

TWENTY-SIXTH NEW MEXICO FIRST TOWN HALL

NEW MEXICO TAXES: TAKING ANOTHER LOOK

Angel Fire, New Mexico
May 3-6, 2001

The Twenty-Sixth New Mexico First Town Hall convened in Angel Fire to take another look at New Mexico's major tax system and make recommendations for improvement.

The Town Hall concluded that most New Mexicans believe their taxes are too high. Many people believe they pay more in taxes relative to people in other social or economic classes. There is widespread misunderstanding about New Mexico's taxes, especially the effect of indirect or hidden taxes. Misperceptions are based on the misuse of statistics by various interest groups in comparisons with other states. One misperception is the widespread belief that property taxes are disproportionate and unduly burdensome, even though they are among the lowest in the nation. Out-of-state businesses considering locating in New Mexico often find the tax system extremely complex and difficult to evaluate before making an economic decision. Finally, many New Mexicans believe they are not getting their money's worth for the taxes they pay.

CHALLENGES

New Mexico faces many challenges as a result of its tax system as expressed by the Town Hall in terms of potential solutions or missed opportunities.

One of the most frequently mentioned challenges is the state's need to plan, to visualize its future, and to adopt a strategic, long-term approach to tax policy. This concern had many aspects. New Mexico should be prepared for possible reduced federal expenditures. It should take advantage of the New Economy that is not bound by traditional jurisdictions.

The Town Hall expressed a strong desire to see a tax system that is accountable and establishes direct links between taxes and services provided. A simplified, non-political approach to taxation policy is needed for policy-makers to make the best possible decisions. The tax system must be stable, and the state should avoid over-dependence on unstable revenue sources (e.g., corporate income taxes and oil and gas taxes). Education of the public would help address concerns about the tax system.

New Mexico is home to a distinctive blend of multiple, overlapping taxing jurisdictions. Changes in state taxes can have many effects, some unintended, upon cities, counties, schools and Indian tribes and their ability to raise revenues to serve their citizens' needs.

Taxes should be administered uniformly, efficiently and effectively.

MAJOR CHANGES

The Town Hall offered many suggestions for changes in New Mexico's tax laws. However, major changes should be deferred until a comprehensive review of the tax system, its purposes and its fairness is achieved. The Town Hall expressed concern that while reduced taxes and tax credits are used to attract economic investments, there is no clear method for evaluating the benefits.

Taxation on Tribal Lands

The revenue-generating interests of both state and tribal governments on tribal lands have resulted in two major problems: dual taxation and tribal marketing of tax exemptions that ultimately may disadvantage the taxpayers, the tribes, or the state. State, tribal governments, and all affected parties should separately review and resolve dual taxation and the marketing of tax exemptions on tribal lands.

Gross Receipts and Compensating Tax

Four major areas emerged as priorities for study and reform:

1. Exemptions, deductions and credits should be reviewed regularly and their purposes justified.
2. Outdated exemptions, deductions and credits should be repealed or allowed to sunset.
3. Corrections need to be considered to capture the tax on some untaxed forms of commerce such as catalog and internet sales, simplify it for others, and reduce the pyramiding of taxes.
4. Regressiveness of the tax should be evaluated. If problems are identified, solutions should be proposed that incorporate the full range of tax and benefit programs.

Also, the non-taxable transaction certificate process must be simplified.

Tax policy must recognize that local governments are more vulnerable to revenue fluctuations during economic downturns.

Personal Income Tax

Personal income taxes should be reviewed and, ideally, reduced at the highest rates. The Town Hall also recommended that the tax brackets be broadened and indexed for inflation, that capital gains not be taxed as ordinary income, and that provisions be made for low-income taxpayers to retain available credits.

Property Tax

The Town Hall made recommendations for reforming the property tax system, primarily through greater accountability. The property tax is one of the least understood and most emotional forms of taxation. While it is imposed at almost the lowest rate in the nation, it offers

great potential for improving the social and economic lives of New Mexicans if approached carefully.

The Town Hall issued more recommendations for the property tax than for any other of the taxes available for general governmental purpose. The key recommendations include requiring the public disclosure of property sales prices, requiring more accurate valuations of property and accurate assessments, and professionalizing the property assessment function.

Corporate Income Tax

The role of the corporate income tax as an economic development tool should be studied.

BALANCE AND RELIANCE

Contrary to the recommendations of tax experts and economists cited in the background report, the Town Hall expressed no interest in a system in which the major taxes (income taxes, property taxes, and gross receipts/sales taxes) raise an equal amount of revenue. While it may be desirable, it would be impractical to achieve, and greater priority was placed on the stability of the tax system and fair application for various classes of taxpayers.

New Mexico should rely less on extractive taxes because of the cyclical nature of the tax base. The Town Hall indicated some support for increased use of the property tax, provided that appropriate credits and exemptions are maintained for agriculture.

ECONOMIC DEVELOPMENT

Tax incentives are appropriate tools for economic development and, when done properly, create jobs, improve the overall economy and add to the tax base to support public services. Tax incentives provide predictability and stability in taxation for companies and can help a firm succeed.

However, the Town Hall had many reservations about how tax incentives are applied in New Mexico. Tax incentives should be a small part of the total tax system. New Mexico should not use tax incentives at the expense of other important economic development objectives such as education and infrastructure development.

The state should evaluate its process for awarding tax incentives. It should establish goals for the program, such as targeting tax incentives at specific types of businesses. The state should offer tax incentives selectively, not wholesale, and hold recipients accountable.

New Mexico businesses should be encouraged to stay in the state and to expand their operations and workforces. They should be assisted in remaining competitive with companies in other states. The Town Hall advocates the use of tax incentives to help existing New Mexico businesses grow and to attract new businesses from out of state.

TAX BURDEN

New Mexico's tax system is structured so that some taxpayers pay more than their fair share, while others pay less than their fair share. The Town Hall concluded that the gross receipt tax and the personal income tax contain most of the inequities.

Small businesses and self-employed professionals pay too much because of their heavy reliance on business-to-business transactions and the resulting pyramid effect of the gross receipts tax. This is especially difficult for service providers. Low-income taxpayers pay more than their fair share of tax because they spend a proportionately higher amount of their income on taxable items, such as food and transportation. Wage earners in the highest tax brackets face a personal income tax rate that is relatively high among the states and can be a disincentive for companies to recruit and retain higher-salaried workers.

People and businesses that maintain some or most of their residences or operations in another state are among those groups that the Town Hall said pay too little tax. These include part-time residents who maintain their residence for tax purposes in low- or no-income-tax states and corporations that take advantage of New Mexico's liberal income tax filing options and structure their operations to shift income/expenses to reduce their corporate income tax liability. Also mentioned by participants were some nonprofit organizations that compete in the commercial sector, real property owners, merchants operating on the internet and out of state, and the media.

CONCEPTUAL CHANGES

Substantial changes are needed in New Mexico's tax system. However, the Town Hall said that major changes must be justified through an objective, nonpartisan evaluation. As to whether the tax system needs a complete overhaul or just targeted fine-tuning, the Town Hall was divided on the question.

Some Town Hall panels offered a range of changes in specific taxes, prefacing their recommendations by saying the tax system does not need a major overhaul. Others advocated revamping the entire system because New Mexico's tax system does not recognize the fundamental changes in the economy. However, both camps agreed that their approach must begin with a new set of principles and objectives that would guide a state tax policy.

The New Mexico State Legislature should fund a not-to-exceed five-year process involving legislators, taxpayers, and tax experts (essentially all stakeholders) to create a tax system that first establishes principles, then systems that are cognizant of vanishing boundaries and recognizes the nature of our changing economy. The funding should be adequate to develop and analyze data as well as to fund the implementation of the process' result.

Those principles would include uniformity of application and enforcement, long-term planning with an emphasis on predictability and flexibility, resolution of conflicts and overlaps of taxing jurisdictions, and increasing the transparency of the tax system to avoid errors and hidden taxes.

Cities and counties should be allowed to take advantage of a share of the state personal income tax, gross receipts tax, compensating tax and property tax, and should be protected when changes in state tax policy affect local government revenues.

SPREADING THE WORD

Because of the widespread misconceptions about New Mexico taxes, the Town Hall suggested a variety of ways for the Taxation and Revenue Department and other entities to share information with the public about taxes. Every taxing jurisdiction should be prepared to help its taxpayers understand the tax system. The options are extensive, ranging from website data to speakers' bureaus, outreach presentations at senior citizen centers to events broadcast on public access television and radio stations. Presentations could include flow charts showing how taxes are collected and distributed, and publication of "benefits received for taxes paid" statements in local newspapers. Other recommendations include presentations on taxes in the public schools and re-establishment of relationships between the Taxation and Revenue Department and professionals in the tax field.

HOW TO IMPROVE THE SYSTEM STARTING NOW

The primary recommendations for meaningful change in New Mexico's tax system are the establishment of the process for review and reform of New Mexico's tax policy (described in the preceding section) and also the creation of a permanent resource for the ongoing collection of objective data and tax policy research. Once such a resource is established, any change in New Mexico's tax policy should be supported by independent research and objective data collection conducted by a permanent, professional tax institute. Therefore, this tax institute should be created as soon as possible. This institute could act as an affiliate of New Mexico First and would seek funding.

The Town Hall also placed a priority on the creation of a vision and an integrated strategic plan to guide New Mexico's tax system, one that recognizes the changing economy and is geared toward supporting the necessary services provided by government.

Action is needed immediately to eliminate more glaring tax problems. One is the pyramiding of the gross receipts tax, imposed on multiple transactions for one end product, which should be eliminated. Also, the gross receipts tax should be simplified. Another is the high rate for the top personal income tax brackets, which is higher than most other states and is seen as a disincentive for companies to invest and expand in New Mexico. The rate should be reduced and brackets reconfigured.

Other significant issues that need attention very soon include:

- Controversies over multiple taxation involving the state, Indian tribes and local governments.
- The routine evaluation of economic development tax incentives for the purpose of adding new ones and the possibility of eliminating ineffective ones.
- Providing adequate resources for the proper administration of the state tax laws.

- Adequately funded education of the public on the purpose and importance of taxes in our daily lives.
- Diversification of revenue sources for local governments, including the standardization of property valuations and the making of the property assessment function more professional.
- Hidden taxes, user fees or other assessments.
- Reform and adequately fund the administrative and judicial appeal process to improve fairness, consistency, and efficiency and to include making the administrative hearing officers and staff independent of the Taxation and Revenue Department.