New Mexico Voices for Children

Taking a closer look at tax and budget policies affecting New Mexico's quality of life

New Mexico Fiscal Policy Project

Fact Sheet – Revenue Generators

Why the State Should Take a Balanced Approach to Solving the Budget Shortfall

August 2009

New Mexico lawmakers, faced with serious revenue shortfalls, are working on legislation to deal with what could be a $500 million gap in the current general fund budget (FY10).

Lawmakers have a clear choice: preserve funding for education, health care, and public safety programs or preserve tax cuts for high-income earners and loopholes for out-of-state corporations. Lawmakers have been leaning toward cutting funding, and very little talk has focused on raising new revenue. However, raising revenue from high-income earners would be far less damaging to the economy than spending cuts.

Budget cuts will have the greatest negative impact on those children and families who are already struggling.

The state could enact several revenue generators that would spread the "sacrifice" of tough times to include those who can most afford it—the highest-income earners and out-of-state corporations.

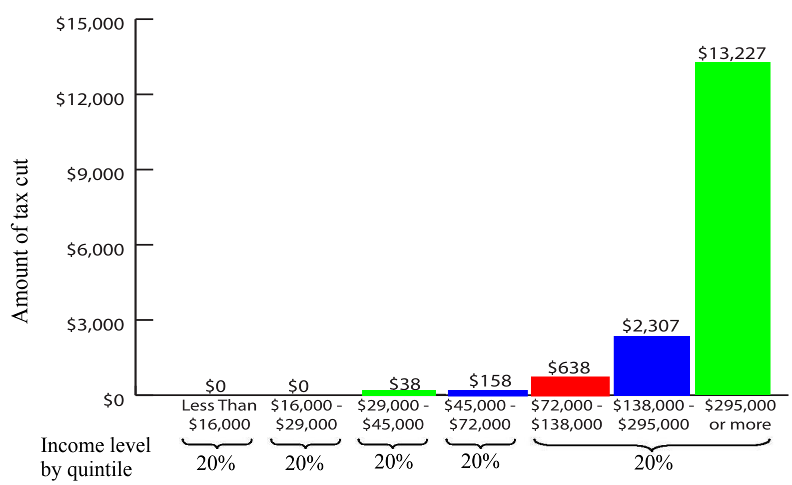
Fact: Every dollar in government spending returns on average $1.58 in economic growth.[1]

Fact: Sustaining current levels of funding is the best way to recover from a recession because that money goes directly into the local economy.[2]

Fact: Deep spending cuts result in job losses in both the public and private sectors.

Fact: Thirty states—including almost every Western state—have enacted tax increases to help cover their budget shortfalls and another seven are considering increases.[3]

2003 State Income Tax Cuts: Benefit by Income Level[4]



New Mexico's 2003 personal income tax cuts disproportionately benefited the highest income earners, while those in the bottom two income brackets got no benefit at all. Deep budget cuts to education, health care, and public safety would disproportionately harm those who received the least tax cut benefit.

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Potential Revenue Generators

The following is a menu of possible revenue generators lawmakers could consider.

Reform corporate income tax law to mandate combined reporting. This would require multi-state corporations to pay their fair share of corporate income tax on the profits they make in New Mexico. These same corporations are paying income tax on their profits in nearly all neighboring states.

Would generate: ***$60-$80 million***

Roll back the cut in capital gains taxes. Enacted in 2003, the capital gains tax cut slashed in half the amount paid on this unearned income. Most of this tax cut (76 percent) went to New Mexicans earning more than $200,000.

Would generate: ***$51 million***

Roll back personal income tax cuts for the highest income group. Also enacted in 2003, the state's personal income tax cut benefitted primarily higher-income filers.

Could generate as much as: ***$450 million***

Add a surtax on higher incomes. Over the last decade or two, the state's wealthiest residents have fared much better than the average New Mexican, whose income saw modest gains at best. A surtax on the top earners would help correct this growth in income inequity.

Each 1 percent surtax on filers with taxable incomes over $100,000 would generate: ***$150 million***

Each 1 percent surtax on filers with taxable incomes over $200,000 would generate: ***$80 million***

Close the personal income tax loophole for high-income filers. This would require filers who itemize (typically higher income earners) to add-back on their state form the federal deduction they received for state and local taxes paid. New Mexico is one of only a handful of states that still allows this deduction.

Would generate: ***$75 million***

Raise so-called "sin" taxes. Raising taxes on cigarettes have the added benefit of reducing use by youth, which saves millions in health costs down the line. Revenue from raising taxes on alcohol could help pay for the high public costs associated with alcohol abuse

Cigarette tax of $1 per-pack tax would generate: ***$31 million***

A dime-a-drink increase would generate: ***$80 million***[5]

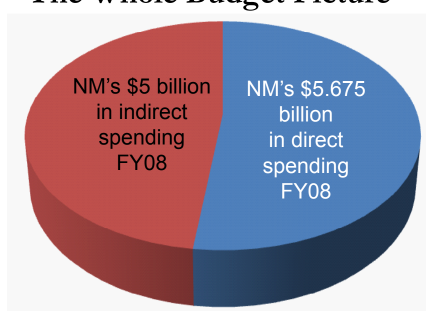
Pull back unused capital outlay funds. Some of the money appropriated for capital outlay projects has yet to be used (for a variety of reasons). Instead of sitting idle, that money could be put to work and, when revenue allows, re-appropriated later.

Would generate: ***$150 million***

Repeal some gross receipts tax (GRT) deductions. Actual revenue would depend on specific GRT deductions and exemptions, but some ***$5 billion*** is spent this way every year.

Require a Tax Expenditure Report. Tax expenditures are exemptions and deductions, most of which benefit small groups, that have been made to the state tax code. Over the years they add up, but the accumulated cost is not scrutinized during the annual budgeting process the way direct spending is. A tax expenditure report would allow lawmakers to make better budgeting decisions. As shown in the chart below, tax expenditures cost New Mexico $5 billion every year—almost as much as the entire budget. New Mexico is one of just nine states without a tax expenditure report.

The Whole Budget Picture



Endnotes

1 Moody'sEconomy.com

2 This is the stated opinion of numerous noted economists, including Nobel Prize winner Joseph Stiglitz, Paul Krugman and Nick Johnson

3 "Tax Measures Help Balance State Budgets; A Common and Reasonable Response to Shortfalls," Nick Johnson, Andrew Nicholas and Steven Pennington, Center on Budget and Policy Priorities, July 9, 2009; http://www.cbpp.org/cms/index.cfm?fa=view&id=2815

4 Citizens for Tax Justice, Institute for Taxation and Economic Policy, custom analysis for New Mexico Voices for Children

5 http://www.marininstitute.org/site/index.php?option=com_alcoholtax&view=result&controller=result&Itemid