

Faith Traditions, Tax Policy, & the Good Society

A Dialogue

December 1, 2004



**New Mexico
Today:**

**Far from the
Good Society**

**For Far Too
Many Children**

46th in Child Well-Being

**49th in Children Who Have
Health Insurance**

48th in Single Parenthood



Why?

Too Many Live in Poverty:

1 in 5 Adults

1 in 4 Children

1 in 3 Babies and Toddlers



The Relevance of Tax Policy to Building the Good Society

- Taxes are the “membership dues” of a caring society.
- Tax policies can generate and distribute the “common wealth” to benefit the common good.
- Tax policies can reduce poverty and increase economic security for lower-income families.



A Good Tax System Should:

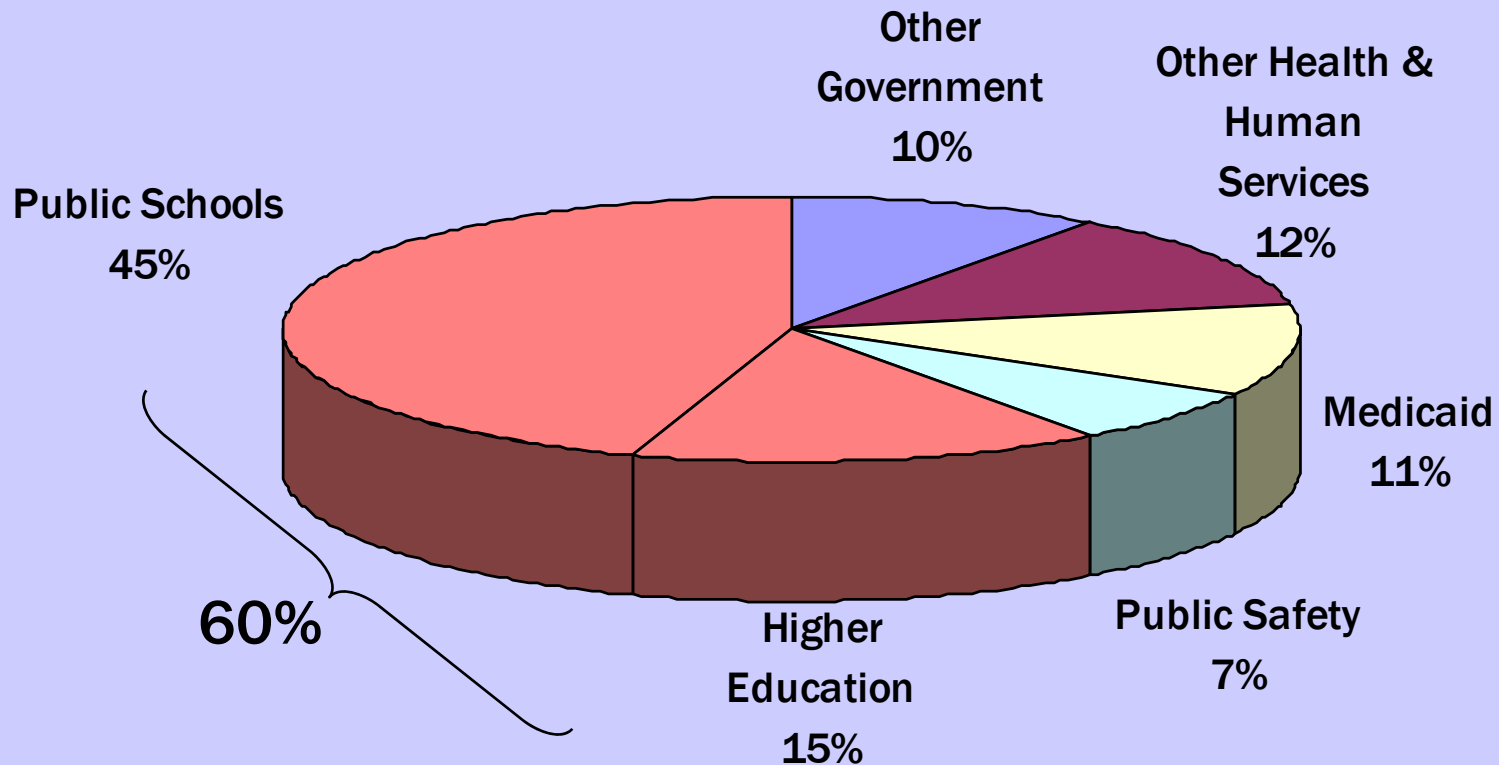
- Provide adequate, stable revenue to consistently fund state services
- In a manner that is:
 - Fair (Distributes the burden broadly)
 - Balanced (Promotes stability)
 - Accountable (No hidden loopholes; transparent policymaking)
 - Administrable and Efficient (minimally expensive to collect, enforce and comply with)



All State Services Are Funded By Taxes

General Fund Spending

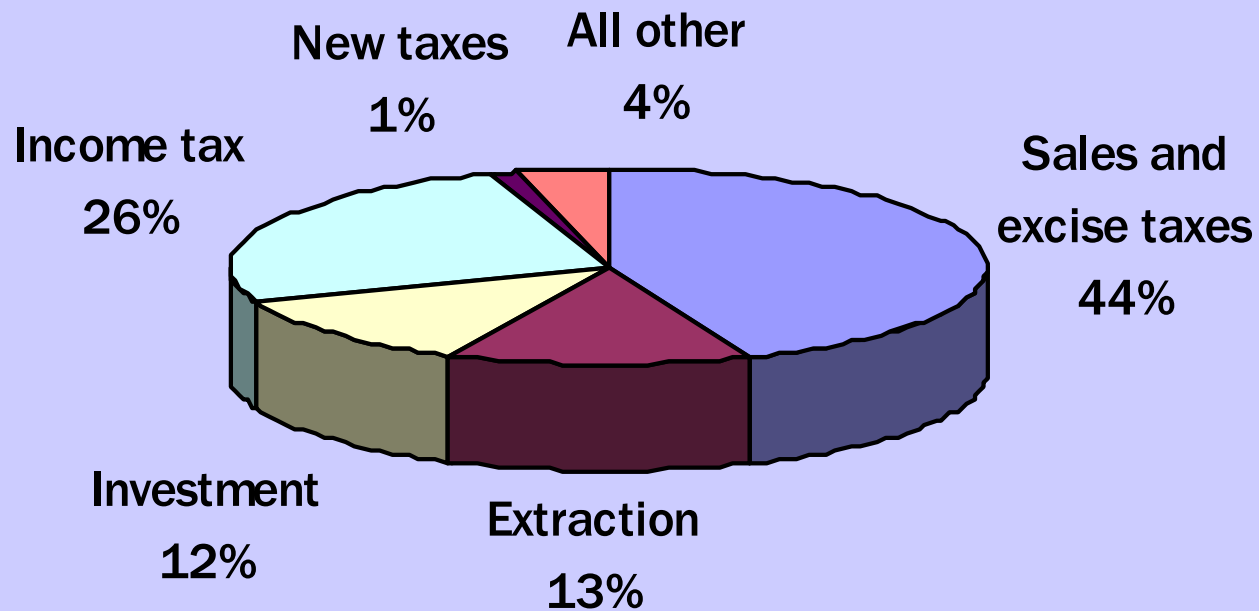
(\$4.4 Billion for FY 2005)





The General Fund Is Funded Entirely Through Taxes

FY 2005 General Fund Revenue





Important Changes Made to New Mexico's Personal Income Tax Policy in 2003

- Reduction in the Top Income Tax Rate – from 8.2% to 4.9% When Fully Implemented in 2007
- Reduction, by 50%, in the Capital Gains Tax



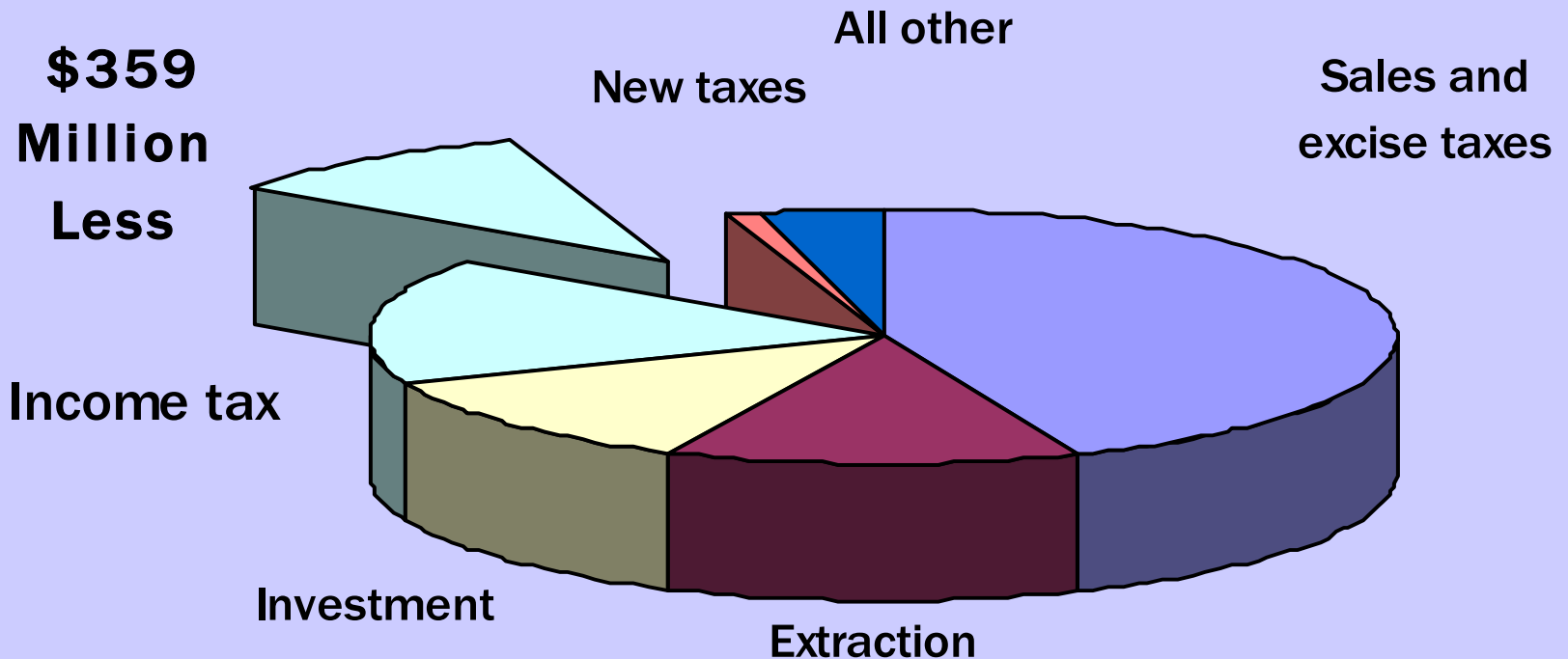
Reduction to the State's Income Due to the Income & Capital Gains Tax Cuts

	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>
Income Tax Cut	-17,110	-72,210	-151,058	-254,352	-332,377
Capital Gains Cut	-4176	-10,297	-15,622	-20,336	-27,442
Total Lost Income	-21,286	-82,507	-166,680	-274,688	-359,819

Loss this year



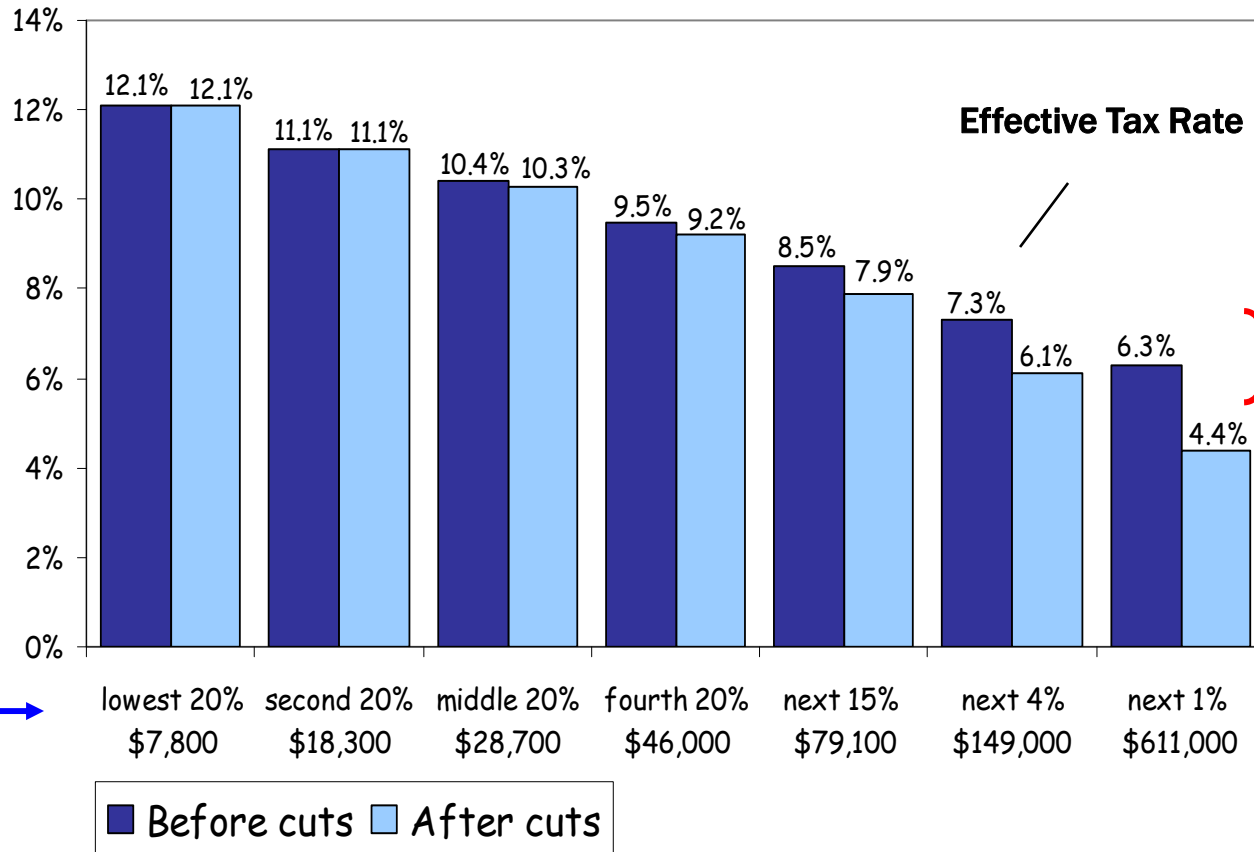
By FY 2007 There Will Be \$359 Million In Lost Revenue to the General Fund



Impact of Personal Income Tax Cut on Tax Rate

No benefit

% of Household Income



Greatest benefit

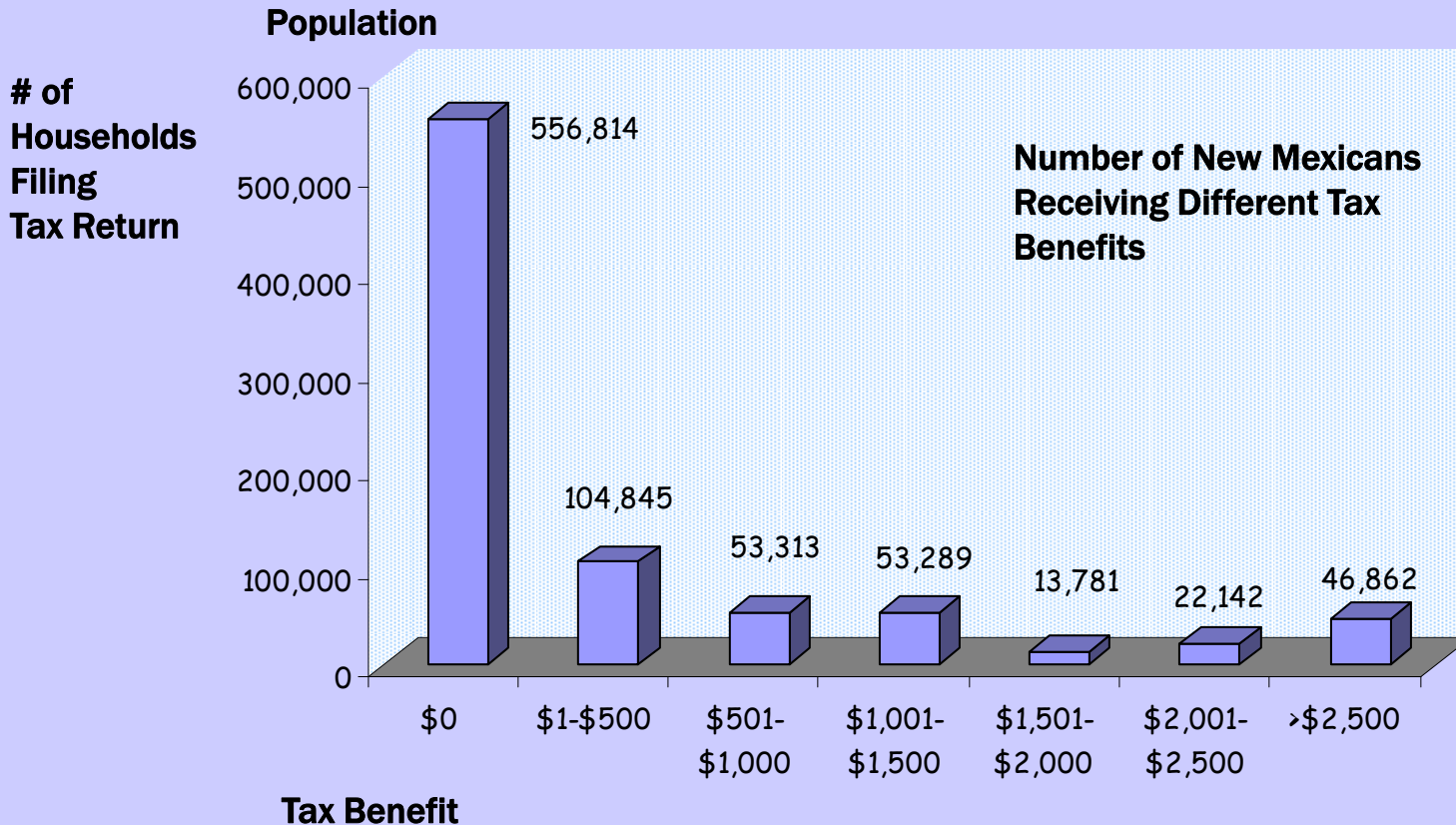
Average Income



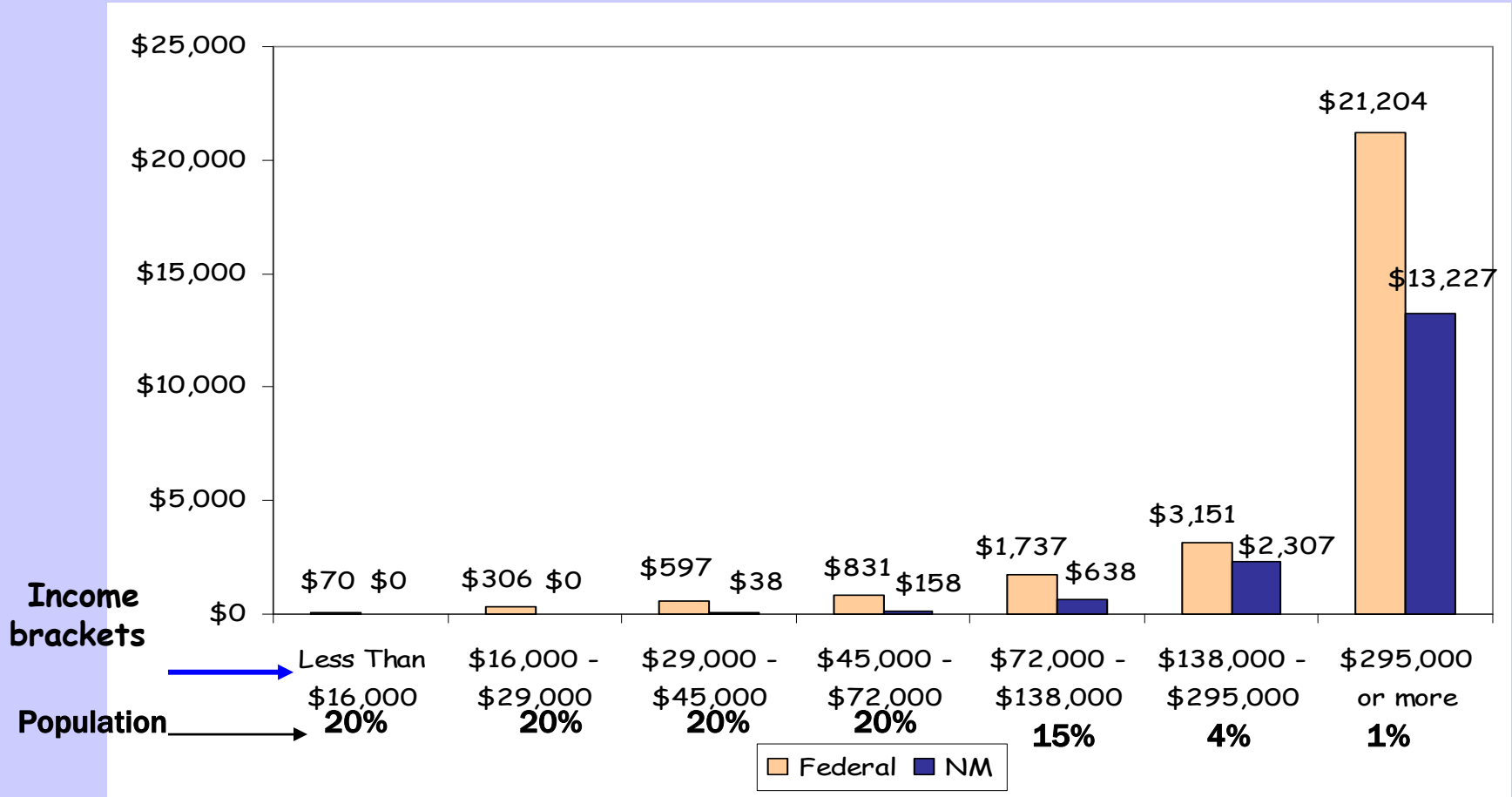


Who Benefits?

**65% of Filers Receive No Direct Benefit from the Tax Cut;
6% Receive Over \$2,500**



New Mexico and Federal Tax Cuts in 2007





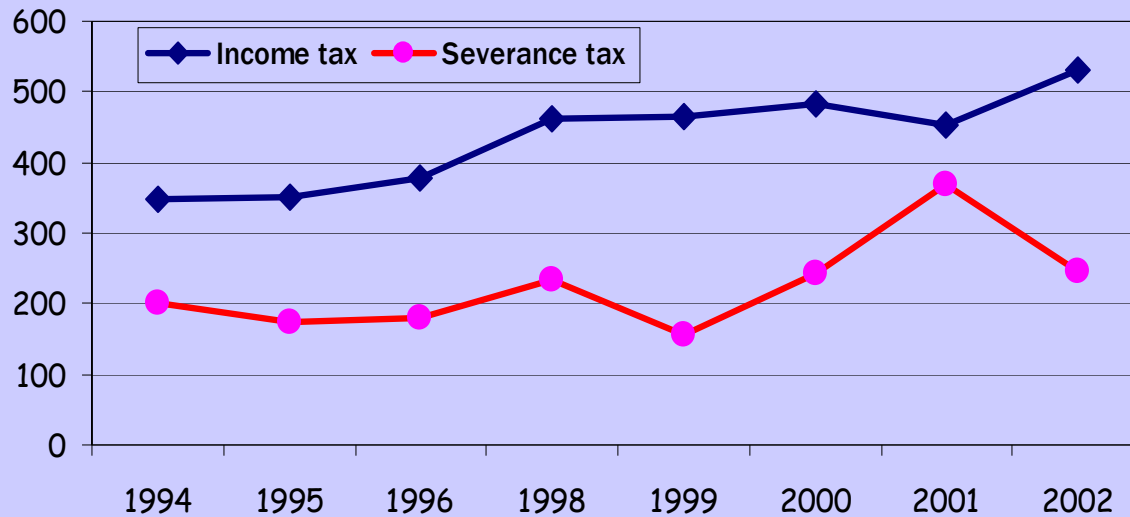
Tax Policies Being Proposed for the 2005 Legislative Session

- **An income tax cut for lower and middle class families, the elderly, and single parents reducing their taxes by approximately \$70 per person**
- **A one day tax “holiday” in August of each year when the gross receipts tax (about 6%) is not paid on purchases up to \$2,500.**
- **A reduction in the gross receipts tax for businesses**



State Budgeting Depends on Reliable, Predictable Revenue

Income & Severance Tax Collections



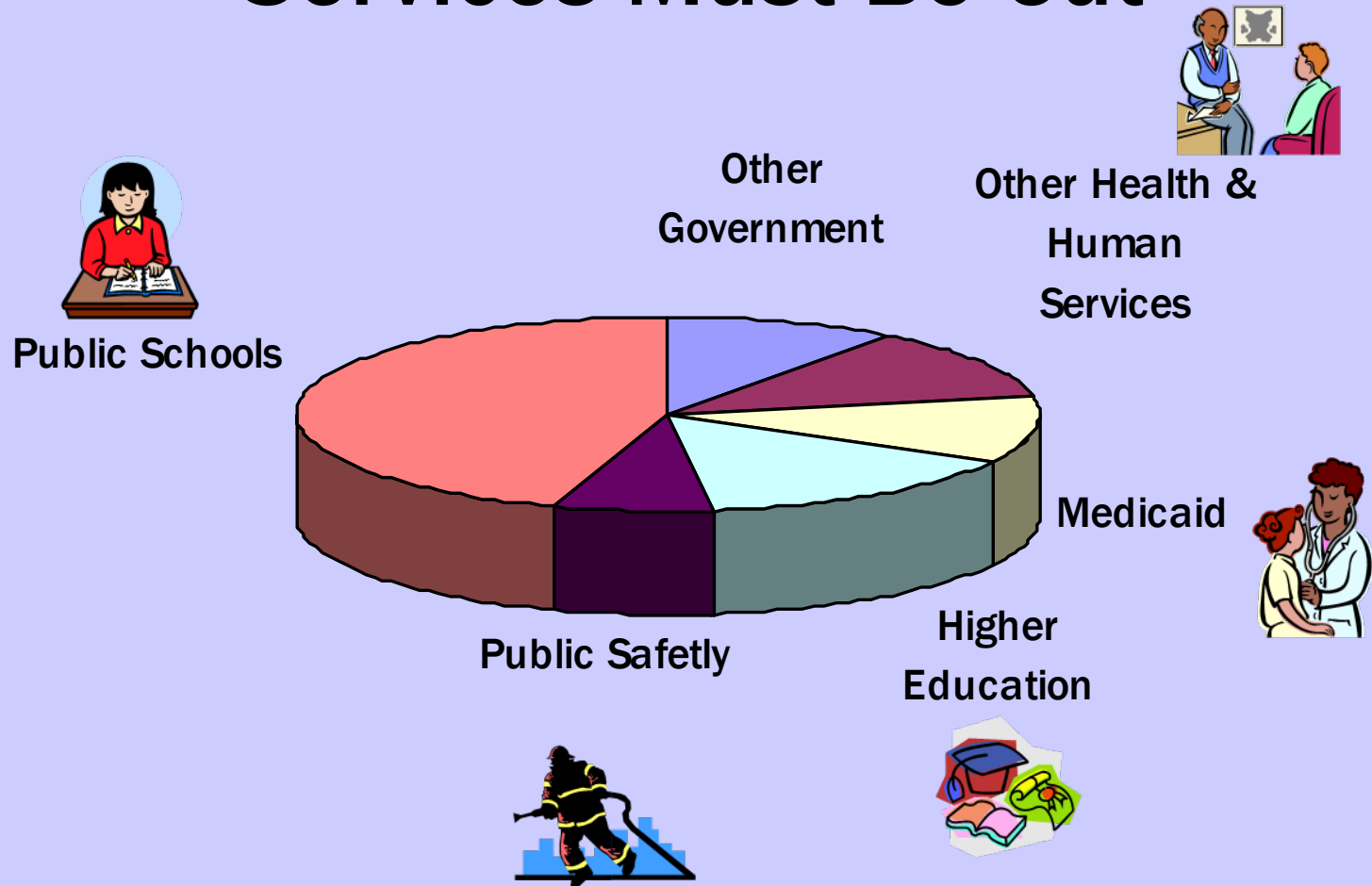
**Income Taxes Are Stable –
Severance Taxes Are Not**

New Mexico's Growing Structural Deficit

In Billions



As A Result of Tax Cuts Services Must Be Cut



Or Taxes Must Be Increased

Sales & Excise Tax



Income Tax



Tobacco, Alcohol Tax



Extraction Tax



Property Tax

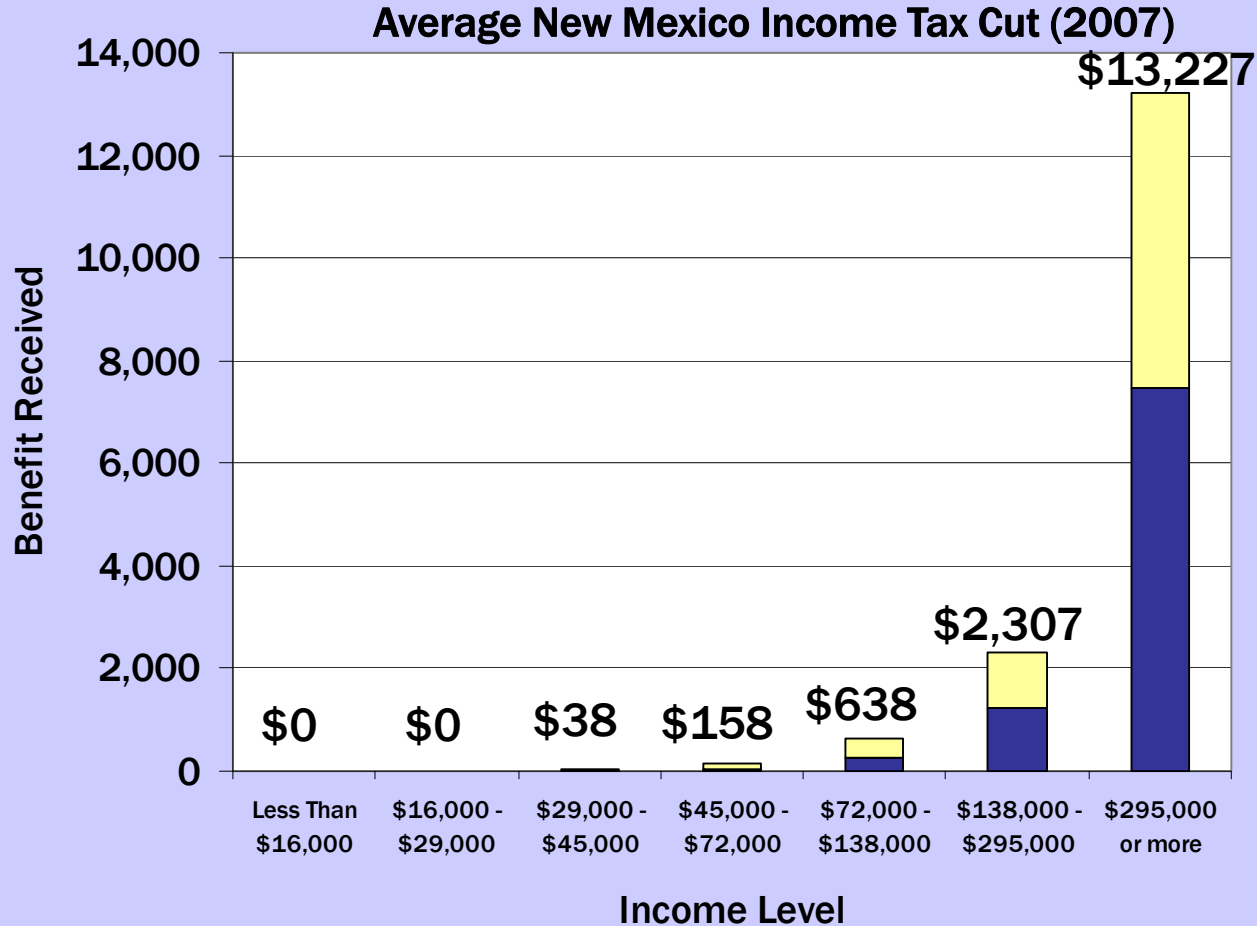




As a Result of the Personal Income Tax Cut We Are Also Losing Ground On Fairness:

**A Tax System Should Distribute
The Tax Burden Broadly, With
Those In Higher Income Brackets
Paying More**

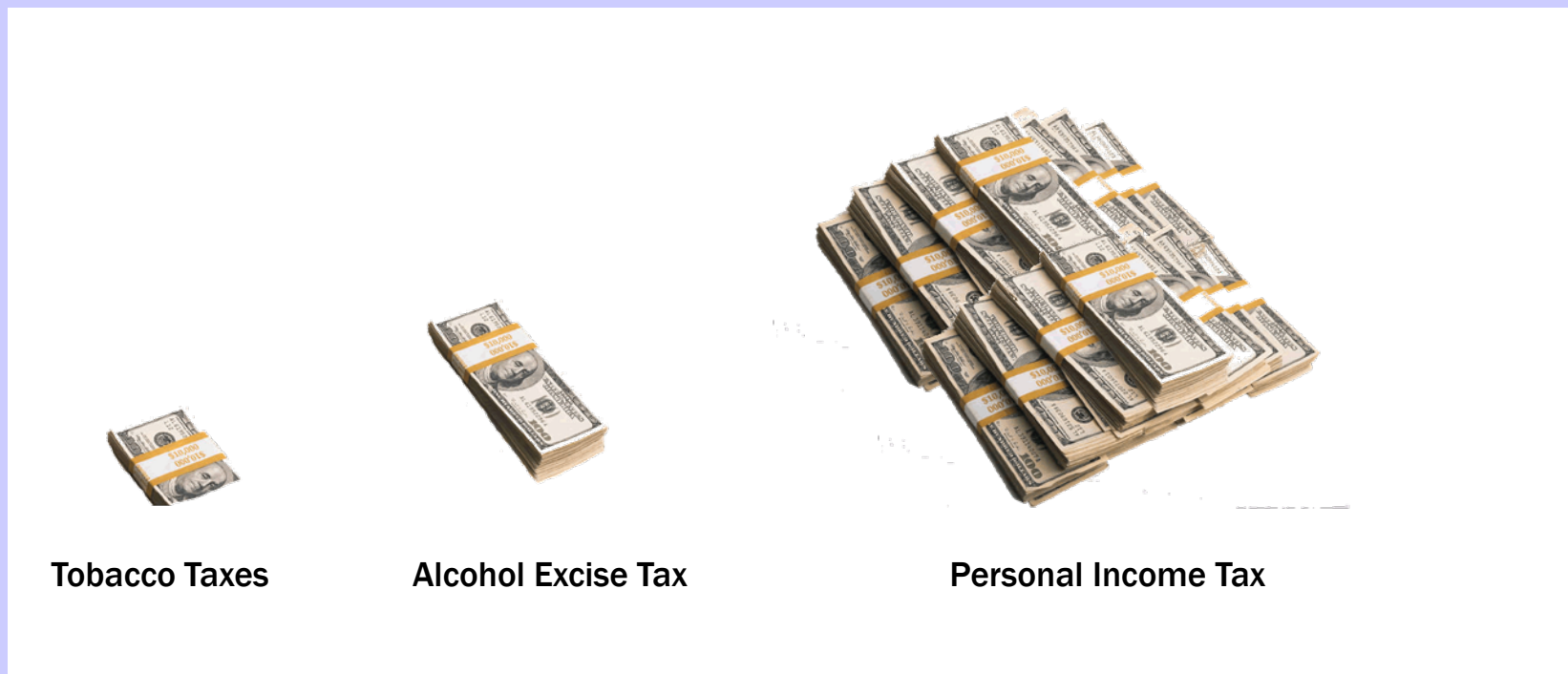
New Mexico's Personal Income Tax Cut Largely Benefits Higher- Income Families. Lower-Income Families Benefit Very Little, If At All.



■ phased in 2003 – 2005 ■ phased in 2006 – 2007

The Personal Income Tax is the Most Adequate Source of Revenue

Percent of General Fund Revenue Derived From Different Taxes



- Income taxes provide lots of revenue
- “Sin” taxes on items such as alcohol and tobacco do not



Revenue From Taxes on Oil and Gas Are Unpredictable

Higher-than-expected revenues from taxes on the production of oil and natural gas may help offset the loss of income tax revenue this year, but lower-than-expected revenues are possible too.



Questions to Ask About Future Tax Proposals

- ✓ **Is It Fair?** (Distributes the burden broadly)
- ✓ **Does It Generate Adequate Revenue?**
(To fund state services)
- ✓ **Does It Generate Stable Revenue?**
(Predictable, recurring revenue)



Potential Future Tax Proposals



Sugar Tax



Extraction Tax



Potential Future Tax Proposals



**“Add Back” Federal Deduction
for State Taxes Paid**

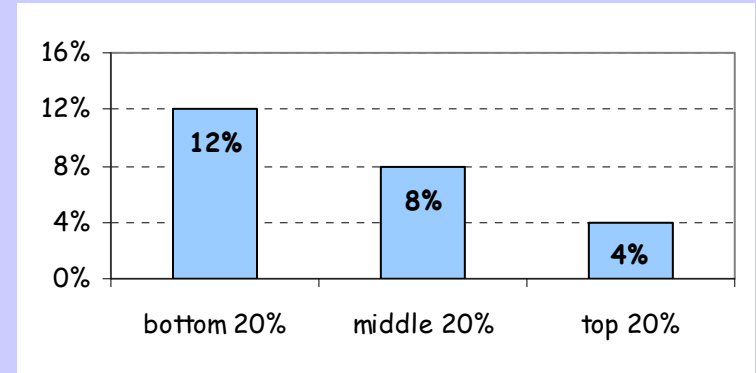


**“Freeze” to Stop Further
Implementation of Personal
Income Tax Cut**

Measuring tax fairness

Regressive taxes

When less well-off people pay a higher percentage of their income in tax than do more well-off people the tax is called "regressive".



Progressive taxes

When less well-off people pay a smaller percentage of their income in tax than do more well-off people the tax is called "progressive".

