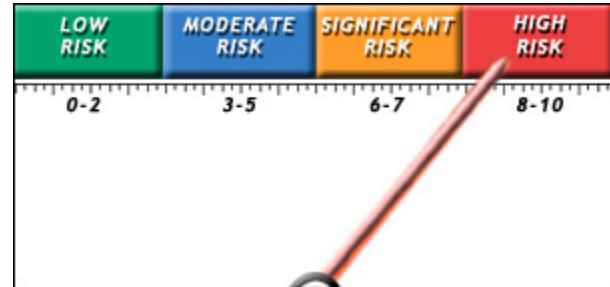


CENTER ON BUDGET AND POLICY PRIORITIES

820 First Street, NE, Suite 510, Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1056 center@cbpp.org www.cbpp.org

NEW MEXICO

Most states have structural weaknesses in their tax systems that put them at risk of experiencing gaps between revenues and necessary expenditures in coming years. The Center evaluated each state's likelihood of facing a structural deficit by determining how many of ten "risk factors" applied to each state. New Mexico is rated as having a high risk of a structural deficit based on its score of nine on the risk scale for structural deficits.



- In New Mexico, the percent of sales subject to sales tax declined by 30.5 percentage points from 1990-2003, exceeding the US median decline of 8.0 percentage points.
- New Mexico has significant loopholes in its corporate income tax.
- New Mexico could lose an estimated \$169 to \$265 million in revenue a year due to the growth of e-commerce. This loss is greater than the national average as a share of total revenue.
- New Mexico's income tax preferences for its seniors exceed the US average.
- New Mexico faces spending pressures from: a growing elderly population, the number of K-12 students, the number of non-elderly disabled people, and the number students with special needs.
- Between 1994 and 2000, New Mexico reduced its personal income tax and, to a lesser extent, the sales tax. Between 2001 and 2004, the state reduced its personal income tax and increased cigarette and motor fuel taxes. This is problematic since income taxes provide stronger growth over the long term than sales and excise taxes.
- New Mexico has three property tax limits: a property tax rate limit, a property tax revenue limit and an assessment increase limit.
- New Mexico remains linked to the federal phase-out of the estate tax, which eliminates a rapidly growing revenue source and costs the state an estimated \$23 million per year. Also New Mexico's income taxes are linked to the federal standard deduction, so that any increase in the federal standard deduction results in an increase in the New Mexico standard deduction, which reduces New Mexico's tax revenue.
- Three other national studies (Hovey 1998, Boyd 2002, and Besendorf & Kottlikoff 2002) found that New Mexico has a structural gap.