Why New Mexico Needs Meaningful Tax Reform and No Further Tax Cuts for the Very Wealthy

Over the past 20 years, state lawmakers have chosen to reduce taxes paid by wealthy New Mexicans and corporations, resulting in our state having one of the most regressive tax systems in the U.S. and depriving the state of hundreds of millions of dollars in annual revenue. This year, we can again expect the introduction of bills to address this regressive tax structure and to expand our sources of revenue to create less dependence on unreliable gas and oil revenues. At the same time, there will be a significant effort to actually cut taxes for the very wealthy and corporations, premised on the fact that the state is currently awash in federal money and oil and gas royalties. If that effort is successful, our tax structure will become more regressive than it already is.

History

In 2003, Governor Bill Richardson pushed enactment of a measure to cut personal income taxes (PIT) for the wealthiest New Mexicans. The justification then was that state coffers were flush with revenues from oil and gas and that lower taxes would induce wealthy people and businesses to relocate to New Mexico, increasing jobs and improving the state's economy. The top marginal rate was reduced from 8.2% to 4.9%. Everyone with taxable income over $16,000 now paid the same marginal rate as millionaires and billionaires. At the same time, capital gains subject to taxation was cut by 50%. The anticipated boost to our economy did not happen.

In 2013, the top corporate income tax (CIT) was reduced from 7.6% to 5.9%. Meanwhile gross receipt taxes (GRT) increased substantially. For example, in Albuquerque, the GRT increased from 5% in the early 1990s to almost 8%. In 2019, the top PIT marginal rates were increased to 5.9%, but only on condition that gross revenues did not increase by at least 5% in a given year. Clearly, it is politically very difficult to roll back tax cuts once they are put in place.

New Mexico now finds itself as having one of the least equitable tax structures in the nation, with low-income residents paying twice the proportion of their income as the richest New Mexicans.

Even though oil and gas sales have been quite high this past year, they essentially collapsed during the first year of the pandemic and through a considerable portion of 2021, causing a severe shortfall of revenue for our state.

How Can We Talk About This Problem?

- In a fair PIT structure, the highest income earners pay a much higher marginal rate than lower-income earners because the higher income earners can afford to pay a higher percentage of their income in taxes. Instead, currently in our state, when all taxes are taken into account, lower income earners currently pay a much higher percentage of their income in taxes than higher income earners. (The lowest 20% of earners pay 10.6% of their income in taxes, while the top 1% pay only 6%.)

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- That phenomenon is in large part due to the highly regressive GRT. Low-income earners spend a much higher percentage of their income for goods and services subject to the GRT.
- There is no evidence that the state's 2003 and 2013 PIT and CIT tax cuts resulted in more jobs and a stronger economy, two of the biggest arguments in favor of those cuts.
- Those tax cuts deprived New Mexico of badly needed reliable revenue.
- In some years, the state had sufficient revenue because of high oil and gas profits, which are subject to severance taxes and royalties. In other years there were little to no profits in the oil and gas industries. State revenue has fluctuated accordingly, and unpredictably.
- Reliable revenue is needed for education, roads, bridges, broadband, healthcare, public safety, and a basic safety net for our many impoverished residents, including children. We must not keep saying that we can't afford these services because we lack sufficient revenue when meaningful tax reform can produce the revenue we need.
- We need to eliminate wasteful tax loopholes and tax credits that benefit the rich and business, especially big business and out-of-state business.
- To free ourselves of dependence on unreliable oil and gas revenue, we must diversify by increasing other revenue sources.
- To address the Yazzie-Martinez Supreme Court ruling on educational expenditures and to offer a more robust safety net for our working families, it is critical that we substantially increase our annual revenues and not just bask in the windfall revenues we are currently experiencing.

How Can We Fix It?

- Roll back the personal income tax cuts of 2003 for filers with incomes over $150,000 (the wealthiest 5 percent): $246 million.
- Increase the personal income tax for filers with incomes more than $75,000, $100,000, and $150,000 per year (depending on filing status): $65 million.
- Require out-of-state corporations to pay taxes on the profits they make in New Mexico (aka mandatory combined reporting): $32 million.
- Increase the gross receipts tax (New Mexico's sales tax on goods and services) by one-quarter of a percent: $127 million.
- Add a dime-a-drink tax on alcoholic beverages: $43 million.
- Increase the payout of the state's Land Grant Permanent Fund by 2 percent: $180 – $200 million.
- Borrow against the state's Land Grant Permanent Fund: estimates range from $180 – $240 million plus interest.
- Increase property taxes statewide by one mill (which equals $1 for each $1,000 of a property's assessed value): $46 million.
- Extend the compensating tax to Internet sales by businesses with a physical presence in New Mexico: $13 million.
- Cut the deduction for capital gains income in half (from 50 percent to 25 percent), most of which goes to New Mexicans earning more than $200,000: $37 million.
- Increase the excise tax on the sale of motor vehicles from 3 percent to 6 percent: $154 million.
- Repeal a coal surtax exemption: $22 million.

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