

**TWENTY-SIXTH NEW MEXICO FIRST TOWN HALL
NEW MEXICO TAXES: TAKING ANOTHER LOOK**

Angel Fire, New Mexico May 3-6, 2001

EXECUTIVE SUMMARY

The Town Hall concluded that there is widespread misunderstanding of New Mexico's tax system. Most taxpayers believe taxes are too high, and many believe they have an unfair tax burden. The Town Hall further concluded that there is widespread belief that property taxes are disproportionate and burdensome even though they are among the lowest in the nation. Further, many believe they are not getting their money's worth for their taxes, and out-of-state businesses considering relocation find New Mexico's tax system complex and difficult.

CHALLENGES TO NEW MEXICO'S TAX SYSTEM

As a result of its tax system, New Mexico faces many challenges as expressed by the Town Hall in terms of potential solutions or missed opportunities. The Town Hall concluded that New Mexico needs:

- A strategic plan for the state and a tax system geared to it
- To be prepared for the possibility of reduced federal expenditures in the future
- To take advantage of the opportunities presented by the New Economy that are not bound by traditional jurisdictions
- A tax system that is accountable and provides direct links between the taxes and the services provided
- A simplified, non-political approach to taxation
- A tax system that is stable
- To avoid over-dependence on unstable revenue sources such as corporate income taxes and oil and gas taxes
- To educate its citizens about the tax system
- To recognize that because of New Mexico's distinctive blend of multiple overlapping tax jurisdictions, changes in state taxes can have unintended effects on cities, counties, school districts and Indian tribes
- A tax system in which taxes are administered uniformly, efficiently and effectively

**IMPROVING NEW MEXICO'S TAX SYSTEM:
PRIMARY RECOMMENDATIONS**

First, create as soon as possible a permanent, professional tax institute.

- Institute would objectively collect data and conduct tax policy research
- Institute would exist as a separate, nonprofit organization supported by public and private funds
- Once established, all changes in New Mexico tax policy would be considered in light of independent research and objective data collection conducted by this Institute
- Institute could be affiliate of New Mexico First
 - Could seek funding from private sources
 - Could also contract with state to provide studies
 - Must remain independent

Second, the legislature should create a process to study and develop a new or revised tax system for New Mexico.

- This process:
 - Would not exceed five years in duration
 - Would involve legislators, tax experts, taxpayers and other stakeholders
 - Would have funding adequate to develop and analyze data, and to implement the resulting recommendations
- The new revised system must be based on the following principles:
 - Must be predictable and flexible
 - Must provide an appropriate process for resolution of conflicts
 - Must deal with overlaps of taxing jurisdictions
 - Must increase the transparency of the tax system to avoid errors and hidden taxes
 - Must take into account vanishing economic boundaries
 - Must recognize the nature of our changing economy

Third, a priority should be placed on the creation of a vision and a long-range plan for New Mexico that:

- Would guide the development and administration of New Mexico's tax system
- Recognizes New Mexico's changing economy
- Is geared toward supporting necessary government services

**OTHER RECOMMENDATIONS:
TAXATION ON TRIBAL LANDS**

New Mexico must find solutions to:

- Dual taxation
- Marketing of tax exemptions by tribes

**OTHER RECOMMENDATIONS:
GROSS RECEIPTS AND COMPENSATING TAX**

New Mexico must:

- Provide regular review and justification of tax exemptions, deductions and credits
- Repeal or sunset outdated exemptions, deductions and credits
- Capture the tax due on catalog and internet sales
- Simplify the gross receipts tax
- Reduce pyramiding
- Determine whether the regressivity of GRT is adequately addressed, and if not, provide solutions

- Simplify the non-taxable transaction certificate process
- Recognize that economic downturns adversely affect local governments more than State government because of more limited revenue sources

OTHER RECOMMENDATIONS: PERSONAL INCOME TAX

New Mexico must:

- Reduce the highest personal income tax rate
- Broaden and index tax brackets for inflation
- Not tax capital gains taxes as ordinary income
- Ensure low-income taxpayers retain available credits

OTHER RECOMMENDATIONS: PROPERTY TAXES

New Mexico must:

- Enable public disclosure of property sales prices
- Enable more accurate property valuations and assessments
- Professionalize the property assessment function

OTHER RECOMMENDATIONS: CITIES AND COUNTIES

Cities and counties:

- Should be allowed to take advantage of:
 - State personal income tax
 - Gross receipts tax and compensating tax
 - Property tax
- Should be protected when changes in state tax policy affect local government revenues

TAXES AND ECONOMIC DEVELOPMENT

Tax incentives:

- Can be effective tools for economic development
- Create jobs
- Attract out-of-state businesses
- Improve New Mexico's overall economy
- Provide predictability and stability in taxation to these businesses and help them succeed in New Mexico

Reservations about tax incentives for economic development:

- Should be applied in the most effective manner
- Should be only a small part of total tax system
- Should not be used at the expense of other important economic development objectives such as education and infrastructure development
- Goals should be established (e.g., tax incentives should be targeted)
- An effective means of measuring subsequent benefits must be implemented and recipients held accountable

Tax incentives should be used to enable New Mexico businesses:

- To remain in the state and expand their operations and workforces
- To remain competitive with businesses elsewhere

TAX BURDEN: WHO PAYS TOO MUCH, WHO PAYS TOO LITTLE?

The Town Hall concluded that taxpayers who pay too much tax are:

- Small businesses and self-employed professionals, because business-to-business expenditures pyramid gross receipts taxes
- Low-income taxpayers, because more of their incomes are spent on purchases subject to taxes, such as food and transportation
- Taxpayers in the highest tax brackets, who pay higher rates than in other states

Taxpayers who pay too little tax are:

- Local residents claiming low-tax states as their tax domicile
- Businesses that improperly shift income to low-tax states
- Nonprofit corporations that compete with businesses
- Real property owners
- Merchants who sell to New Mexicans through catalog or internet sales
- Media

COMBATING MISCONCEPTIONS ABOUT NEW MEXICO'S TAX SYSTEM

Tax authorities should share information about the tax system with the public and should help taxpayers understand the system through website information, speakers' bureaus, outreach at senior citizens' centers and programs on public access radio and television.