



New Mexico Taxation & Revenue Department Update

Stephanie Schardin Clarke, Cabinet Secretary

Clinton Turner, Tax Policy Director

May 2, 2019

Executive Leadership Team

Office of the Secretary
Cabinet Secretary: Stephanie Schardin Clarke
Deputy Cabinet Secretary: Emily Oster
Tax Policy Director: Clinton Turner
Chief Legal Counsel: **Vacant**
Director of Communications: Charlie Moore
Chief Security Officer: Raja Sambandam
Taxpayer Advocate: Tiffany Smyth
Chief Economist: **Vacant**
Local Government Liaison: David Montieth

Property Tax Division
Director: Donna Maestas
Deputy Director:
Michael O'Melia

Revenue Processing Division
Director: Charlene Trujillo
Deputy Director: **Vacant**

Motor Vehicle Division
Director: Alicia Ortiz
Deputy Director Field Operations: Jerry Valdez
Deputy Director Central Admin: **Vacant**

Tax Fraud Investigation
Director: **Vacant**
Deputy Director: **Vacant**

Information Technology
CIO: Mike Baca
Deputy CIO:
Darshana Kanabar

Administrative Services
Director: Denise Irion
Deputy Director: **Vacant**

Audit & Compliance
Director: Aysha Mora
Deputy Director Audit: **Vacant**
Deputy Director Compliance: Lisa Trujillo

Agency Budget and Staffing

- Annual budget of \$89.6M in FY19, \$91.7M in FY20, an increase of 2.4%
- TRD is organized into 7 divisions with 1,072 FTE
 - As of April 2, 2019: 769 employees, 303 vacancies

Administrative Services (Office of the Secretary, Legal/Protest, Tax Policy/Research, Office of Internal Oversight, and 10 HR positions at SPO)	30 vacant / 103 FTE = 29.1% vacant
Information Technology Division	21 vacant / 70 FTE = 30.0% vacant
Audit and Compliance Division	97 vacant / 356 FTE = 27.2% vacant
Revenue Processing Division	51 vacant / 140 FTE = 36.4% vacant
Property Tax Division	14 vacant / 39 FTE = 35.9% vacant
Motor Vehicle Division	80 vacant / 341 FTE = 23.5% vacant
Tax Fraud Investigations Division	9 vacant / 21 FTE = 42.9% vacant
TOTAL ALL TRD	303 vacant / 1,072 FTE = 28.3% vacant

Vision

- Fair, consistent, professional Tax Administration for all New Mexico taxpayers
- How will we achieve this?
 - Fill vacancies
 - Support employees, improve retention
 - Training and professional development
 - Deliver quality customer service
- Guiding principles of integrity, ethics, respect, collaboration, communication: Do the right thing!

A Fresh Approach to Customer Service

- Taxpayers: deserve fair audits and assessments, prompt resolution of protests, consistent application of laws and regulations, responsiveness on questions, security of taxpayer data from fraudsters
- Legislators: deserve quality information on revenue trends and forecasts, resolution of constituent issues, budget needs, performance reporting,
- Local Governments/Political Subdivisions: deserve timely and accurate distributions, responsive answers to questions about distributions, proactive assessment of State-assessed properties to capture property taxes due
- State Agencies: deserve a collaborative partner that shares data, guides policymaking, informs on trends
- CPAs and Tax Attorneys: deserve collaborative partner to resolve taxpayer issues and identify and implement process improvements.

Our Mission: Tax Administration

- Dozens of tax programs administered under the Tax Administration
- Revenue Processing Division
 - Receives, sorts, and deposits e-filed and mailed tax payments
 - Heavily automated processes, reliance on specialized equipment
 - Temp workers assist during PIT return season
 - Average work flow volumes:
 - 51,500 outgoing letters per week
 - 24,500 incoming pieces of mail per week
 - 16,500 checks processed per week, \$160 million average deposit per week
 - Nearly 3 million tax returns processed annually for about 20 tax programs
- Information Technology Division
 - Facilitates routine upgrades and programming development of TRD's GenTax Tax Administration software
 - Consults with other divisions on system design requirements

Our Mission: Tax Administration (continued)

- Audit and Compliance Division:
 - Audits and makes assessments of tax, penalty, and interest due
 - Oversees TRD response to civil fraud cases
 - Reviews and approves/denies requests for refunds, credits
 - Incentivizes voluntary compliance
 - Places liens on property for taxes due
- Protest Office/Legal Services Bureau of Office of the Secretary
 - Attempts to resolve protests of assessments/denied refund claims informally
 - If Protest Office is unable to resolve informally, Legal Services Bureau represents TRD in hearings before the Administrative Hearings Office
 - Legal Services Bureau represents TRD in court if necessary
- Administrative Services Division
 - Distributes \$8-9 billion per year to State, local, and tribal governments

Our Mission: Tax Fraud Investigation Division

- Ensures that those who break criminal tax laws are held accountable. Work focuses on tax fraud and evasion, white collar crime, identity theft
- Staff expertise includes fraud examiners, forensic accounting, commissioned law enforcement officers.
- Collaborate with various federal, state and local law enforcement agencies and prosecuting agencies as needed
- Conduct internal affairs investigations to review allegations of policy violations, respond to insider threat concerns

Our Mission: Motor Vehicle Division

- Administer driver's licensing and motor vehicle registration laws
- Operate 33 MVD state-owned Field Offices statewide, oversee 40 Municipal MVD offices, and 15 privately-operated partner MVD Field Offices statewide
- Support more than 1,300 MVD-related business partners
- Roughly 50% of all NM credentials are now REAL-ID
- Role in voter registration
- Provide information critical to law enforcement
- Register individuals for organ donation
- Average MVD Field Office wait times are back to pre-Real ID times
- Staffing struggles particularly in call center and areas affected by Permian labor market shortages

Our Mission: Unclaimed Property

- Act as custodian of abandoned assets, including real property, account balances, securities, personal property
- Property is held in custody for perpetuity
- Claims are validated to prevent fraud
- Process over 4,000 claims per year
- Pay out \$8 - \$10 million in claims per year
- Deposit about \$30 - \$34 million new property per year

Ongoing Priorities

- Fill vacancies, train new staff
- Implement 2019 Legislation into IT Systems (GenTax and Tapestry)
 - TRD estimates implementation cost of \$27.4 million, has identified \$7.5 million available funding to date
- Migrate Insurance Premiums Tax from Office of Superintendent of Insurance to TRD January 1, 2020
- Data Analytics
 - Phase I underway will enhance GRT audit selection, expected to go live July 2019.
 - Phase II will focus on preventing internal and external threat and predictive analytics/forecasting
- Property Tax Division System Modernization: \$2 million for modernization and automation of the property tax business system
- Complete projects to improve payment card acceptance functionality at TRD call centers
- Work through legal protest backlog
- Standardize agency operating procedures to ensure consistent application of laws and regulations

DETAILED BILL COST

	HB479 D-Earmark Local Option GRT	SB246 Health Care Surcharge	HB6 Tax Changes	HB162 Insurance Premium Tax Provisions	SB189 Mobility Limitation Transport Placards	SB278 Driver's License Changes	TOTAL
FAST Contract	\$3,024,000	\$1,650,000	\$11,979,200	\$5,000,000	\$249,375	\$99,531	\$22,002,106
PM/BA	\$150,000	\$225,000	\$300,000	\$300,000	\$0	\$0	\$975,000
Contract Resource for Data Verification	\$0	\$0	\$0	\$42,000	\$0	\$0	\$42,000
IV&V	\$317,400	\$187,500	\$1,227,920	\$500,000	\$0	\$0	\$2,232,820
GRT	\$294,587	\$174,023	\$1,139,663	\$492,919	\$21,041	\$8,398	\$2,130,631
Total Contractual Cost including GRT	\$3,785,987	\$2,236,523	\$14,646,783	\$6,334,919	\$270,416	\$107,929	\$27,382,557

SB 2: Film Tax Credit Changes

- Replaces \$50M cap system with new model: New Mexico is open for business!
 - TRD authorized to pay \$110M in credits each fiscal year (\$110M cash cap)
 - EDD manages project budget certification/credit application process to ensure that backlog does not exceed \$100M (\$100M maximum backlog)
- “Film Partners” that have made 10-year commitment to New Mexico excluded from cap
- Extra 5% credit available for rural film production
- Improved reporting and transparency required of TRD and EDD
- Appropriates \$195M to repay backlog of approved but unpaid film credits accrued under the prior \$50 million cap; first \$100M payments to go out in June 2019

SB 129: Tax Protests & Admin. Hearings Office

- Changes to timeline for protests and refund claims
 - Protests are filed with TRD, adjudicated informally through TRD Protest Office, and then Administrative Hearings Office (AHO) if necessary
 - 90 day time period for payment of undisputed amounts
 - Increases from 45 to 180 days the amount of time that taxpayers and TRD can work together to informally resolve protests, before escalation to AHO
- Two ways to dispute an assessed liability for taxes
 - File administrative protest, OR
 - Pay and then claim a refund
- Clarification of what must be included in a written protest
- Changes to Administrative Hearings Office Act
 - Tax protest procedures, who can represent taxpayers at AHO

HB 162: Insurance Premium Tax Provisions

- Authorizes TRD to administer Insurance Premium Tax under the Tax Administration Act (TAA)
 - Gives TRD tools to audit taxpayers, reconstruct records
 - Gives taxpayers protections under Taxpayer Bill of Rights
- Clean-up from 2018 legislation
 - Reinstates distribution of premium tax revenue to Law Enforcement Protection Fund for local law enforcement needs
- TRD begins administering Insurance Premium Tax program January 1, 2020
 - Information sharing and collaboration with Office of Superintendent of Insurance- before, during and after transfer

HB 479: De-Earmark Local Option Gross Receipts

- Allows wider use of many municipal and county local option gross receipts tax increments
- Changes related to local option gross receipts tax increments that may be imposed by municipalities and counties
- Greater flexibility for municipalities and counties to manage their finances
- Not required to reduce from current rates (grandfathered in)

HB 6: Tax Changes

- Internet Sales GRT and Local Compensating Tax
 - Two step: July 1, 2019 and July 1, 2021
 - Level playing field for local and online retailers
- Hospital GRT – levels the playing field between like hospitals

- Increase working families tax credit from 10% to 17% federal EITC
- Reduce capital gains PIT deduction from 50% to 40%
- Restores dependent deduction to offset recent federal tax changes
- Contingent Tax Year 2021 new top PIT bracket and rate, may go into effect dependent on FY2020 general fund recurring revenue growth

- Combined reporting of CIT

- Increases Motor Vehicle Excise Tax From 3% to 4%, increased Cigarette Tax rate, changes Tobacco Products tax, taxation of vaping products

HB 6: PIT Tax Changes

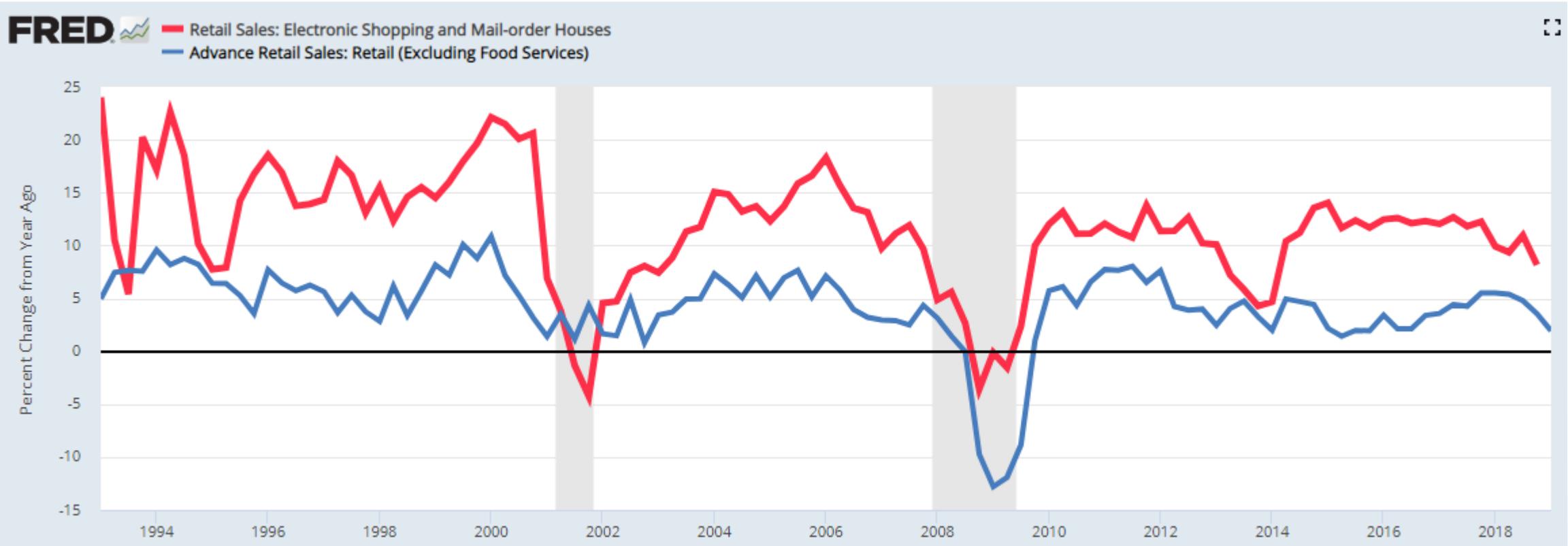
- Increase working families tax credit from 10% to 17% federal EITC
 - Will be tax cut for about 20% of New Mexico taxpayers at current participation rates (about 1 in 5 eligible taxpayers in New Mexico do not claim this tax benefit)
 - Combats regressivity inherent in consumption taxes, fights poverty, and encourages workforce participation
- Reduce capital gains PIT deduction from 50% to 40% on capital gains (beyond the annual \$1,000 capital gain income exclusion)
- Restores dependent deduction to offset recent federal tax changes
- Contingent Tax Year 2021 new top PIT bracket and rate of 5.9%, do not go into effect if FY20 recurring General Fund revenue exceed FY19 by five percent
 - New marginal rate could apply to about three percent of taxpayers
 - Single Filers – Minimum Gross Income > \$222,000 on taxable income over \$210,000
 - Head of Household/Married filing Jointly – Min. Gross Income > \$333,000 on taxable over \$315,000

HB 6: Cigarette/Tobacco Tax Changes

- Increases Cigarette Tax rate from \$1.66/pack to \$2.00/pack
- Limits Tobacco Products Tax on cigars at lower of 45 percent of wholesale/manufacturer value or 50 cents
- Taxation of E-Cigarette liquid under Tobacco Products Tax at 12.5% of wholesale/manufacture value
- Tax “closed system cartridge” such as a Juul Pod at 50 cents each
 - Or any other single-use, pre-filled, disposable cartridge with less than 5 ml of vape juice

Three Graphs:

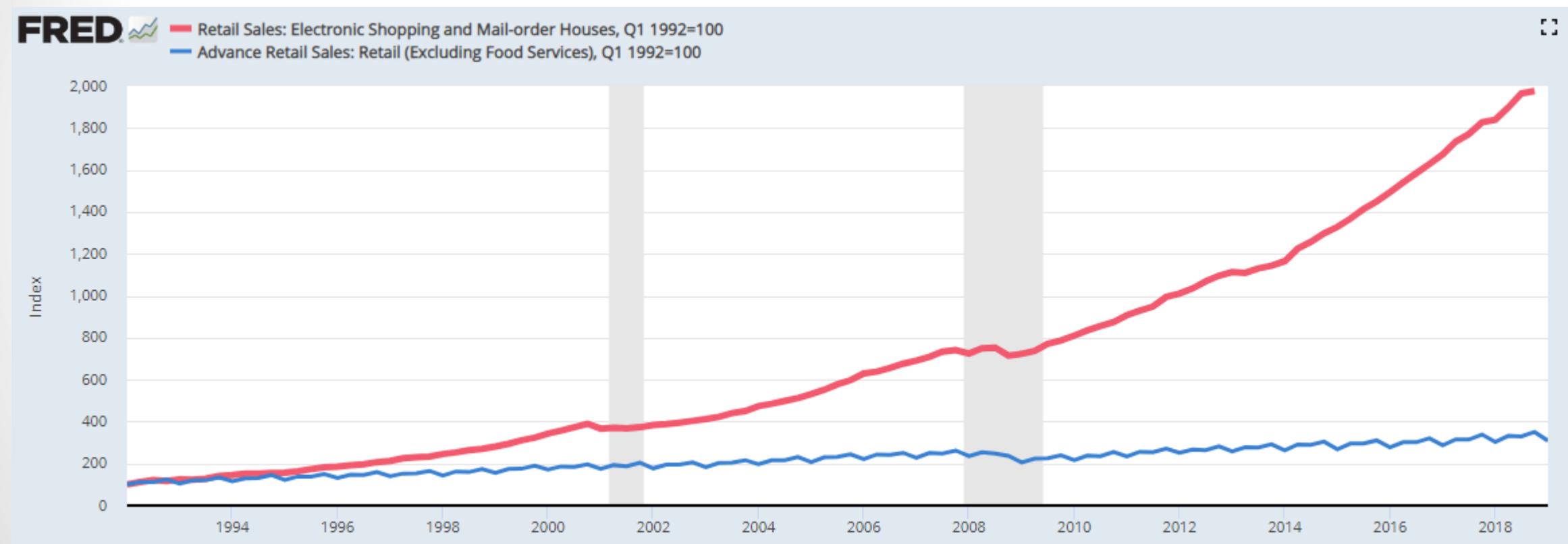
- In 1992 “remote” shopping mattered
 - Then it grew faster for a while



<https://fred.stlouisfed.org/graph/?g=n03N>

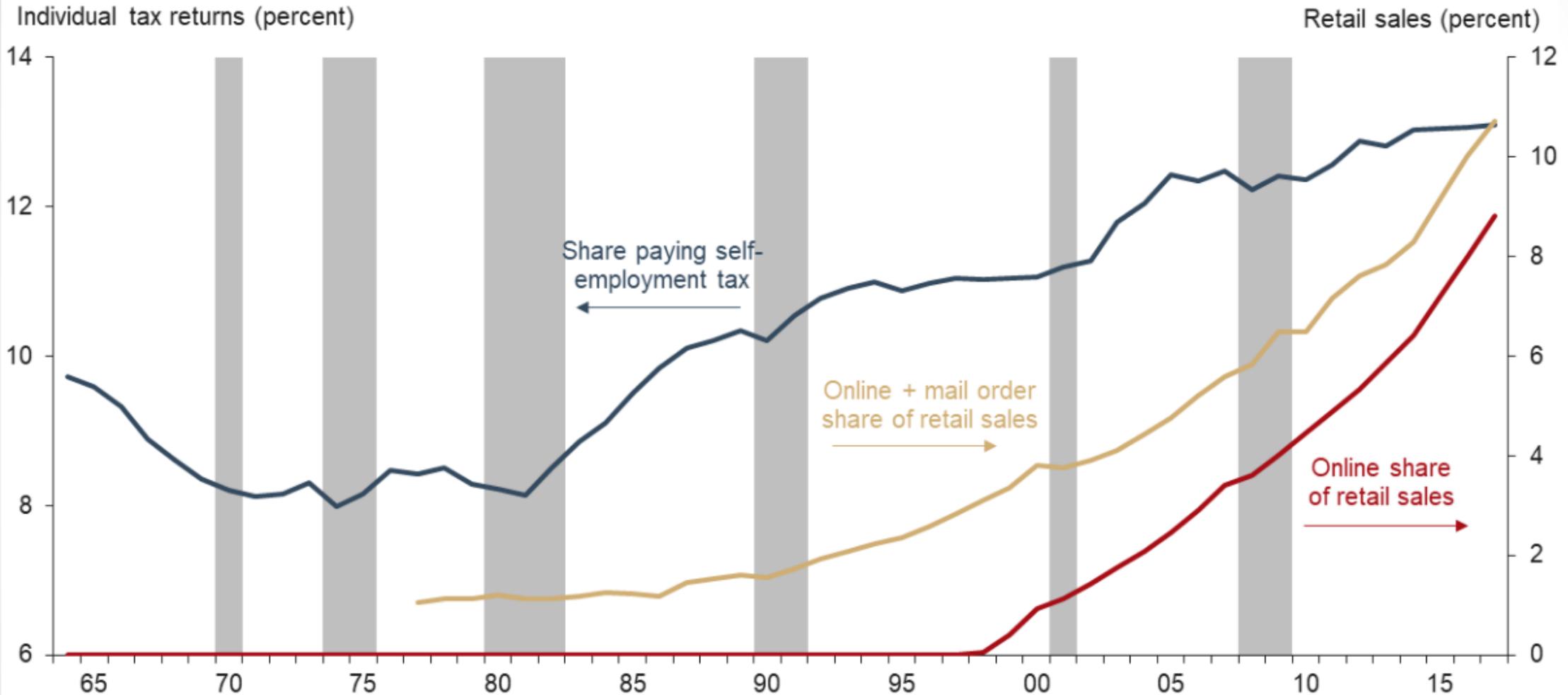
Three Graphs:

- Today Retail sales are three times the 1992 level and “remote” shopping sales are twenty times the 1992 level,



<https://fred.stlouisfed.org/graph/?g=n03V>

Online Retailing, Self-Employment Increase Since 2000



NOTE: The shaded areas indicate National Bureau of Economic Research (NBER) recessions.

SOURCES: Annual Internal Revenue Service reports on individual income tax returns, and "Inflation and the Gig Economy: Have the Rise of Online Retailing and Self-Employment Disrupted the Phillip's Curve?" by John V. Duca, Federal Reserve Bank of Dallas Working Paper no. 1814, November 2014.

Federal Reserve Bank of Dallas

<https://www.dallasfed.org/research/economics/2019/0416>

HB 6: GRT and Compensating Tax Changes

- July 1, 2019: Taxes remote sales
- FY20 and FY21 out-of-state location code and current location reporting rules remain in place
 - In interim, local governments receive fixed \$24 million annually from General Fund apportioned by population
- July 1, 2021: applies local GRT increments via destination based sourcing and local compensating tax
 - Major administrative and compliance step for Department and thousands of taxpayers within and outside of the State.

External Outreach: Taxpayers

- Taxpayer Advocate: Tiffany Smyth
- Provides assistance to taxpayers, identifies systemic problems within TRD, and recommends long term solutions
- Assists in resolving issues when the normal process has broken down
- Ensures that the rights afforded to the taxpayer in the Taxpayer Bill of Rights are protected
- Permanent contact information
 - Tiffany.Smyth2@state.nm.us
 - Phone (505) 841-6565
 - From May – July 2019, contact instead:
 - David Monteith
tax.localgov@state.nm.us
Phone (505) 827-2588
 - April Vigil
April.Vigil@state.nm.us
Phone (505) 476-3454

External Outreach: Tax Practitioners

- Tax Practitioner Liaison: Vincent Caputo
- Provides assistance to tax practitioners, assists practitioners in navigating through processes administered by TRD
- Maintains Tax Practitioner's Hotline- strive for responses within 24 hours
- Assists in resolving issues when the normal process has broken down
- Provides training to stakeholders on statutes, regulations, policies, and procedures
- Contact information
 - Vincent.Caputo@state.nm.us
 - Phone (505) 795-4262

External Outreach: Local Governments

- Local Government Liaison: David Monteith
- First point of contact for municipalities, counties and tribal governments who need assistance from TRD
- Goal is to provide prompt answers to questions regarding services that are provided by TRD
- Contact information
 - tax.localgov@state.nm.us
 - Phone (505) 827-2588

Governor's Tax Commission

- Governor Michelle Lujan Grisham has proposed creation of a Tax Commission or Working Group
- Purpose is to allow venue for communication between TRD and its many stakeholder groups. Membership may include CPA and Tax Attorney communities, local government representatives, legislators, etc.

Questions & Discussion?

Thank you!

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<http://www.tax.newmexico.gov/>