

N.M. business groups expecting a battle over new taxes

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SANTA FE — New Mexico businesses face three major issues in the state legislative session that opens Tuesday.

They are, in order, taxes, taxes and taxes.

Conversations with lobbyists, reports by the New Mexico Tax Research Institute, speeches by business leaders and testimony before legislative committees confirm that businesses expect to spend the 2009 session fighting against what some euphemistically and sarcastically call "revenue enhancements."

New Mexico state government is about half way through its current fiscal year. Barring a miracle, the state will take in about \$500 million less in taxes, fees, royalties and other revenue than the spending that the Legislature authorized in 2008. Since the state constitution forbids deficit spending, lawmakers must both find a way to balance the budget for the fiscal year we're already in and for the fiscal year that begins July 1.

The Legislature will consider ways to cut spending, it will tap savings and, business interests expect, it will find a way to collect more taxes.

"Taxes are everything," one lobbyist said.

Deborah Seligman, New Mexico Oil and Gas Association government affairs vice president, said her goal for the legislative session is to avoid tax increases. Oil and natural gas extraction was responsible for about 21 percent of the revenue in the state general fund for the fiscal year that ended last June 30. It will shrink to about 15 percent of the general fund this fiscal year because of declining prices and slowing production.

"Oil and gas has become a no-growth industry in the state of New Mexico," Seligman told a Tax Research Institute conference last month. "We won't be here for the '09 session to help you out. I'm busy trying to keep our companies in the state of New Mexico right now."

Association of Commerce and Industry president Beverlee McClure, addressing the same conference, said that an anti-business climate is emerging that will help spur a push for new taxes. "We just want to be sure it's fair and equitable," McClure said, but because taxing decisions are often made without good data, she said, ACI isn't sure how fair and equitable they can be.

"Many of us have worked really hard for tax policies that create jobs," said Greater Albuquerque Chamber of Commerce president Terri L. Cole. She said the state has lost 3,000 jobs in the manufacturing sector alone in 2008 and added, "Now is not the time to hurt New Mexico's children by putting more of their parents out of work."

"If the Legislature does opt to raise revenue, there is no end of ways in which that may be accomplished," according to a Tax Research Institute analysis.

Among the possibilities:

A return to quarterly estimated corporate income tax payments.

A 2003 law reduced the requirement to three estimated payments a year. The institute estimates that \$70 million could be injected into the general fund once. Since these are taxes corporations owe, the change only accelerates collection. Sen. Sue Wilson Beffort, R-Sandia Park, doubts small businesses have the cash flow for an extra payment.

Mandatory combined reporting.

Companies that do business in multiple states would be required to report on the profits earned throughout the company, not just on its New Mexico operations. Proponents say combined reporting would prevent companies from under-reporting profits earned in New Mexico that are subject to corporate income tax. Companies today have the option of filing combined reports or reporting only on New Mexico operations. McClure said there simply is no data to support proponents claim the state could collect \$90 million more in corporate income taxes. "We don't even know if it's revenue neutral," she said. It also is possible it could end up slowing economic development.

Raise personal income taxes.

Economist Gerry Bradley of New Mexico Voices for Children said that state income tax cuts that began in 2003 and were completed in 2008 cost the state \$400 million in lost revenue annually. Bradley argues that tax revenue should grow as fast as the growth rate in state population plus the inflation rate. Business groups have long supported previous tax cuts for creating more jobs and improving the economy.

Raise the motor vehicle excise tax.

The Tax Research Institute says that New Mexico's 1 percent MVT is one of the lowest in the country. A 1 percent increase would raise \$40 million per year, assuming people keep buying cars, not a certainty in today's economy. Business groups say any increase in car costs prevents more people from buying.

Repeal gross receipts tax deductions on medical services and food. That would raise an estimated \$80 million, supporter say. Business groups believe the cuts have been good for personal income growth and the economy overall.

Raise the 3.15 percent tax on oil extraction to match the 4 percent tax on natural gas extraction. That would raise \$27 million. Business groups say that there already is mounting pressure pushing oil exploration to other states because of new and more onerous regulation in New Mexico. Anything that discourages exploration is a bad idea.