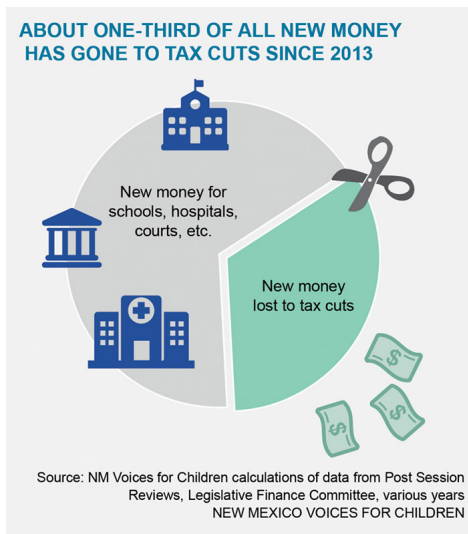


A blueprint for a state in the red

Written by By New Mexico Voices for Children
Friday, 07 October 2016 05:50



Part 1 of 2

The New Mexico that could be

New Mexico can be a place where communities thrive and there is opportunity for everyone to build a secure future.

We know what it takes to create strong communities — good schools, roads, libraries, and so forth. Today, though, our budget prioritizes tax breaks instead that starve our state of the revenue it needs to fund critical programs and services. This is the wrong choice for New Mexico's future.

To afford the things we need, it will take a more sensible approach to revenue. We're losing millions of dollars in tax breaks for powerful special interests that are inserted into the tax code. When we clean up our tax code, we'll have more for the public investments New Mexico has been avoiding.

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The recession hit New Mexico hard. Revenues plummeted. The state's investment in health care, education, and other essential services declined.

As the economy started to improve, lawmakers made a fateful choice—massive tax cuts in 2013 for corporations, instead of revenue to invest in the common good.

The tax cuts, it was promised, would bring jobs to New Mexico.

But tax cuts don't create jobs—public investment creates jobs.

Those tax cuts — following tax cuts enacted in 2003 for the wealthiest New Mexicans — have made New Mexico too dependent on revenue from gas and oil extraction.

This over-reliance on oil and gas revenue became a serious problem—as it has in the past—when the bottom dropped out of gas and oil prices last year.

The New Mexico that is

These tax cuts have done so much damage that we now have a hole in our budget. New Mexico has a choice: raise enough money by rolling back the ineffective corporate tax cuts or reduce public investment.

Lawmakers have already chosen to protect tax cuts for corporations. Instead of increasing public investment in health care and education — two areas where New Mexico needs to grow — we've seen educators laid off, fewer families helped with child care, school-based health centers closed, and college tuition raised.

The path to public investment

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The path to a strong New Mexico begins with making smart investments. There are many common-sense ways to raise new money, create jobs, and bolster our economy:

- **Freeze the corporate income tax cuts**

The big corporate tax cut of 2013 phases in over 5 years and will cost the state \$70 million a year when fully phased-in. We could freeze the corporate tax rates where they are now and save millions for public investment.

Could raise \$70 million if repealed or \$20 million if frozen through FY20.

- **Freeze the tax break for manufacturers**

At the same time the corporate income tax rate was cut, the formula for how manufacturers were taxed was made less fair. The phase-in could also be frozen so we don't continue to lose revenue.

Could raise at least \$45 million if repealed or \$10-\$15 million if frozen.

- **Raise the personal income tax rate for those at the top**

In 2003 New Mexico cut the personal income tax rate by nearly half for the wealthiest households. Restoring the rate would help turn our upside-down tax system right-side up. Today the wealthiest pay a smaller percentage of their income in state and local taxes than anyone else does. The 2003 rate cut made that worse (see the graphic below for just how unfair our tax system is).

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Amount raised would depend on several factors, but a full repeal of the 2003 cuts would raise up to \$500 million.

• Curtail tax breaks for capital gains income

New Mexico taxes income from capital gains (the profits from sales of assets such as stocks or real estate) at a lower rate than it taxes the wages of working people. This break mainly helps the wealthiest—those making over \$200,000—while taking revenue away from much-needed public investment. It also helped make our tax system less fair.

Could raise \$34-\$36 million in FY18; \$44-\$48 million in FY19.

• Repeal wasteful and ineffective tax breaks

There are hundreds of tax breaks that have been carved out of the GRT base over the years, many of which simply qualify as a handout to special interests. What's more, few of them have ever been revisited, let alone evaluated. Repealing wasteful and ineffective tax breaks will allow lawmakers to put that money to work where it will make a difference for our kids, families and communities.

Could raise hundreds of millions.

To be continued next week.

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