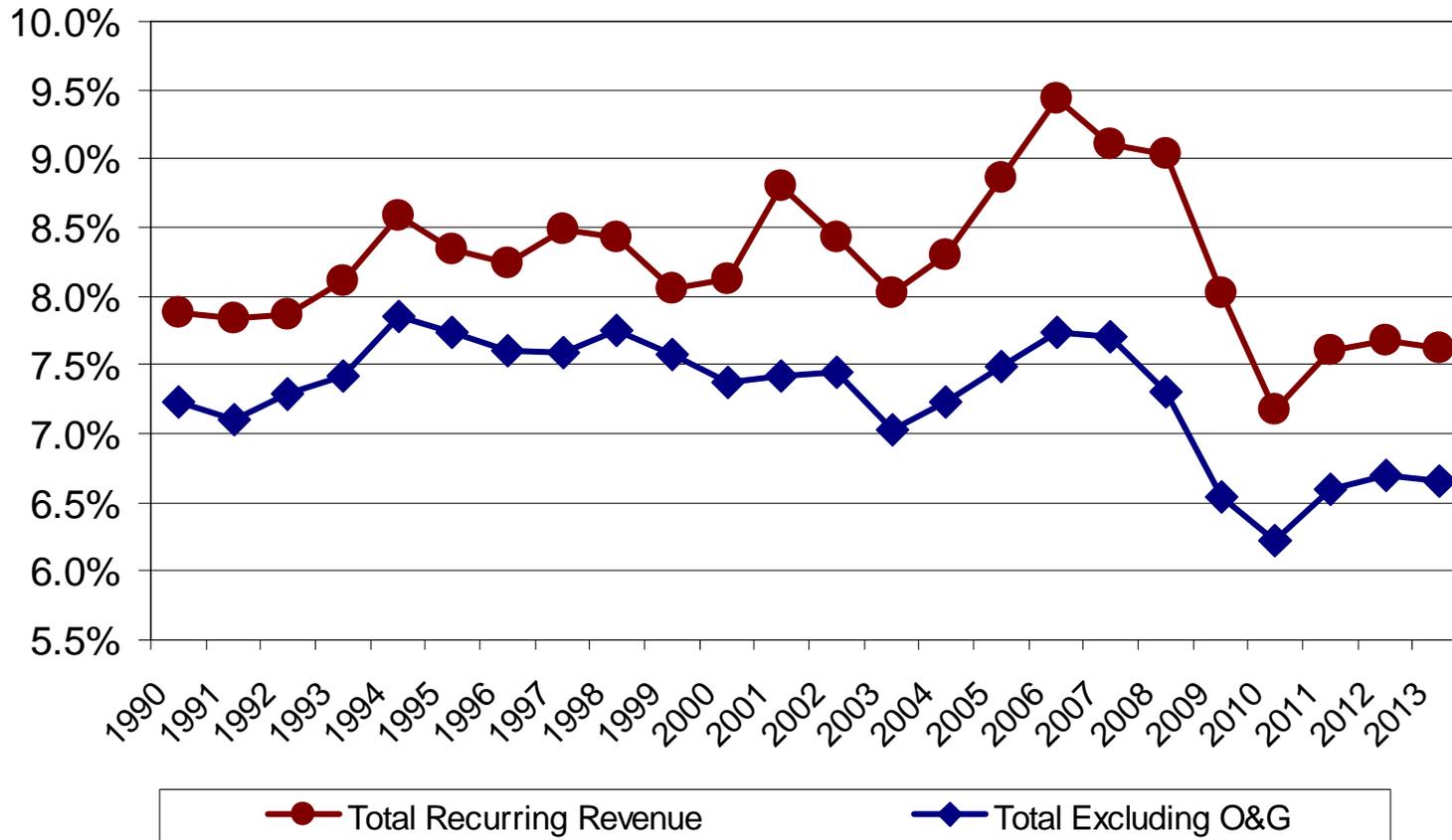
## ***Executive Summary***

- “ After increasing by 50% from FY03 to FY08 recurring revenue fell by 20% from FY08 to FY10
- “ State revenue share of total personal income = lowest level in more than 20 years
- “ O&G revenues contributed the most to general revenue volatility, but income and gross receipts taxes are down substantially from peak levels
- “ Tax relief totaling more than \$400 million per year was adopted over the last 10 years.
- “ NM’s tax burdens on most households and businesses are comparable to those in neighboring states
- “ Temporary federal funds reduced spending cuts in FY09 – FY11
- “ FY12 revenue is \$200+ million short of current services spending



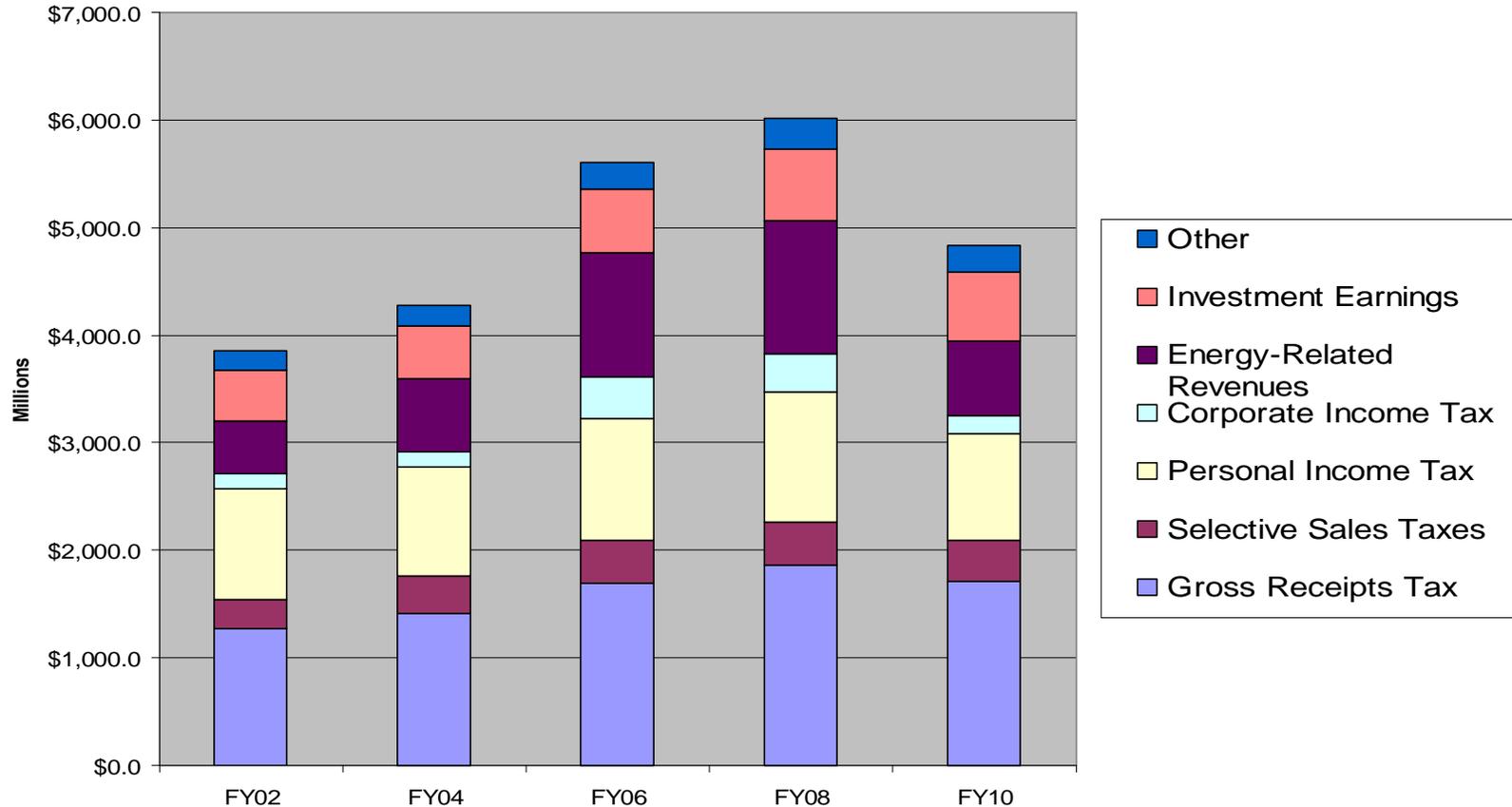
- “ Cumulative increase FY04-06 over 40%
- “ Cumulative revenue decrease in FY09 & FY10 over 20%
- “ 6% growth forecast in FY11 before revenue increases of 4%
- “ Long-term growth rate now 5.1% vs. 6% to 7% from mid-1990’s to 2008

## General Fund Recurring Revenue as a Percent of Personal Income



- “ Revenue rose above historic average in FY05 – FY08, but fell well below average in FY09 & FY10
- “ 1% of Personal Income = \$650 million per year

## Recurring General Fund Revenue, by Source



“ Total recurring revenue in FY10 down by \$1.2 billion ( 20%) from peak of \$6 billion in FY08, still above pre-bubble+FY04 revenue.

“ Energy-related taxes largest single contributor to rise and fall in revenues; in past recessions have acted as buffer from US economic fluctuations.

“ Corporate Income tax most volatile revenue during economic bubble, due in large part to oil and gas industry; film credits increased from zero to \$75 million per year.

# Recently Enacted Statutes

## Cumulative Annual Impacts of Significant General Fund Tax Measures: 2001 to 2010 Legislative Sessions

	Number of Provisions	FY 2011 (\$ millions)
Revenue increasing provisions	13	\$530
Revenue decreasing provisions	73	-\$975
<b>Net impacts</b>	<b>86</b>	<b>-\$445</b>

- " 2003 PIT cuts -\$400 million per year
- " Food GRT deduction -\$228 million
- " Medical deductions/credits -\$100 million+
- " Film production credits -\$70 million
- " Low-income tax credits/exemptions -\$70 million
  
- " **Cumulative reduction now \$445 million after 2010 increases**
- " **Comparison: FY11 Appropriations are up \$1.45 billion from FY03**

# NM Ranking: Taxes on Households

State & Local Taxes as a Percent of Household Income: 2008

City, State	\$25,000	\$50,000	\$75,000	\$100,000	\$150,000
Albuquerque, NM	9.9%	7.7%	7.7%	7.9%	7.5%
Billings, MT	7.5%	4.4%	5.6%	6.1%	6.5%
Boise, ID	9.0%	6.2%	7.2%	8.0%	8.4%
Denver, CO	11.3%	6.6%	6.7%	7.3%	6.9%
Houston, TX	9.9%	6.1%	5.6%	5.4%	4.4%
Las Vegas, NV	9.8%	6.5%	5.4%	5.0%	4.0%
Los Angeles, CA	10.7%	10.0%	8.6%	8.5%	8.9%
Oklahoma City, OK	10.9%	7.3%	7.9%	8.2%	7.9%
Phoenix, AZ	11.6%	5.9%	5.8%	6.3%	5.9%
Salt Lake City, UT	11.4%	7.2%	7.7%	8.0%	7.7%
<b>Average</b>	<b>10.2%</b>	<b>6.8%</b>	<b>6.8%</b>	<b>7.1%</b>	<b>6.8%</b>

Source: Government of the District of Columbia.

- “ NM burden on most households above average
- “ NM burden on low-income households below average
- “ NM burden on high-income slightly above average

## ***NM Ranking: Business Taxes***

<u>State</u>	<u>Property Tax</u>	<u>Sales Tax</u>	<u>Excise &amp; GRT</u>	<u>CIT</u>	<u>U</u>	<u>PIT</u>	<u>Other</u>	<u>Total</u>	<u>Total Excl. Other</u>
Arizona	1.8%	1.6%	0.5%	0.4%	0.1%	0.1%	0.3%	4.7%	4.4%
California	1.1%	1.2%	0.5%	0.6%	0.3%	0.4%	0.5%	4.6%	4.1%
Colorado	1.6%	1.3%	0.3%	0.2%	0.2%	0.3%	0.2%	4.2%	4.0%
Idaho	1.8%	0.9%	0.4%	0.4%	0.2%	0.4%	0.4%	4.7%	4.3%
Montana	2.7%	0.0%	0.7%	0.7%	0.3%	0.3%	1.7%	6.4%	4.7%
<b>New Mexico</b>	<b>0.8%</b>	<b>1.9%</b>	<b>0.5%</b>	<b>0.5%</b>	<b>0.2%</b>	<b>0.2%</b>	<b>2.1%</b>	<b>6.0%</b>	<b>3.9%</b>
Oklahoma	1.0%	1.7%	0.4%	0.3%	0.2%	0.4%	1.3%	5.3%	4.0%
Texas	2.2%	1.3%	0.7%	0.0%	0.1%	0.0%	1.0%	5.3%	4.3%
<u>Utah</u>	<u>1.2%</u>	<u>0.9%</u>	<u>0.5%</u>	<u>0.4%</u>	<u>0.2%</u>	<u>0.2%</u>	<u>0.3%</u>	<u>3.9%</u>	<u>3.6%</u>
<b>Average</b>	<b>1.6%</b>	<b>1.2%</b>	<b>0.5%</b>	<b>0.4%</b>	<b>0.2%</b>	<b>0.3%</b>	<b>0.9%</b>	<b>5.0%</b>	<b>4.1%</b>

- “ *Excluding severance taxes, NM burden is about average*
- “ *High sales tax (on purchases not sales) offsets low property tax*
- “ *Income taxes are about average*

# ***LFC Principles of Good Tax Policy***

**Adequacy:** revenue should be adequate to fund government services

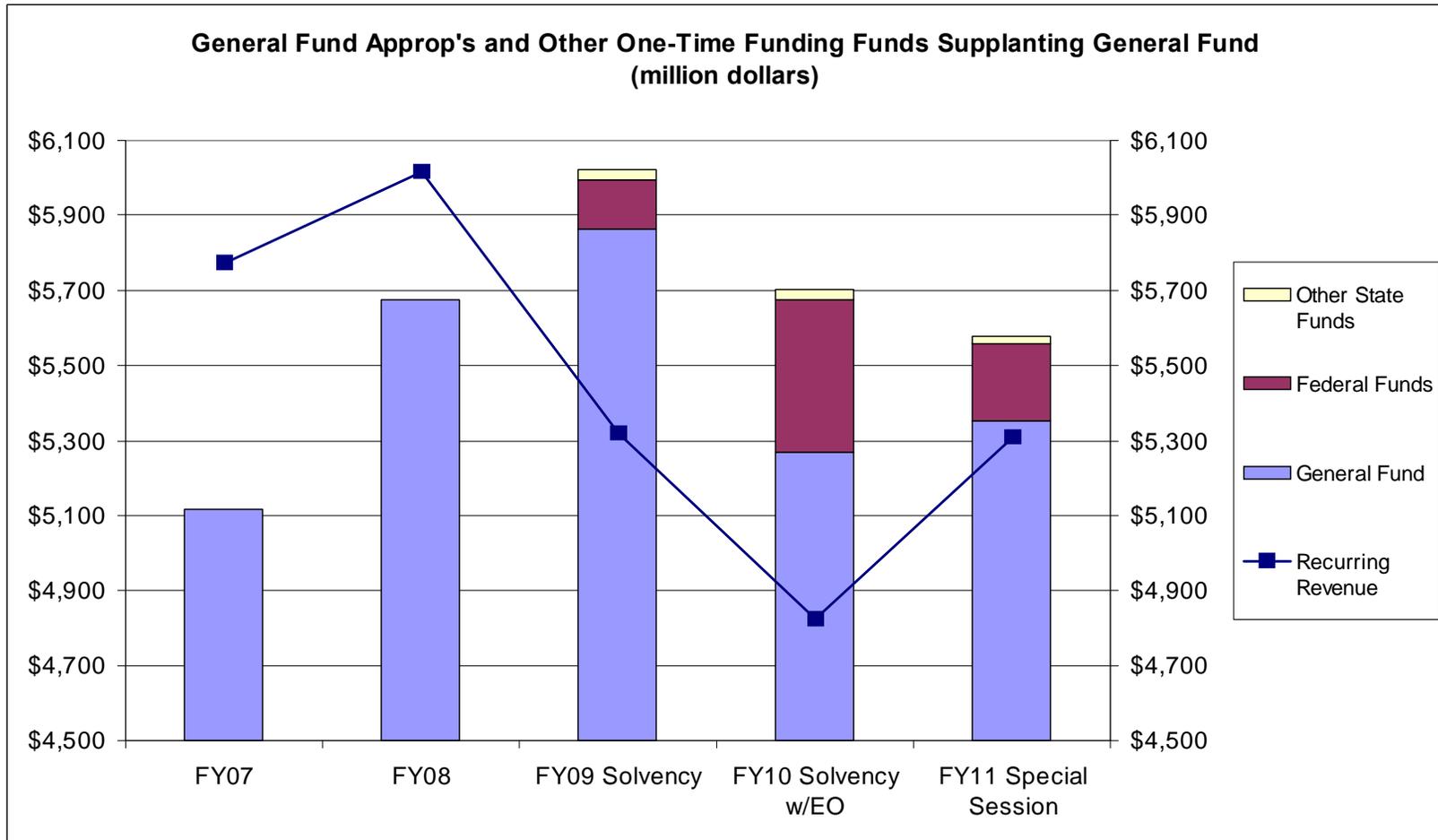
**Efficiency:** broad base with low rates; minimize distortion; avoid reliance on one tax

**Equity:** fairness to taxpayers in similar circumstances; fairness to taxpayers with different incomes

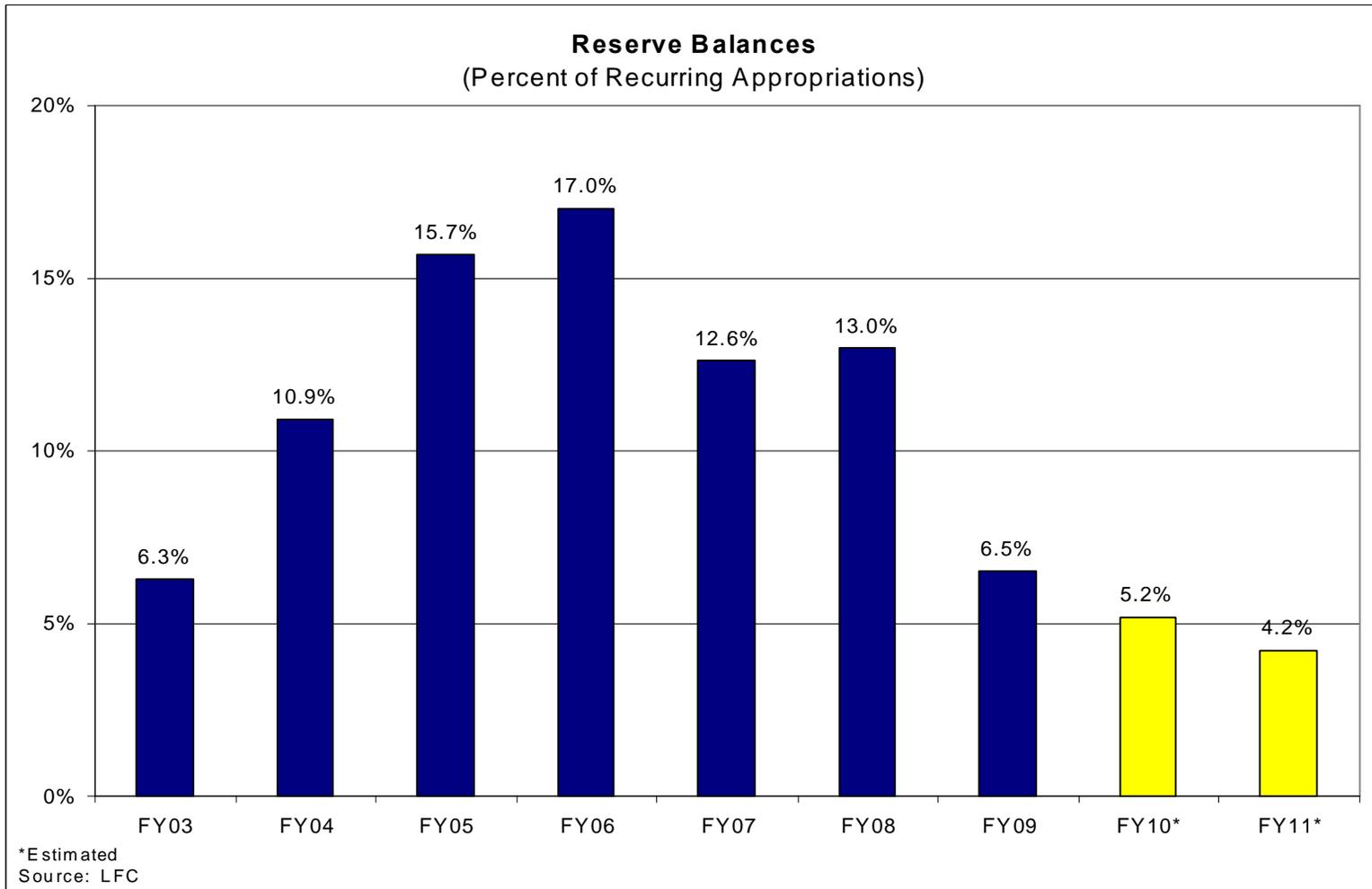
**Simplicity:** encourage compliance and minimize administrative costs

**Accountability:** tax preferences should be easy to monitor and should be reviewed periodically

***Implementing principles requires making trade-offs***



- “ *Temporary ARRA funds avoided much deeper spending cuts*
- “ *FY11 total spending is down 1.7% from FY10, 6.9% from FY09*
- “ *FY11 spending exceeds revenue by \$277 million even after revenue increases*
- “ *FY08 recurring revenue not reached again until FY15*



- ” *Reserves would have fallen well below zero but for \$1.1 billion in solvency measures, equal to 16% of peak GF revenue*
- ” *Revenue forecasts contained much more risk than anticipated*

# *FY12 Budget Challenge*

## Revenue:

" Consensus forecast assumes 6% revenue growth =	\$5,426 million
" Added revenues from 2010 bills =	\$172 million
" Total revenue =	\$5,598 million

## Appropriations:

" Assume flat budget from FY11 =	(\$5,354 million)
" Need to replace one-time funds in FY11 budget =	(\$324 million)
" Need to replace other one-time savings =	(\$156 million)
" <u>Total spending needed for current services =</u>	<u>(\$5,833 million)</u>
" <b>Shortfall of projected revenues including increase =</b>	<b>(\$236 million)</b>

## U.S. AND NEW MEXICO ECONOMIC INDICATORS

	FY2010		FY2011		FY2012	
	Dec 09 Estimate	Apr 10 Estimate	Dec 09 Estimate	Apr 10 Estimate	Dec 09 Estimate	Apr 10 Estimate
<b><i>NATIONAL ECONOMIC INDICATORS</i></b>						
US Real GDP Growth (level annual avg, % yoy)*	0.4	0.8	2.4	3.1	3.5	3.3
US Inflation Rate (CPI, annual avg, % yoy)**	0.9	1.1	1.5	1.6	2.1	2.3
Federal Funds Rate (%)	0.13	0.14	0.78	0.74	2.69	2.69
<b><i>NEW MEXICO LABOR MARKET AND INCOME DATA</i></b>						
<b><i>New Mexico</i></b>						
NM Non-Agricultural Employment Growth (%)	(3.5)	(3.1)	1.6	0.7	2.0	1.5
NM Personal Income Growth (%)***	(0.5)	(0.1)	3.2	1.6	4.5	3.6
NM Private Wages & Salaries Growth (%)	(3.1)	(3.3)	3.8	2.9	4.1	4.1

\*Real GDP is BEA chained 2005 dollars, billions, annual rate.

\*\*CPI is all urban, BLS 1982-84=1.00 base.

\*\*\*Personal Income growth rates are for the calendar year in which each fiscal year begins.

Sources: April Global Insight, March FOR-UNM BBER

- ” *U.S. outlook improved slightly since December*
- ” *NM recovery delayed*