

Dem tax overhaul plan IDs new revenue streams

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Published: Tuesday, January 29th, 2019 at 6:01pm

Updated: Tuesday, January 29th, 2019 at 9:30pm



House Speaker Brian Egolf, D-Santa Fe, sits on the rostrum in the House Chambers in Santa Fe this week. (Eddie Moore/Albuquerque Journal)

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SANTA FE – House Speaker Brian Egolf said Tuesday that he and other Democratic leaders are restarting their efforts to reshape the New Mexico tax code – this time with an emphasis on raising hundreds of millions of dollars in new revenue that can be used to improve the state’s school system.

A previous tax-overhaul proposal, House Bill 6, has been tabled, he said, and won’t be revived in its old form.

Instead, Egolf said, legislative leaders are crafting a new version that would raise income taxes on families making at least \$250,000 a year, raise gasoline taxes and levy gross receipts taxes on all online sales.

House Republicans immediately blasted the idea as an unwarranted tax increase that would damage the economy and burden small businesses and families, at a time when the state is expecting a budget surplus.

Egolf said the proposal is still in development and will be released as soon as it’s ready, then scheduled for public hearings.

“We have an opportunity to save a generation of kids in New Mexico from poverty,” Egolf told reporters Tuesday, “and in order to do that, we have got to make a sustained, substantial investment in education.”

The extra money from gas taxes, he said, would be dedicated entirely to repairing and improving roads.

But the other tax changes would be intended to raise revenue to help pay for an extra \$400 million to \$500 million in education spending – for hiring teachers, increasing educators’ pay and making other changes. The tax proposal may not raise the full amount, Egolf said, but it would help offset the cost.

The push to boost school spending comes after a landmark court ruling last year found that New Mexico is violating the rights of some students by failing to provide a sufficient education.

Stable revenue streams, Egolf said, are necessary because this budget surplus is tied to an oil boom in the southeastern part of the state – a notoriously volatile revenue source that’s dangerous to rely on.

The idea of raising taxes is already generating opposition among House Republicans, who are heavily outnumbered in the House. It’s also unclear how the idea will be received in the Senate, where veteran Democrats sometimes clash with their colleagues in the House.

Democrats hold majorities in both chambers of the Legislature. Newly elected Gov. Michelle Lujan Grisham is also a Democrat.

Rep. Jason Harper, R-Rio Rancho, said Democrats are taking what had once been a bipartisan idea – overhauling the tax system – and turning it into a “pure tax increase.” His own proposals to revise the tax code, he said, were intended to be “revenue-neutral,” not raise taxes overall.

“What they have here is a blatant tax increase in the guise of reform,” Harper said.

Egolf said he is still open to reducing the gross receipts tax rate, by eliminating some of the tax breaks that riddle the tax code, as suggested by Harper and others, but he said the priority is developing a sustainable source of new revenue for education.

The previous version of House Bill 6 sought to reduce the gross receipts tax rate by about one-half of 1 percentage point.

State economists have projected about \$1.1 billion in “new money” for the next fiscal year, or revenue beyond this year’s spending levels. Altogether, about \$7.4 billion in recurring revenue is expected in the 2020 fiscal year, which begins July 1.

But legislative economists have also warned that the state budget is heavily tied to the oil and gas industry, which makes revenue difficult to forecast.

Under the tax proposal to be unveiled in the next few weeks, Egolf said, New Mexico’s personal income taxes would become more progressive and the state would tax online sellers who compete with local businesses.

Now, only some online retailers pay gross receipts taxes to the state.

Egolf envisions the increase for personal income tax rates affecting families making about \$250,000 a year or more. The previous version of House Bill 6 had an increase for people making over \$23,500.

Sen. Carlos Cisneros, a Questa Democrat and vice chairman of the powerful Senate Finance Committee, is working on his own tax proposal – which would bring food back into the gross receipts tax base, allowing for a reduction in the overall tax rate.

He said Tuesday that it will be critical for House and Senate leaders to agree on a tax package of some kind.

“Our good luck with the oil patch may run out at some point,” Cisneros said.

As for the gas tax, Egolf said it’s a reasonable way to raise ongoing revenue to address a backlog in road needs. Much of the surplus revenue coming in now can go to that purpose, he said, but ongoing revenue is needed for future years.

The proposed gas tax rate might be flexible, he said, allowing it to fall as gas prices increase.

The details of the new version of House Bill 6 should come together in the next few weeks. State economists may issue a new revenue forecast in mid-February.