

Lujan Grisham to propose gross receipts tax cut

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In this file photo last month, Gov. Michelle Lujan Grisham, center, speaks about economic development during a news conference at the Capitol. (Eddie Moore/Albuquerque Journal)

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Outlining her priorities as she enters a critical election year, Gov. Michelle Lujan Grisham said she will propose a reduction in New Mexico's gross receipts tax – a move intended to address a chronic weak point in the state's unusual tax system.

The tax cut, if successful, would shave one-quarter of a percentage point off the statewide rate, or enough to save a family 25 cents on a \$100 purchase. It would cost about \$145 million a year in state revenue.

New Mexico's gross receipts tax – similar to a sales tax but also applied to the sale of services, not just goods – has been a focus of debate for years at the Capitol.

The tax is especially problematic for small businesses, experts say, because they must pay it when hiring outside help for accounting, legal or other services – a cost that builds on itself with each transaction, eventually passed on to the consumer.

Speaking to business leaders Wednesday, the Democratic governor said now is the right time cut the rate. The state is awash in cash, she said, thanks to federal stimulus funds and strong economic growth.

“It has a chilling effect,” Lujan Grisham said of the tax. “We’ve got to do a tax overhaul that can really make a difference. We have the resources.”

A Republican legislator, in turn, said the governor's proposal was too small to make a real difference.

“While it may be a step in the right direction,” Sen. William Sharer, R-Farmington, said in an interview, “it’s not tax reform.”

The governor outlined the initiative – one of many – in a breakfast meeting Wednesday with hundreds of business and civic leaders gathered for the Economic Forum of Albuquerque, a nonpartisan group.

Lujan Grisham also pledged to ask the Legislature to make it easier to hold people in jail if they've been accused of a violent crime, to create a \$100 million fund to add police officers and to pass a law designed to make New Mexico a hydrogen hub for the nation's efforts to address climate change.

Her half-hour remarks provided a peek at her priorities as lawmakers prepare for a 30-day session starting Jan. 18. A special session dedicated to redistricting is set for next month.

‘Increasing for decades’

Lujan Grisham said the state's financial reserves now stand at 37% of annual spending, making it a good time to tackle changes to the tax code.

The gross receipts tax rate reaches 9% in some parts of the state. In Albuquerque, for example, the rate is 7.875%.

Tax experts say the rate was never intended to be so high. A gross receipts tax is meant to cover a broad base of transactions, with the trade-off being that the rate is low.

Richard Anklam, executive director of the nonpartisan Tax Research Institute, warned legislators in July that the rates had climbed to “the absolute top of our capacity.”

He said in a written statement released by the Governor’s Office on Wednesday that reducing the tax would benefit all New Mexicans.

“New Mexico’s gross receipts tax rates have been increasing for decades, making pyramiding worse, burdening our households and rendering our small businesses less competitive,” he said.

Stephanie Schardin Clarke, the state’s secretary of taxation and revenue, said the reduction would help “provide valuable tax relief to New Mexico families and businesses, while adding a competitive advantage for New Mexico businesses.”

A recent expansion of gross receipts taxes to internet sales, she said, would help pay for the cut.

The governor’s proposal would reduce the state portion of the rate – the amount before cities and counties add their taxes – from 5.125% to 4.875%.

The state’s share of the rate hasn’t fallen since 1981, though a 2004 law repealed the gross receipts tax on food.

‘Talking point’

Sen. Sharer and Rep. Jason Harper, R-Rio Rancho, have repeatedly proposed overhauling the gross receipts tax code and reducing the rate. Lujan Grisham’s predecessor, Republican Susana Martinez, also pushed for changes to the gross receipts tax system.

The Legislature – where Democrats hold hefty majorities in both chambers – has approved some changes to the gross receipts tax code, though not the broader overhaul sought by Republicans.

Many of the proposals have been aimed at maintaining revenue neutrality, meaning any reduction in revenue by lowering the rate would be offset by other changes in the tax code, such as eliminating tax breaks.

Sharer said Wednesday that the governor's proposal "doesn't amount to anything but a talking point."

The state deserves much broader changes to its tax code with the aim of a low but flat tax, he said, without the host of exemptions that now poke holes in the revenue.

House Majority Leader Javier Martinez, D-Albuquerque, said lawmakers have over the last three sessions "successfully prioritized equitable tax reform that puts working New Mexicans first. I look forward to seeing the governor's full proposal and continuing the work of building a more fair tax system."

Legislative agenda

Lujan Grisham is up for reelection to a second term in 2022, and a large field of Republican candidates is competing for the nomination to challenge her. All 70 seats in the state House and other statewide offices, such as attorney general, are also on the ballot.

Besides a tax cut, Lujan Grisham outlined a host of legislative priorities Wednesday, including:

- Continuing a state push to offer more robust child care benefits, a move she said would make it easier for parents to work and address the 83,000 job openings in New Mexico. The state, she said, should target universal access to child care.

- Establishing a fund to help recruit and retain police officers statewide. The governor said she would ask for \$100 million next year as part of a 10-year push for 1,000 more officers.

- Revising the state's bail reform law, she said, to "drive a wedge in the revolving door in our criminal justice system." Lujan Grisham said she wants the changes to target people charged with committing a violent crime with a weapon.

"I can tell you it's not going to be an easy lift in the Legislature," the governor said. "Criminal justice reform is hard."

- Passage of a hydrogen law to help attract investment and spur innovation in companies seeking to decarbonize more of the economy.

She described it as a matter of "economic justice" that would help communities hit hard by the transition away from coal power plants.

