

# New Mexico Fiscal Policy Project

## FACT SHEET – REVENUE GENERATORS

WHY THE STATE SHOULD TAKE A BALANCED APPROACH TO SOLVING THE BUDGET SHORTFALL

August 2009

New Mexico lawmakers, faced with serious revenue shortfalls, are working on legislation to deal with what could be a \$500 million gap in the current general fund budget (FY10).

Lawmakers are leaning toward enlarging the cuts to funding for education, health care, and public safety programs and services that they made in the 2009 regular session. Very little talk has focused on a more balanced approach, which would include raising new revenue. Simply cutting spending could do more harm to the state's economy than good.

**FACT:** Every dollar in government spending returns on average \$1.58 in economic growth, while tax cuts return just 70 cents on the dollar.<sup>1</sup>

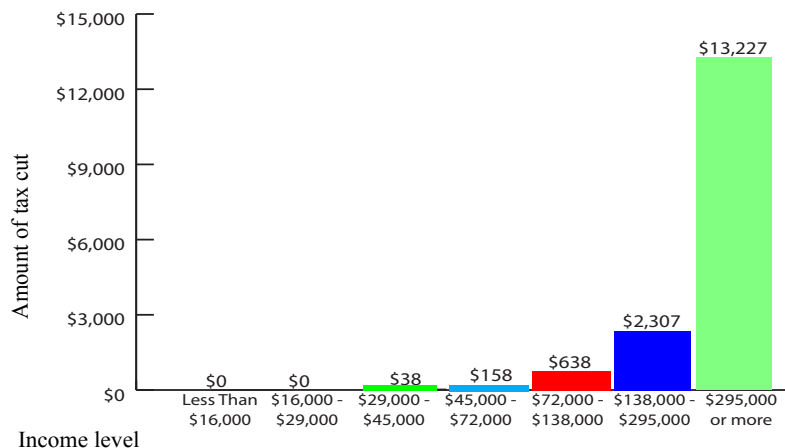
**FACT:** Sustaining current levels of funding is the best way to recover from a recession because that money goes directly into the local economy.<sup>2</sup>

**FACT:** Deep spending cuts result in job losses in both the public and private sectors.

**FACT:** Thirty states have enacted tax increases to help cover their budget shortfalls and another seven are considering increases.<sup>3</sup>

Budget cuts will have the greatest impact on those children and families who are already struggling. The state could enact several revenue generators that would spread the “sacrifice” of tough times to include the wealthy people and out-of-state corporations who can most afford it.

State Income Tax Cuts of 2003



New Mexico's 2003 personal income tax cuts disproportionately benefited the highest income earners, while those in the bottom two income brackets got no benefit at all. These two income groups are the same people who will be most directly impacted by budget cuts to education and health care.

**POTENTIAL REVENUE GENERATORS**

**Corporate tax reform to mandate combined reporting.** Would require multi-state corporations to pay their fair share of corporate income tax on the profits they make in New Mexico.

Would generate: **\$60-\$80 million**

**Rollback the cut in capital gains taxes.** Enacted in 2003, the capital gains tax cut slashed the amount paid on this unearned income in half. Most of this tax cut (76 percent) went to New Mexicans earning more than \$200,000.

Would generate: **\$51 million**

**Rollback some personal income tax cuts.** Also enacted in 2003 and phased in over five years, this tax cut benefitted primarily higher-income filers. State could rollback all or part of the five-year phase-in with each phase worth about \$90 million.

Could generate as much as: **\$450 million**

**Surtax on higher income earners.** Over the last decade or two, the state’s wealthiest residents have fared much better than the average New Mexican, whose income saw modest gains at best. A surtax on the top earners would help correct this growth in income inequity.

Every 1 percent surtax on incomes over \$100,000 would generate: **\$150 million**

Every 1 percent surtax on incomes over \$200,000 would generate: **\$80 million**

**Closing the personal income tax loophole for high-income filers.** Would require filers who itemize (typically higher-income filers) to add-back on their state form the federal deduction for state and local taxes paid. New Mexico is one of only a handful of states that still allows this deduction.

Would generate: **\$75 million**

**Raise so-called “sin” taxes.** Raising taxes on cigarettes have the added benefit of reducing use by youth, which saves millions in health costs down the line. Revenue from raising taxes on alcohol helps pay for the high public cost associated with alcohol abuse

Cigarette tax of \$1 per-pack tax would generate: **\$37 million**

**Pull back unused capital outlay funds.** Some of the money appropriated for capital outlay projects has yet to be used, for a variety of reasons. Instead of sitting idle, that money could be put to work and, when revenue allows, re-appropriated later.

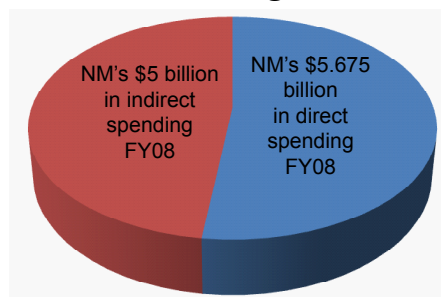
Would generate: **\$150 million**

**Repeal some gross receipts tax deductions.** Actual revenue would depend on specific GRT deductions, exemptions and credits, but some \$5 billion is spent this way every year.

**Tap the Reserve Fund.** The Reserve Fund could be drawn down from its current 12 percent to 8 percent.

**Require Tax a Expenditure Budget.** An annual accounting of the accumulated tax credits, exemptions and deductions that have been made to the state tax code that would be considered (as indirect spending) along with the yearly budgeting process (direct spending). As shown in the chart below, we spend \$5 billion this way every year—almost as much as the entire budget—but don’t even study the effects of this spending.

**The Whole Budget Picture**



**ENDNOTES**

- 1 Moody’sEconomy.com
- 2 This is the stated opinion of numerous noted economists, including Nobel Prize winner Joseph Stiglitz, Paul Krugman and Nick Johnson
- 3 “Tax Measures Help Balance State Budgets; A Common and Reasonable response to Shortfalls,” Nick Johnson, Andrew Nicholas and Steven Pennington, Center on Budget and Policy Priorities, July 9, 2009; <http://www.cbpp.org/cms/index.cfm?fa=view&id=2815>