



Legislators seek right balance in tax code

BY DAN BOYD, Albuquerque Journal

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SANTA FE – Changes enacted in recent years have made New Mexico’s tax code more progressive in some ways, but have also made the state more reliant on taxes levied on the oil and natural gas industries and other revenue sources, members of a key legislative panel were told Wednesday.

In addition, while an oil-driven revenue bonanza is expected to continue in the near future, the state’s long-term revenue growth might be insufficient to sustain current spending levels over the next 12 to 18 years, according to Legislative Finance Committee data.

The report was presented to lawmakers who are considering making more changes to New Mexico’s tax structure during next year’s 60-day legislative session.

Rep. Nathan Small, D-Las Cruces, said tax rebates and expanded tax credits for low-income New Mexicans approved during the last two years have meant a tax cut for most state residents.

He also said the tax changes, along with increases in teacher salaries and more money for college scholarship programs, could eventually help diversify and grow the state's economy.

"We do have a particularly important window right now – and it's not a window that will remain open forever," Small told the Journal.

With the state seeing big budget surpluses in recent years due to a spike in revenue, the recent tax changes approved by lawmakers have reduced overall personal income tax revenue by about \$957 million over the last three years, even with the creation of a new top tax bracket for the wealthiest New Mexicans.

Specifically, personal income tax revenue is projected to make up 23% of the state's revenue base in the current fiscal year, but would have made up a much larger share of the total revenue mix – about 30% – if the tax code changes had not been approved.

To offset the proportional decrease in income tax revenue, gross receipts tax revenue and tax collections from the extractive energy industry now make up a larger share in the state's tax base.

LFC Deputy Director Charles Sallee said during a Wednesday meeting in Silver City that's not necessarily a bad thing, as recent policy steps like the creation of a state "rainy day" fund for cash-flush years have made New Mexico less vulnerable to big revenue swings.

However, he said the state's approach to additional tax credits, rebates and other types of financial relief will have to be carefully considered.

"What's the right balance between money circulating in the public sector and money circulating in the private sector?" Sallee said.

Even with the tax rebates and other revenue-consuming changes that include exempting Social Security income from taxation for most state residents, New Mexico state spending has increased by about 30% over the last four years.

Specifically, this year's \$8.5 billion budget signed by Gov. Michelle Lujan Grisham will set a record high for spending and represents a 14% increase over last year's spending levels.

However, the average spending growth of 4.2% annually over the last six years is in line with state revenue growth during that same time period, according to LFC data.