

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (legis.state.nm.us). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

## FISCAL IMPACT REPORT

ORIGINAL DATE 2-19-07

SPONSOR Smith LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE TAX POLICY STUDY SB 1109

ANALYST Aubel

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY07	FY08		
	\$500.0	Non-Rec	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Department of Finance and Administration (DFA)  
Energy, Minerals and Natural Resources (EMNRD)

#### No Response

New Mexico Environment Department (NMED)  
Taxation and Revenue Department (TRD)

### SUMMARY

#### Synopsis of Bill

Senate Bill 1109 appropriates \$500.0 thousand from the general fund to the Office of the Governor to conduct a study on the economic, environmental, and fiscal impacts of shifting New Mexico taxation from a system of taxing desirable activities -- such as income, work, property and purchasing products & services -- to a progressive system of taxing undesirable activities, such as waste, pollution and the use of non-renewable resources.

### FISCAL IMPLICATIONS

SB 1109 appropriates \$500.0 thousand to the Governor's office for use in FY08. Any unexpended or unencumbered balance of this nonrecurring appropriation would revert at the end of FY08.

DFA suggests that simply building an economic model with the proper policy “hooks and levers” may by itself take at least a year, and that a final report may take longer, although how much longer is not specified. Thus, additional appropriations may be required to complete the study.

## **SIGNIFICANT ISSUES**

According to DFA, using tax policy is one of the five themes stemming from the Governor’s community task force on how New Mexicans want their communities and their state to grow and thrive. SB 1109 proposes studying how New Mexico might transition from a tax system that taxes desirable activities to one that taxes undesirable activities over the next 20 years, including the economic, environmental, and fiscal impacts.

The community task force recommends that the study address the following potential impacts of the new tax system:

- Actual results where this system is being used in other places around the world;
- Effects on creating new jobs, changing patterns of consumption, increasing the use of renewable energy, and improving the state’s economy;
- Impact on innovation and entrepreneurship in New Mexico;
- Impact on growth and creation of locally-owned businesses;
- Impact on job creation and average household income;
- Impact on major business categories in New Mexico agriculture, finance and real estate, health care, manufacturing, mining, etc;
- Impact on New Mexico’s rank in U.S. economic performance;
- Impact on air, soil, water, and water quality;
- Impact on living systems;
- Impact on health and quality of life of New Mexicans; and
- Impact on community use of sustainable and affordable energy supplies.

It has long been noted that taxes are arguably one of the strongest means a governing agency has to motivate behavior, serving as powerful economic incentives and disincentives. The primary questions the study would address include:

Is New Mexico taxing behaviors it wants to discourage, and rewarding those it wants to encourage?

Is New Mexico’s tax system—albeit in the well-intentioned service of our citizens—actually creating powerful reverse incentives?

## **PERFORMANCE IMPLICATIONS**

The appropriation could add performance measures and timelines for study parameters to ensure the efficient use of resources and establish clear production commitments. An example would be a report to the Legislative Finance Committee on a periodic basis for review.

## OTHER SUBSTANTIVE ISSUES

### Background

According to DFA, the state's tax system has been extensively studied about once a decade for 50 years. There was the Citizen's Tax Study Committee in 1984, a legislative tax study task force ("known as 'Manny's committee'") around 1991, the Professional Tax Study Committee (PTSC) in the mid-1990s and the Blue Ribbon Tax Study Commission in 2004. Fewer than 10 percent of the recommendations of any of these tax study groups have found their way into New Mexico's law. Prior to the PTSC effort in the mid-1990s, Tax and Revenue Department prepared a document discussing the various tax studies known to have occurred going back to the New Mexico Taxpayers Association days. This document ends with "Manny's committee", but lists no fewer than 11 studies of the state's tax system. Only in 1968 were the bulk of the recommendations accepted. This effort produced the Tax Administration Act, the Gross Receipts and Compensating Tax Act, and eight other bills that are now law. DFA notes that paying adequately for outside expert analysis and advice has only been tried once before, with indifferent results.

### Taxation Study

DFA suggests that using the Governor's community task force as a basis for the study may provide additional impetus and focus to generate significant results.

The Governor's task force believes it possible that a revised tax system could:

1. Increase job creation;
2. Reduce poverty;
3. Increase capital investment in business;
4. Jumpstart innovation;
5. Clean up our air, soil and water and reduce global warming gases;
6. Avoid passing costs on to future generations;
7. Encourage prudent, efficient economic behavior, while strongly discouraging wasteful behavior; and
8. Make New Mexico more competitive nationally and internationally

Currently New Mexico, its municipalities and counties tax work, income, property ownership, and purchase of products and services. Paradoxically, these are positive activities that are burdened with taxes. EMNRD proposes that the study would provide valuable information on the effects of shifting the tax burden to polluting and non-renewable energy industries. It would also provide data to show how non-renewable energy industries could be de-incentivized, which may foster renewable-resource-industry development.

Some economists believe that reducing or eliminating payroll and income taxes, and replacing them with taxes on waste, pollution, and resource depletion, would foster innovation, create far more and better paying jobs, fight poverty, and increase overall prosperity and quality of life, while reducing pollution and global warming.

The study would determine whether the proposed shift in taxes would create a future of higher employment, higher personal incomes, more jobs from innovation and invention; cleaner air, soil, and water; and healthier citizens.

**WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

A tax policy study as a first step toward looking at ways to improve the economic and quality of life in New Mexico through shifting the tax burden would not be taken.

MA/nt