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Task force eyes taxes

Budget shortfall puts all tax breaks at risk

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New Mexico provides a variety of tax breaks that attract industry and create jobs, but at a cost state government officials must address as they attempt to shore up a shortfall in the hundreds of millions of dollars.

That cost and options for change were discussed at a task force meeting Tuesday, Dec. 1, in Las Cruces. Gov. Bill Richardson formed the task force following the recent special session that shored up some of the predicted \$650 million shortfall in state finances.

Taxation and Revenue Secretary and task force chair Rick Homans said the group is looking at a variety of options with the meeting in Las Cruces reviewing possible changes to how businesses produce revenue for the state and various tax breaks that reduce what they pay – from tax credits to corporate income and franchise taxes.

Task force members voiced concern about a finding that all New Mexico tax credits – exemptions from taxes as new business incentives – cost the state \$111.7 million in 2009 at a time when lawmakers are looking for ways to increase revenues without significantly raising taxes.

Rick Clemente of Production Central ABQ led the charge for support of the film production industry that accounts for almost \$77 million of the tax breaks. The credit has succeeded

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in bringing in lots of income from outside of New Mexico without taking workers away from the existing workforce, he said. Once all the film production spending is considered, he said the tax credit more than pays for itself.

The film industry also has added new life to the educational system with both high school and universities increasing their training for media-related professions, Clemente noted.

A benefits analysis is needed to balance the cost, task force members said, but Homans responded that the different tax credits are varied in their accountability and transparency. This is something the state needs to address, he said, regardless of whether the tax credits remain in place.

The dilemma facing state officials, Homans said, is that reduced revenue will mean reduced government spending, which will mean less services from the government. The growing number of tax credits is part of that picture, he said.

Bill Jordan, policy director for New Mexico Voices for Children, countered that he had no problem with these very targeted tax credits to produce economic development. Jordan said he preferred this tax break to the "\$450 million giveaway" for people making the most money through the income 2003 tax cuts. Jordan's position is supported by analysis that shows the lower income earners in New Mexico shoulder a larger proportion of the tax burden based on percentage of income.

Another proposal at the meeting was

a change in the corporate franchise and income taxes. Currently, all corporations pay an annual franchise tax of \$50. The change being considered would be to base the franchise tax on a company's property, payroll and sales that would raise more money and eventually phase out the need for a corporation income tax. Different variations on this change were estimated to generate between \$170 million to \$440 million over the next four years.

The change would make corporate tax revenues more predictable and would make the system less "uneven" in what companies pay or don't pay in income taxes. The downside is that depending strictly on a franchise tax wouldn't take into account the profitability of a business, as well as making New Mexico the only state to enact such a system.

In the end, corporate taxes are only a small part of the picture. The lion share of state government funds come from income taxes, gross receipts taxes and severance taxes from oil and gas industries.

The task force will hold two more meetings with next week's meeting in Farmington, N. M. as the task force looks at the highly volatile gas and oil industries. Drops in oil and gas prices have significantly added to the state's budget crisis, though job losses from the recession and reduced investment return from the stock market also have impacted the state's finances. Critics of the Richardson administration note that the state government spending was growing faster than revenues prior to the recession.

The task force will give a final report later this month. It is accepting public comments through its website at www.nmrevenueoptions.com until Dec. 17.