



Policy Recommendations for the 2006 Legislative Session

New Mexico Voices for Children

Presentation to the

Legislative Finance Committee

November 17, 2005

Expand the Low Income Comprehensive Tax Rebate (LICTR)

- LICTR was enacted in 1972.
- LICTR was enacted to rebate part of the gross receipts tax to low income tax payers.
- This is because low income consumers pay more of their income in the gross receipts tax than higher income consumers.
- LICTR rebate amounts were last updated in 1998.
- LICTR rebate amounts have lost one fifth of their value since that time.

Proposed LICTR Increase

- LICTR rebate amounts would be doubled across the board.
- LICTR rebate amounts each year in the future would be indexed to the rate of inflation as measured by the Consumer Price Index.
- The current exemption structure, which helps the elderly, would remain unchanged.

Low Income Comprehensive Tax Rebate Increase

- Proposed increase in LICTR Rebate would double all amounts in the LICTR rebate table.
- Proposed doubling of LICTR rebates would cost an estimated \$26 to \$30 million.
- The current cost of LICTR is about \$26 million.

Close an Income Tax Loophole for Higher Income People

- Current New Mexico law allows New Mexico state income tax filers who itemize their deductions to exclude state and local taxes paid in the previous year from their taxable income. Thus, no state taxes are paid on this amount.
- Only eight other income tax states allow itemizers to deduct state and local taxes paid from their state taxable income. Most income tax states require that state and local taxes be added back to state taxable income, and taxed.

Close a Income Tax Loophole for Higher Income Taxpayers

- TRD estimated that the failure to add back state and local taxes to income for itemizers cost the state of New Mexico \$66 million in FY 2006.
- This tax loophole contributes to the regressivity of the New Mexico tax structure. Lower income people in New Mexico pay more of their income in state and local taxes than higher income people, and the problem is getting worse. Taxes should be paid on the basis of the taxpayer's ability to pay.

Close an Income Tax Loophole for Higher Income Taxpayers

- Closing this loophole raises \$66 million, *without* increasing our income tax rates.
- The current windfall from oil and gas taxes will not last; more recurring revenue sources will be needed starting in FY '08.
- Adjust a bit of the recent shift in the tax burden to low income people, back to those who can better afford it.

Helping NM Businesses by Amending the Corporate Income Tax Act

- New Mexico allows corporations to decide for themselves how they will file their corporate income taxes.
- This arrangement is especially beneficial to corporations doing business in numerous states. New Mexico business do not have as much room to maneuver to minimize state taxes paid.
- Corporations naturally select the most advantageous method for filing their corporate income taxes. This method will typically be the least advantageous to New Mexico.

Preventing Corporate Abuse of the Corporate Income Tax

- All multi-state corporations doing in business in New Mexico should be required to file corporate income tax returns on a 'combined' basis, so that income from all states is fully taken into account.
- Arizona and Colorado both require this method of filing corporate income tax returns, and this is the method recommended by the Multistate Tax Commission.
- Requiring this method of filing the New Mexico corporate income tax would yield up to an estimated \$45 to \$61 million in revenue (Multi-State Tax Commission). This the amount that New Mexico is currently losing as corporations shift their profits to another state.

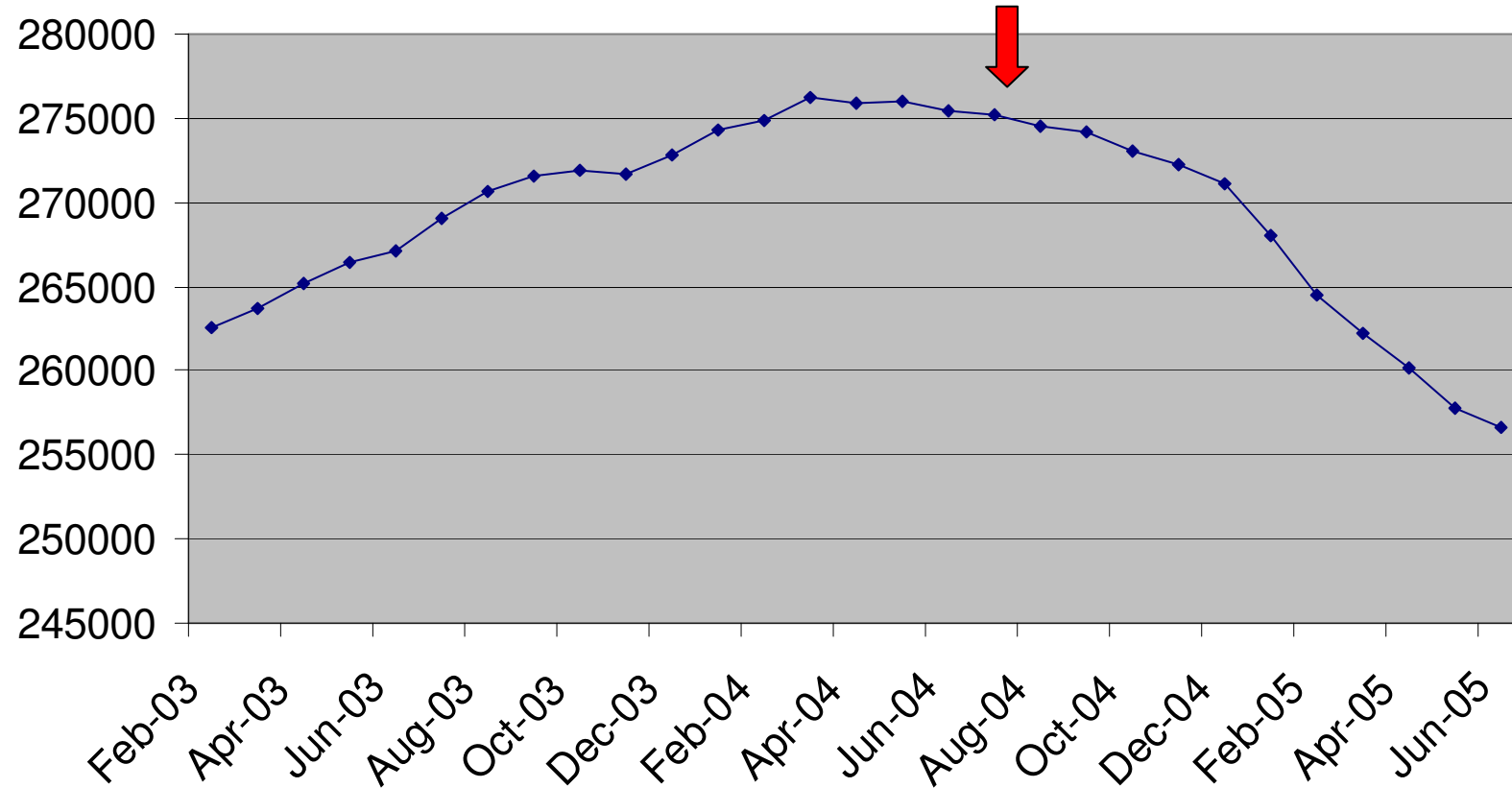
New Mexico Voices for Children Tax Recommendations

- Double the rebate amounts provided under the Low Income Tax Rebate:
 - Cost: \$25-\$30 million.
- Close the loophole for higher income filers for state and local tax deductions:
 - Revenue: \$66 million
- Enact mandatory combined reporting for corporate income tax:
 - Revenue: \$45 -61 million

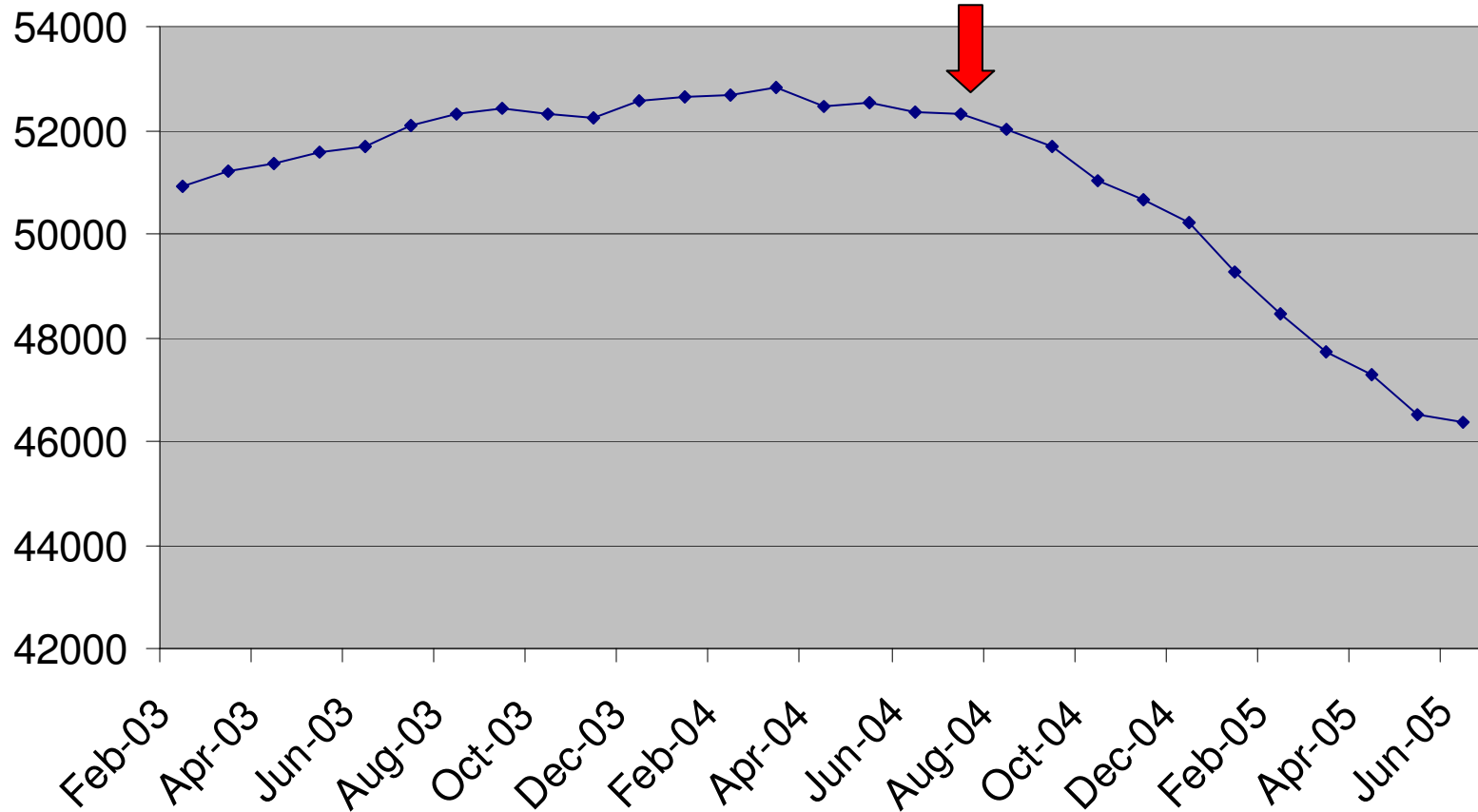
Full Funding of Medicaid

- Medicaid is likely to need \$25M to avoid further cuts
- Providers need a rate increase
- An additional \$14 M will restore the harmful cuts made 2 years ago when HSD implemented auto case closure and 6 month recertification.

Medicaid Enrollment of New Mexican Children (under age 21), Feb 2003 to June 2005



Medicaid Enrollment of Native American Children in New Mexico, Feb 2003 to June 2005



Medicaid is an Economic Engine

- Federal funding brings \$1.9 Billion to the state, our largest source of federal funds, more than GRT or PIT and CIT combined.
- Every state dollar invested in Medicaid generates \$5.57 in business activity
- Medicaid spending in 2002 accounted for 94,000 jobs in NM. (NMSU Study)
- Medicaid is 22% of all health care expenditures in NM, providing the foundation for hospitals, doctors and our health care infrastructure.

Early Care and Education

- Last year \$2.3 M was cut from Child Care
- Restore eligibility to 200% FPL (\$12 M)
- Funding to improve quality, wages, training (\$2 M)
 - NM has 4th lowest hourly wages in the nation
 - NM has highest percentage of teachers living below 200% FPL (49% of teachers)
 - Turnover rates range from 22-44%
 - NM quality standards are well below recognized standards and can't be improved without a significant budget increase.