

Sweeping House Tax Bill Reverses 20 Years Of Tax Cutting; Will Hawks In Senate Buy In?

After eight years of conservative tax policy, we did double-takes when poring over the details of this session's major tax package that passed Friday night on a 40-25 vote and is now headed to the Senate. How it will fare in that more conservative body is up in the air, but from where we sit this is quite a sensible piece of legislation that corrects errors of the past and ensures a more reliable revenue stream for state government.

Here is my take-away on the measure which could be a career-capper for 78 year-old Santa Fe area State Rep. Jim Trujillo, chairman of the House Taxation and Revenue Committee, and which was ably ushered through the full House by Speaker Egolf.

– **The essence of this legislation** — which would be a major legislative achievement if it survives the Senate — is the restoration of the progressive tax system in the state.

– **The highest rates on taxable income** would start at \$200,000 a year for a single household and \$300,000 a year for a married couple. The tax rises to a still modest 6.5 percent. Rates below that are lower so it is truly progressive. That's a bite out of income inequality. It's estimated the new rates will bring in \$136 million a year.

– **The bill would restore most of the cut in the capital gains tax** that a previous Democratic legislature and Governor achieved in the name of attracting business. It never did, but stock market gains since have cost the state millions in lost revenue. The reform is said to raise \$62 million a year.

– **This one is obscure but supported by the hospitals** because the new taxes they would pay would end up going into the Medicaid program. The Feds give the state a three-to-one match for such spending and that will give the hospitals a revenue pop. The bill closes the gross receipts tax loophole for nonprofit hospitals. It's estimated to bring in about \$100 million in the next budget year.

– **Let's stop there for a minute because with only those three reforms the state generates nearly \$300 million** a year in recurring revenue. That's plenty for now when you realize we already have a budget reserve of well over \$1 billion set aside and a new "rainy day fund" that will have over \$150 million when the new budget year starts July 1.

The proposed budget is \$7 billion. Do we really need all those reserves plus a new revenue stream of \$358 million to protect the budget against a massive downturn in oil prices? Probably not in the foreseeable future. Here's why: *The Permian Basin (in NM and TX) produced an average of more than 3.9 million barrels per day as of January, according to the Energy Information Administration. Analytics firm IHS Market estimates Permian production could top 5 million barrels a day in 2023, surpassing Iraq.*

That's a lot of oil over the next five years and a whole lot of royalties — even if prices go low. Maybe we will need the \$358 million in new revenue down the road, but Santa Fe could give New Mexicans a break by taking \$300 million in new tax money and calling it a very good day.

For example, the proposed increase in the excise tax for buying a car goes from 3% to 4.2% and would generate \$65 million a year. And an increase in car registration fees would raise another \$37 million annually and go to the road fund. Those are unnecessary, given the state's financial condition and would hurt car-dependent New Mexicans.

The cigarette/vaping tax would go up and raise \$23 million a year. That will garner public support but it is not necessary at this time.

– **Amazon already charges NM gross receipts tax** on its sales. The bill would impose them on all Internet sales, raising \$24 million a year. That will level the playing field for local retailers and is overdue.

The House bill does not address the state’s most critical tax challenge — somehow reducing the onerous and job-killing gross receipts tax rate that is now nearly 8 percent in the ABQ metro and even higher in other areas. It chases away working professionals like medical providers and attorneys. While this bill raises the personal income tax on the best-paid professionals, the tax they and economic developers fret most about is the GRT.

But that large task will have to wait for another session.

Other legislation that is affecting our industry is as follows: Competing proposals to raise New Mexico’s minimum wage for the first time in a decade are moving forward in the State Senate and they’re becoming more alike as they move along, with potential for still further negotiation. Both measures passed the Senate Public Affairs Committee and now move on to another Senate committee.

SB 437, sponsored by Senator Clemente Sanchez (D) would raise the minimum wage to \$9.25 per hour in October 2019, and to \$10.00 per hour in April 2020. His bill would allow a lower wage of \$8.50 per hour for high school students. Both of these Bills would set a sub-minimum wage for waiters and other tipped employees at 30% of regular minimum wage. Garcia and Sanchez both said there is still room for negotiations. The two Bills now head to Senate Corporations and Transportation Committee where Sanchez is the Chairman.

HB 6 is the big Tax Bill that is being pushed by the Governor. It should be presented this Monday.

HB 31, sponsored by Rep. Miguel Garcia (D) calls for an increase to \$10.00 per hour in July and a phased-in increase to \$12.00 per hour in 2021. There would be inflation-adjusted increases after that.

HB 492 was heard and passed out of Energy, Environment and Natural Resources Committee on a straight party vote, 7-5. This Bill is a rework of the 5% Biodiesel mandate that is not enforceable in the State because of cost and insufficient amounts of Biodiesel in the State, but there is still the same problem with this Bill—this would add today about \$.10-.15 a gallon to Diesel in New Mexico. Also, to blend all Diesel sold in New Mexico at 5%, you would need 25 million gallons of Biodiesel, when today’s availability is only 12 million gallons. The sponsor, Rep. Small (D) and REG who are supporters of the Bill are now trying to find a way that they could amend the Bill so that it would work. With just 19 days left in this year’s Session, the bill has only been heard in one committee; it would then need to be heard in the Tax and Revenue Committee and then on to the floor of the House and then on to the Senate. This Bill has a long way to go and not much time.

SB 609 and its companion bill HB 609, which raise the Gasoline Tax and Special Fuels Tax by \$.05 will be heard this week and I believe both will pass and then go on to their next committees.

There are five bills that increase the Gasoline Excise Tax from \$.05 to \$.10 per gallon (HB 609, HB 699, SB 504, SB 609 and SB 506). All raise the gas tax.

There are 2 Bills that raise the Tobacco Tax, up to \$1.50 per pack (HB 261), and SB 166 will raise the Tobacco Tax by \$.36. All the bills that increase the Gasoline and Tobacco Taxes are being incorporated into HB 6 (the big tax bill).

There are 7 Bills that create new liquor licenses; some have already been tabled in Committee (HB271, HB272, and HB273). SB 19 and SB 210 passed the Corporations Committee and are now in the Senate Judiciary Committee. SB 78 has passed Senate Rules and Corporations Committee and was voted on and passed the Senate by 26-8 vote and now goes to the House. SB 79 was tabled in Corporations Committee.

Upcoming Events

The NMPMA Convention and Trade Show will be held August 19-21, 2019, at Sandia Resort and Casino in Albuquerque, New Mexico. Mark your calendars!