

## **Good Tax Policy Will Drive Revenue Increases**

**By Senator Pete Campos**

It is clear to me and others that the state of New Mexico must both cut spending and raise taxes to balance the budget for the upcoming fiscal year. The only real question concerning tax increases is what principles we should follow to ensure that we maintain a sound tax policy.

It is well accepted that the four principles of sound tax policy are that tax laws should raise an adequate amount of revenue to fund government operations; that tax laws should not change taxpayer behavior; that the tax burden should be fair to taxpayers; and that tax laws should be simple, or at least as simple as tax laws can be. It is important that we do our best to adhere to these principles as we consider the state's current fiscal crisis and how best to solve it.

We know our tax policy is not raising an adequate amount of revenue. If it were, we would not be facing a revenue shortfall. So while we must and will cut state spending, we cannot cut it enough to cover the revenue shortfall. As we work on a tax increase package, we will work to make sure those increases do not distort consumer or business behavior, that they are fair and that they are simple. Essentially, that means the tax increases we consider will raise only the money we need to fund important state services and be applied as broadly as possible.

There are several proposals that the legislature is considering that fit that criteria.

One measure that has been endorsed by a senate committee would reimpose the gross receipts tax on most food but would continue to exempt staples, such as meat, poultry, fish, bread, cereal, vegetables, fruits and dairy products. This measure, Senate Bill 10, is estimated to raise \$170.5 million over the next two years for the state's general fund. It also has the benefit of being applied broadly while continuing to benefit lower income New Mexicans by exempting staple foods from the gross receipts tax.

Reforming our capital gains tax law to more fully tax that income would raise \$33 million a year and restore a measure of progressivity to New Mexico's tax policy by ensuring that wealthier New Mexicans pay taxes on more of their income.

Two measures already approved by the House of Representatives — House Bills 120 and 244 — would tighten our tax laws as they apply to certain corporations. Together, the measures are estimated to generate \$26.6 million for the upcoming fiscal year.

There are other measures that may be worth considering. A small, temporary increase in the gross receipts tax — which is similar to a sales tax — is a broad-based tax because it is applied

to nearly every purchase; it is simple to administer because it is merely added to the sales price; and, because it is small and temporary, it does little to change consumer behavior. Such a proposal, recently approved by the House of Representatives, would add \$426 million to the state's general fund during the first two years of its four-year life. Another proposal would raise for two years the top personal income tax rate that is paid by wealthier New Mexicans, from 4.9 percent to 6.4 percent, which is still well below the top rate that was in place before 2003. The higher rate would apply only to married couples with taxable incomes above \$200,000 and single filers with taxable incomes above \$133,000.

The proposals currently under consideration would raise millions of dollars for critical state programs without adversely affecting our economic recovery. The taxes would be applied fairly to most New Mexicans and would, at least temporarily, return a measure of progressivity to our personal income tax rates.