



New Mexico Fiscal Policy Project

Seeing the Value in Tax Transparency

The state **collects** taxes from a variety of sources, such as:

- Personal Income Tax
- Gross Receipts Tax (sales tax)
- Extraction Tax (from the oil and gas that's extracted)
- Corporate Income Taxes

The state **spends** taxes two ways:

- Appropriations (from the general fund)
- Tax Expenditures (from tax exemptions, deductions and credits)

Appropriations – money for our schools, public safety, highways, etc., – are called **direct spending**
Tax Expenditures – money that the state could collect but does NOT – are called **indirect spending**

Most of these tax expenditures benefit very limited numbers of people, so they should be considered **special interest** expenditures. Every penny the state does not collect because of special interest expenditures is a penny it must collect from the rest of us.

An Appropriate Practice?

Every year our Legislature decides how much money to appropriate – or spend – on each department, project or program. This decision is based in part on how much money was spent last year.

Every year our Legislature also “spends” money on tax exemptions, deductions and credits –BUT it does not know how much money was spent this way last year because the state does not keep track of the cost of tax expenditures.

What's more, the state does not know if the tax expenditures are providing the economic boost they were designed to provide.

For example, the state made health-care providers exempt from the gross receipts tax in an effort to keep doctors from leaving the state to practice elsewhere. But no one will ever study the true financial impact of the exemption or even whether it keeps doctors from leaving New Mexico or not.

Show Us the Money

A tax transparency requirement would have the Taxation and Revenue Department create a report every year on how much tax expenditures are costing and what affect they are having – just like the state's other departments have to create budgets every year that show how much money they are spending and how.

A tax transparency report would allow our Legislature to determine if it wants to keep every tax expenditure or repeal some of them. In 2007, the Legislature passed a tax transparency bill, but the governor did not sign it.