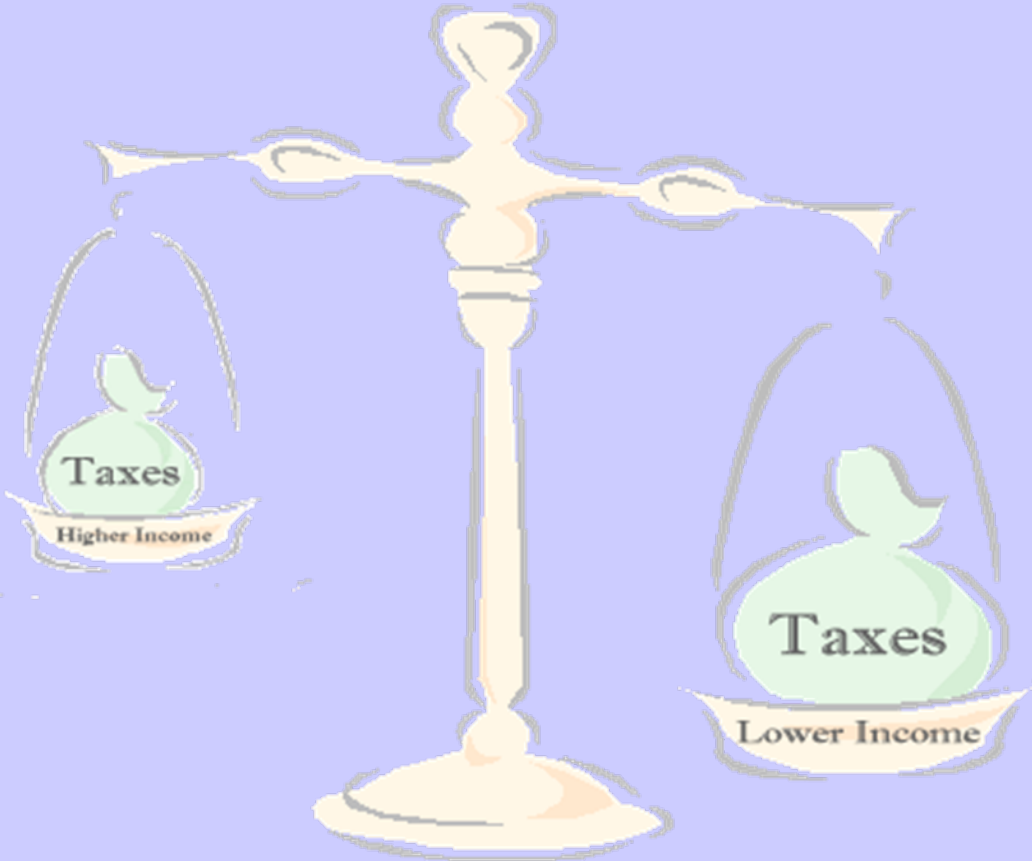


New Mexico's Tax System:

How It Works, Why It Matters, and
How It's Changing









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)



As a Result of Recent Changes in Tax Policy, New Mexico's Tax System is Losing Ground on Each Of the Key Elements of A Good Tax System:

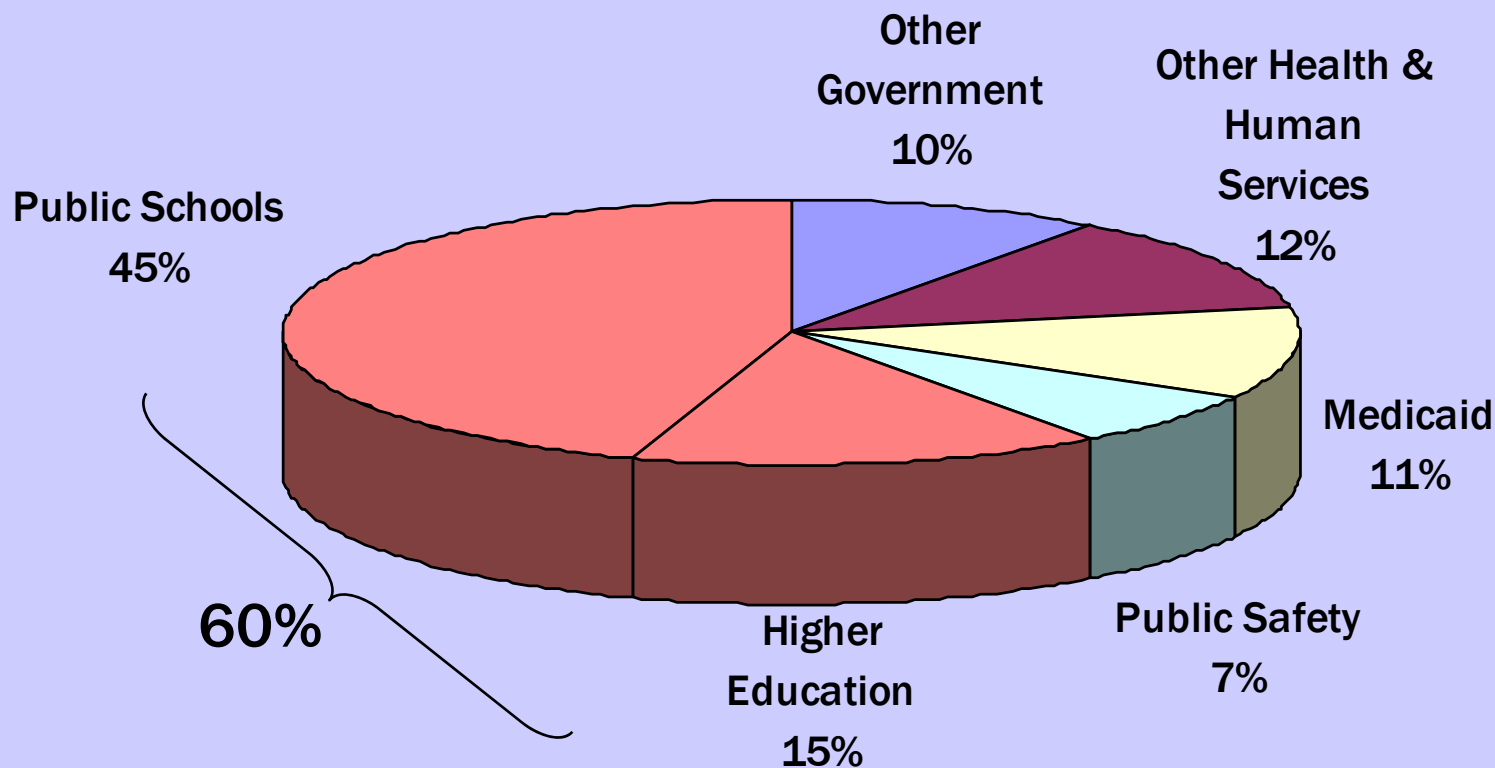
-  **Adequate**
-  **Stable**
-  **Fair**
-  **Administrable & Efficient**



All State Services Are Funded By Taxes

General Fund Spending

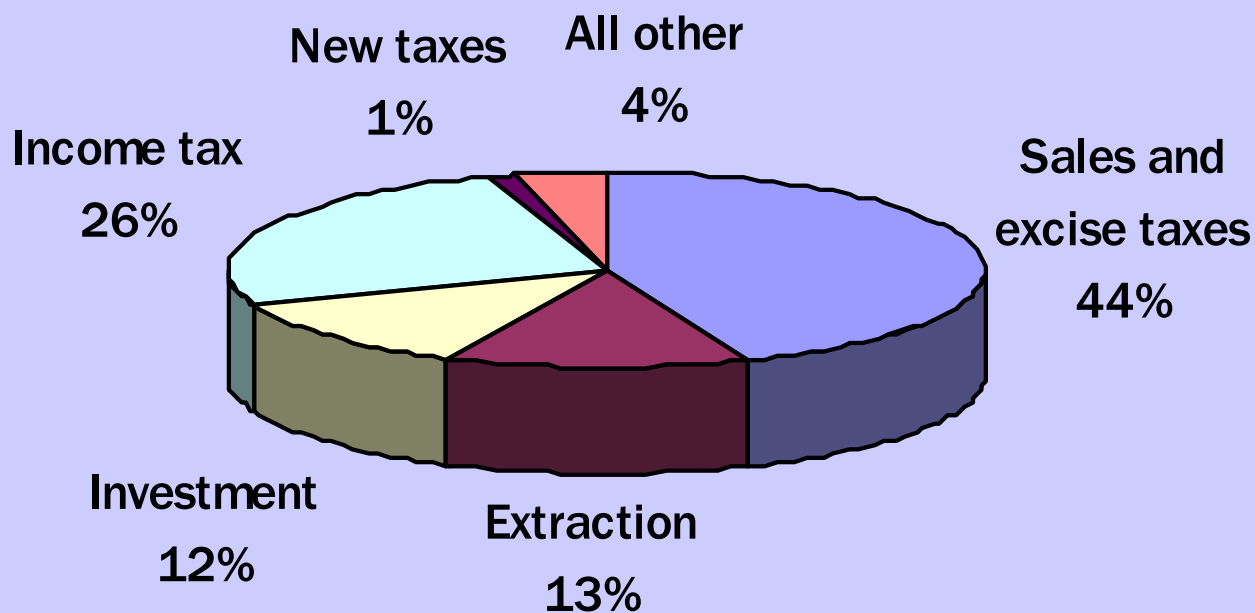
(\$4.4 Billion for FY 2005)





The General Fund Is Funded Entirely Through Taxes

FY 2005 General Fund Revenue

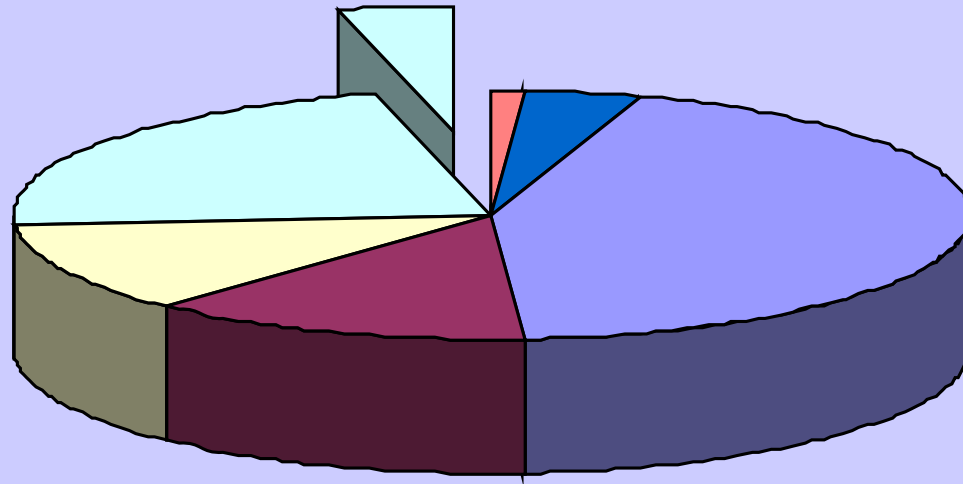




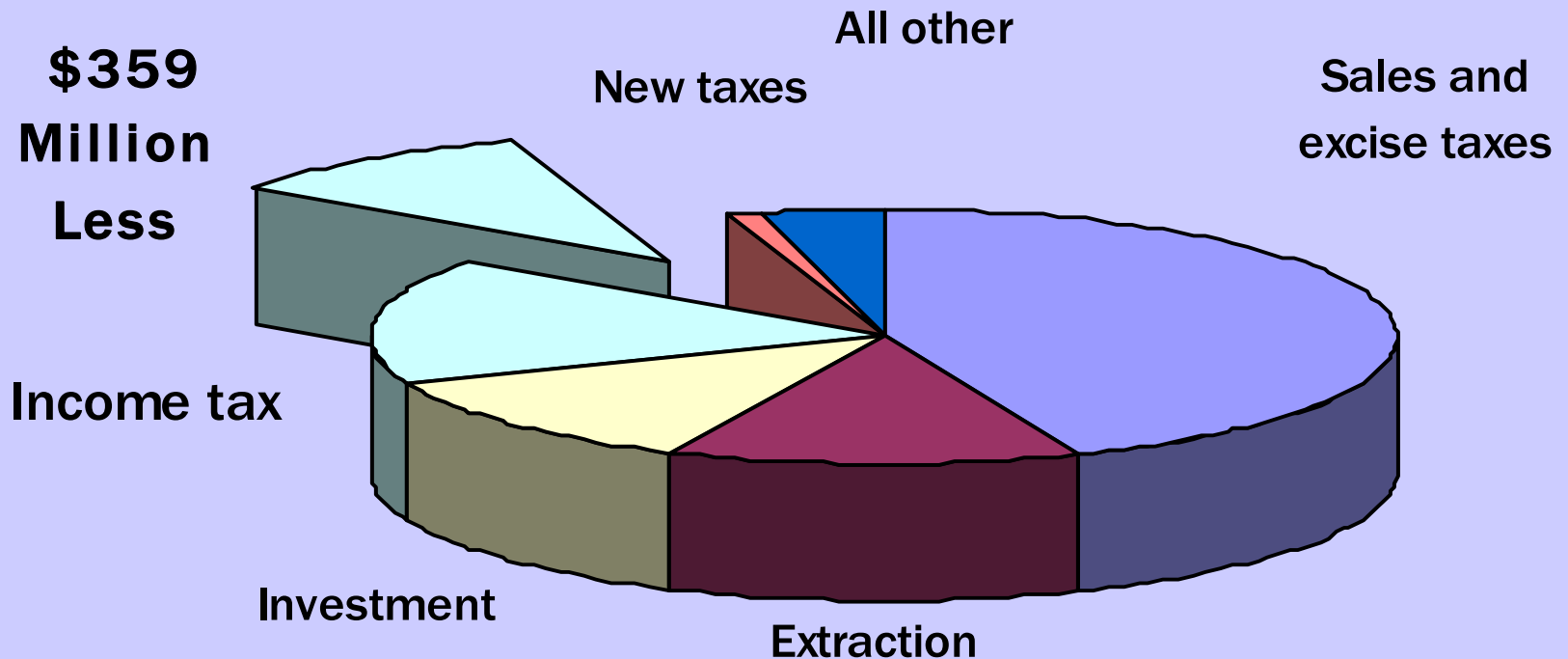
The Personal Income Tax Cuts Passed In 2002

Reduced General Fund Revenues For 2005

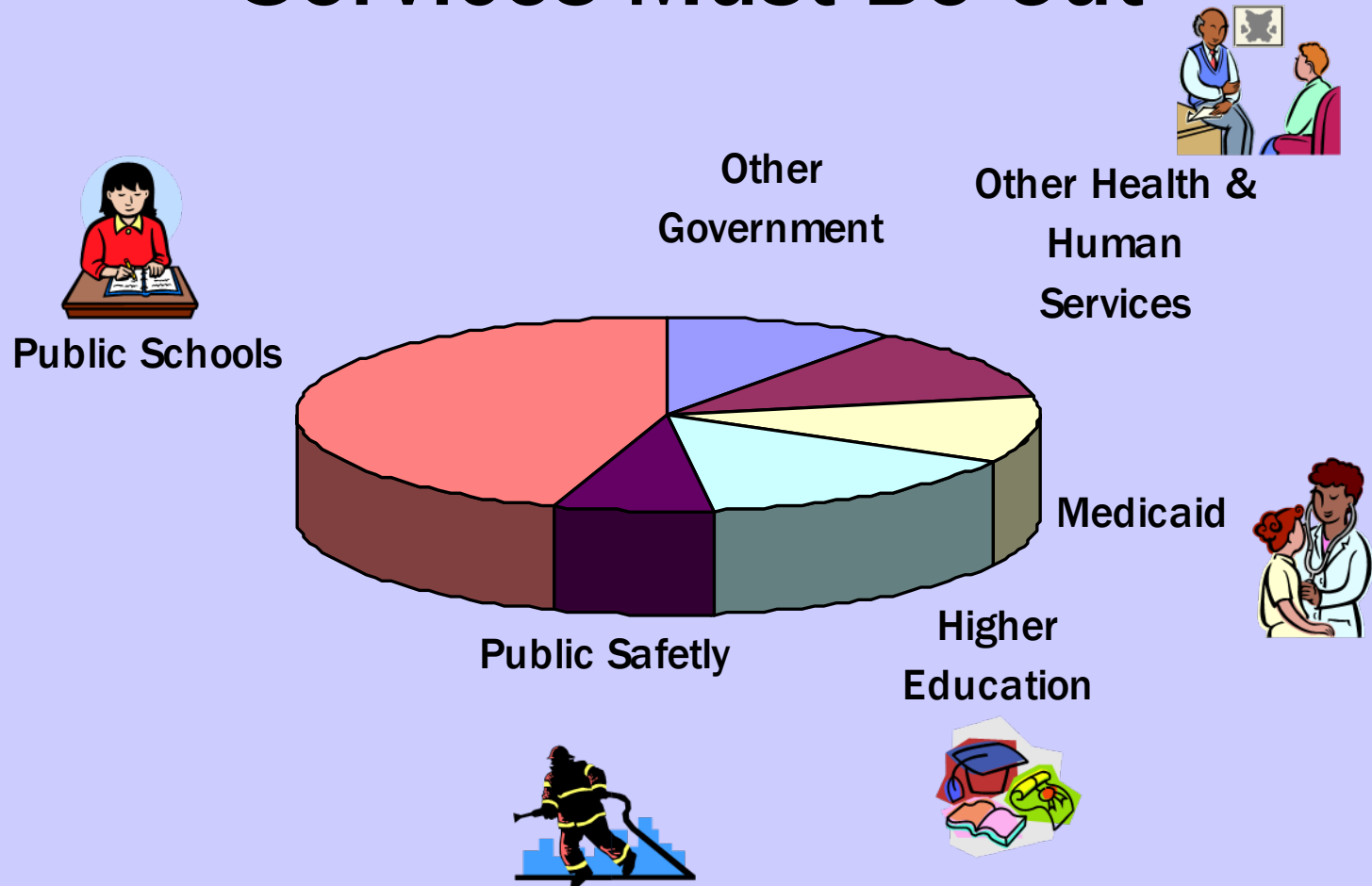
By \$83 Million



As a Result of the Personal Income Tax Cut We Are Losing Ground on Revenue Adequacy: By FY 2007 There Will Be **\$359 Million** In Lost Revenue to the General Fund



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

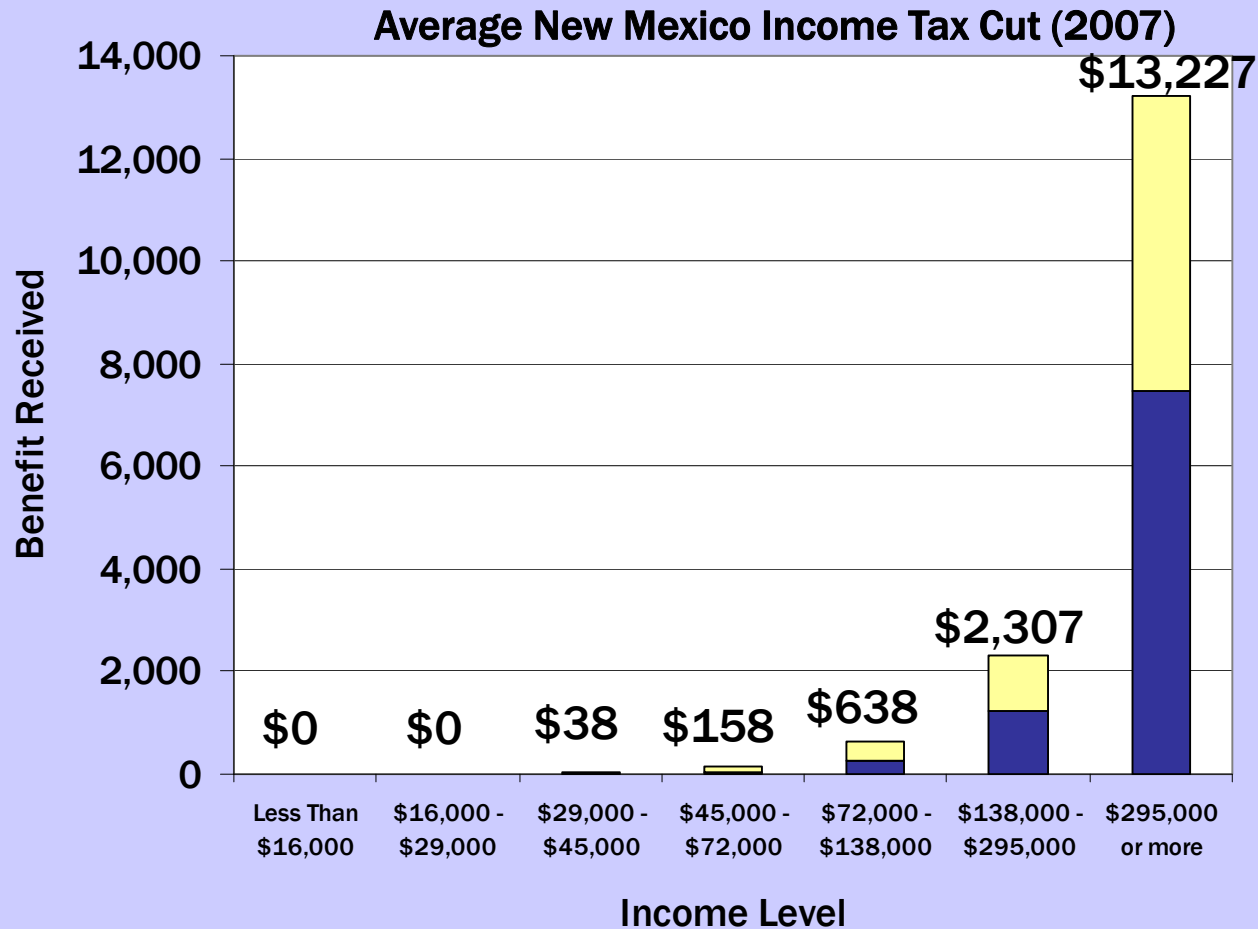




As a Result of the Personal Income Tax Cut We Are Also Losing Ground On Fairness:

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

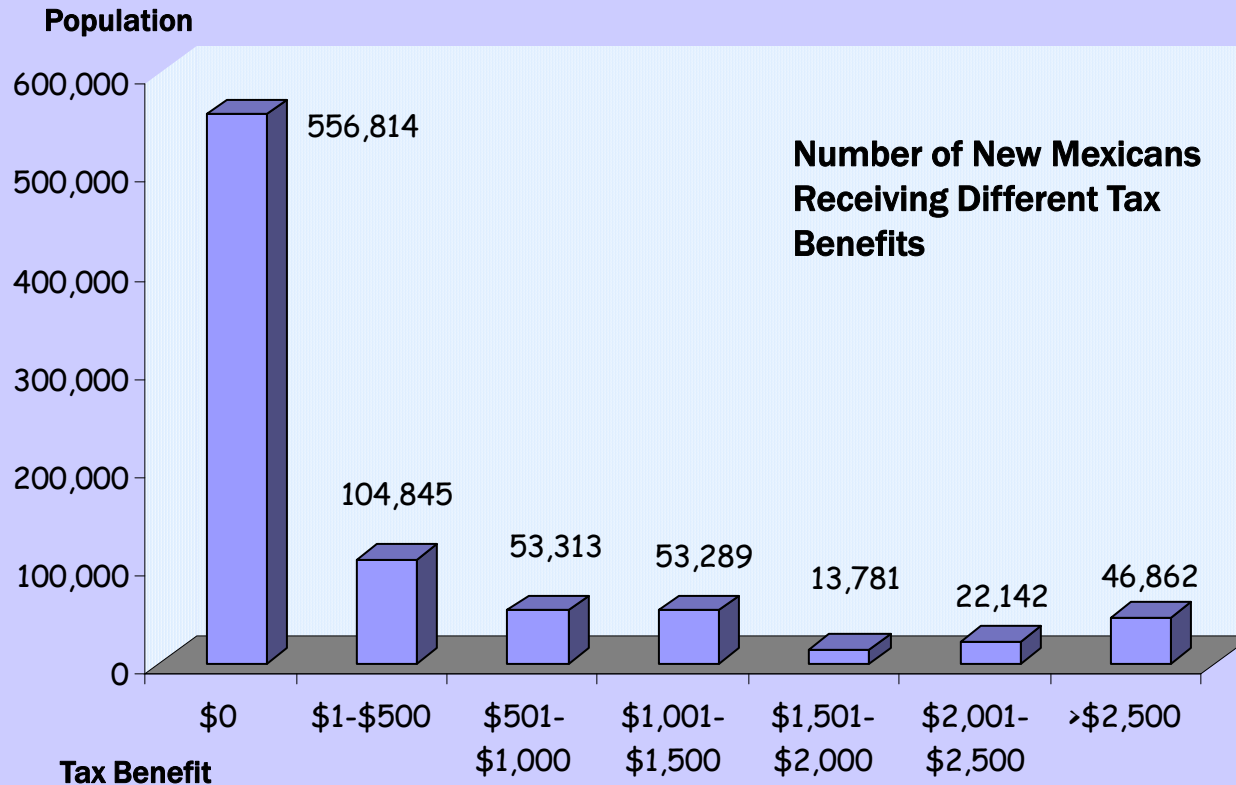
New Mexico's Personal Income Tax Cut Largely Benefits Higher- Income Families. Lower-Income Families Benefit Very Little, If At All.



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

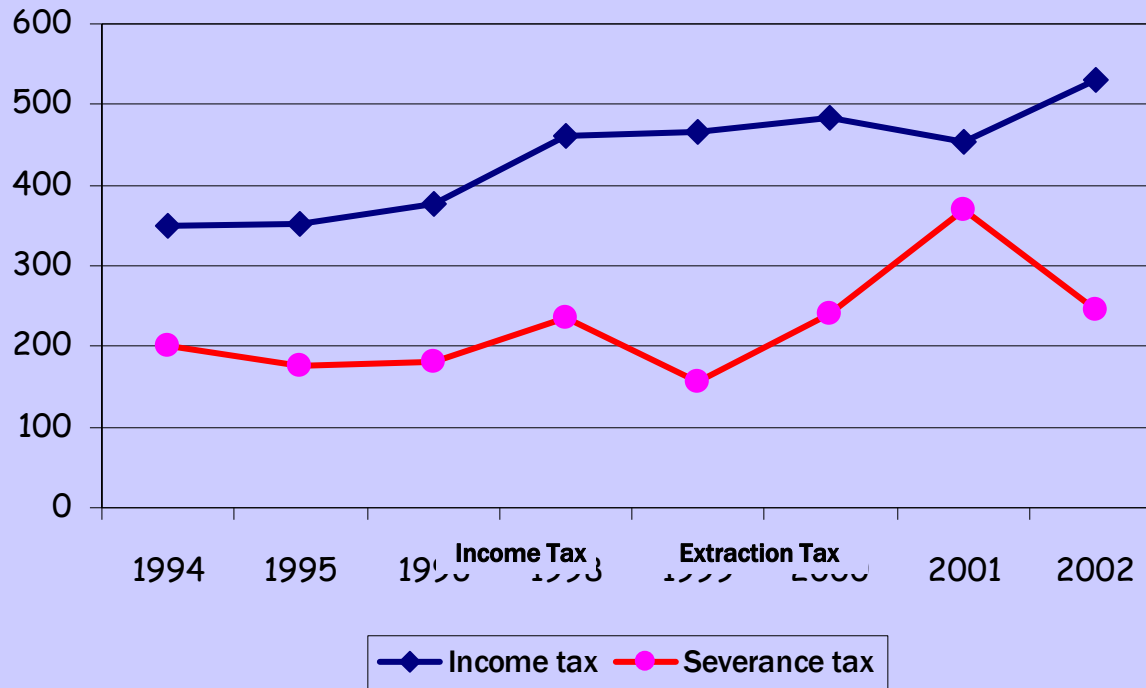


65% of New Mexicans Receive No Benefit from the Tax Cut; 6% Receive Over \$2,500.



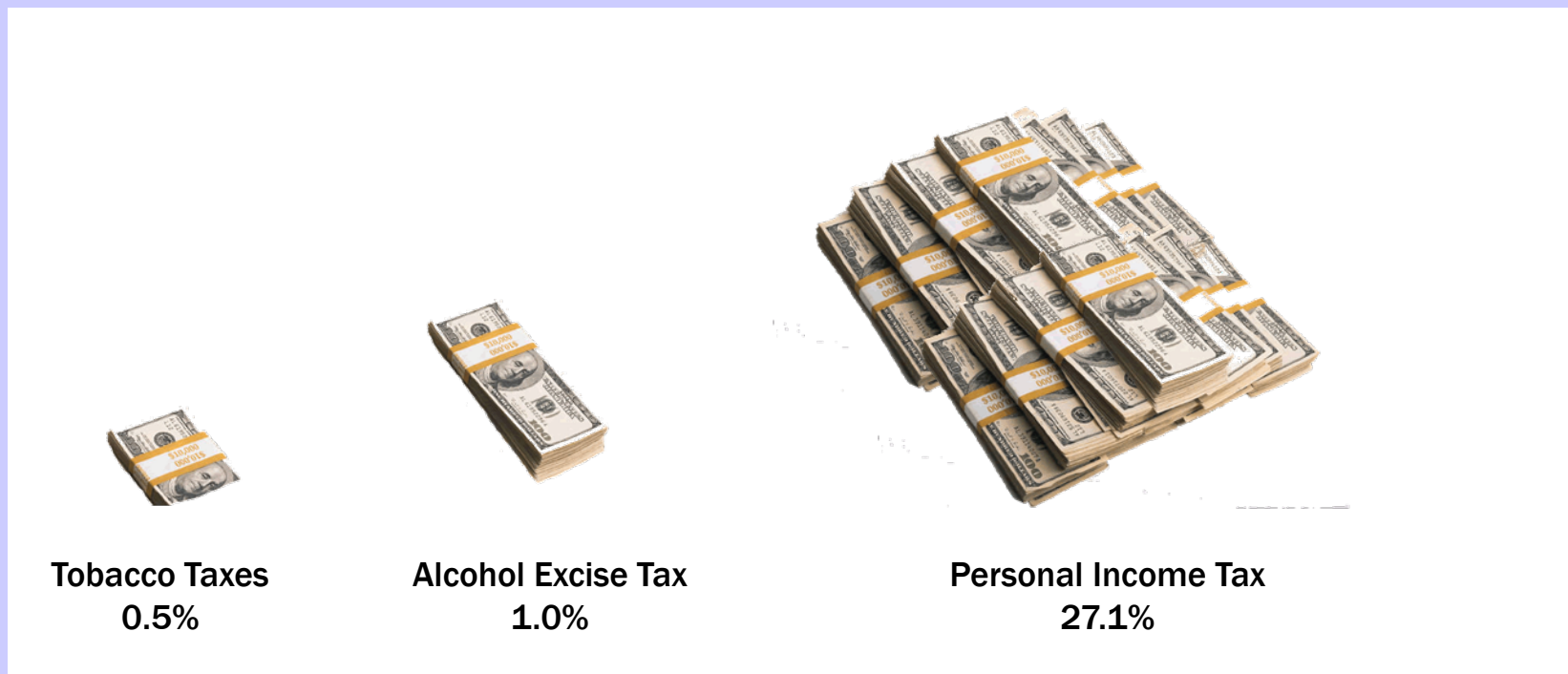
And We Are Losing Ground On Stability: State Budgeting Depends on Reliable, Predictable Revenue

Income & Extraction Tax Collections



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



“Tax Holiday” from Gross Receipts on Purchases Made On a Designated Day



Stop Further Implementation of Personal Income Tax Cut

What You Can Do



Educate (colleagues, members, policymakers, the media, neighbors)

Advocate for fair and adequate tax policy – talk to your legislators (to find out who your representatives are and how to contact them go to www.legis.state.nm.us)





Stay Informed – Learn More

The Tax Policy Campaign

New Mexico Voices for Children

For Campaign Updates: www.nmvoices.org