

2018 Administrative Update

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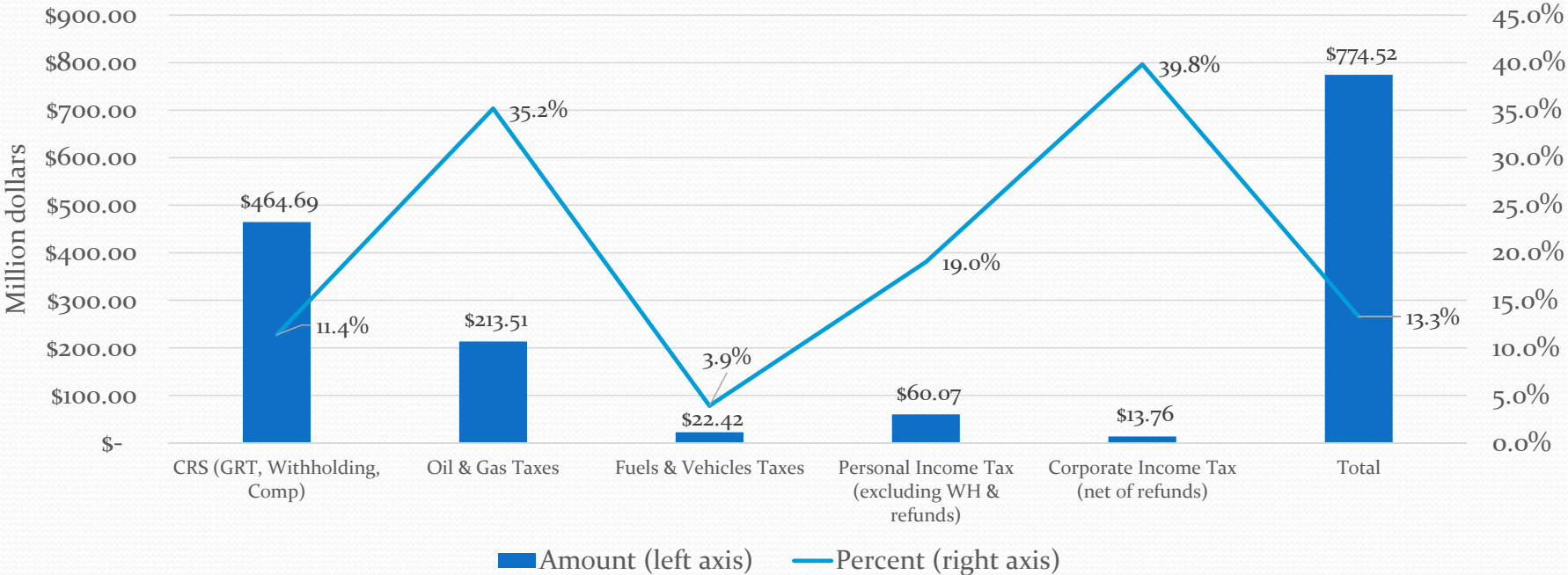
Overview

- Revenue tracking
- New statutes
- Other TRD initiatives
- Interim and 2019 Issues
- Governor Initiatives and Successes: 2011-2018

Revenue Tracking

- FY18 distributions up 13% (almost \$800 million)
- Growth rate is roughly double the forecast General Fund growth
- Most growth in GRT
- PIT filing season:
 - 893 thousand returns filed (up 1%)
 - 596 thousand refunds issued, total \$277 million
 - 229 thousand returns with payment, \$254 million

FY18 Revenue Distributions vs FY17*



*Distribution periods July 2017 through April 2018
 Source: TRD's Administrative Services Division

New Legislation: 2018 HB 194: Alternative Evidence for GRT Deductions

- Emergency clause
- Publications/Filer's packet updated; Updating audit manual, procedures and all notices that reference NTTCs
- Note change from Comp Tax to GRT plus P&I on buyer for taxable transactions initially claimed as deductible (7-9-43(F))
- Regulation & statute clean-up:
 - 15 statutes, 44 regulations
- Stakeholder input needed

2018 HB 223: Insurance Premiums Tax Transferred to Taxation & Revenue Department

- Long term best state interest but questions abound in the short term
- Personnel needed to improve oversight per 2017 Special Audit recommendations
- IT system development/conversion
- Stakeholder input needed
- Clean-up:
 - Include in TAA
 - TRD process development
 - Effective date 1/1/20; system development will take more than 12 months

2019 HB 88: Delinquent Property Sales

- Liquidating delinquent properties in large, failed subdivisions has proven extremely difficult
- HB 88 targets subdivisions of more than 5,000 vacant lots plotted before 1980 with delinquent liability of at least 10 years
- Additional notice and title research required – no resources provided
- Online sales and right of first offer to land grants and pueblos
- Proceeds may be less than total liability, all go to counties
- Working with counties to ID properties, notify land grants, and contract title research
- Issues include due process, debt forgiveness

Other New Laws:

- Thanksgiving Saturday GRT Holiday
- Foster youth employment credit
- GRT deduction for TPP in government/IRB projects
- Annual withholding statements reporting
- Aircraft training construction GRT deduction
- MVX to Road Fund



Other TRD Initiatives

- O&G Production Taxes converted to Gentax
- Business Credit Bureau
- Data Analytics
- Taxpayer Advocate
- Local distributions analysis

O&G Tax Conversion to Gentax

- Part of an overall strategy to modernize TRD systems: Gentax, Tapestry (MVD system), ONGARD replacement, Property Tax
- Approach based upon funding and risk mitigation
 - Cost estimates
 - Severance and Royalty system
- Project commenced July 2016; Industry focus groups started January 2017 with testing July 2017
- Successful rollout March 2018 – Taxpayers filed January returns, distributions occurred on time in April 2018

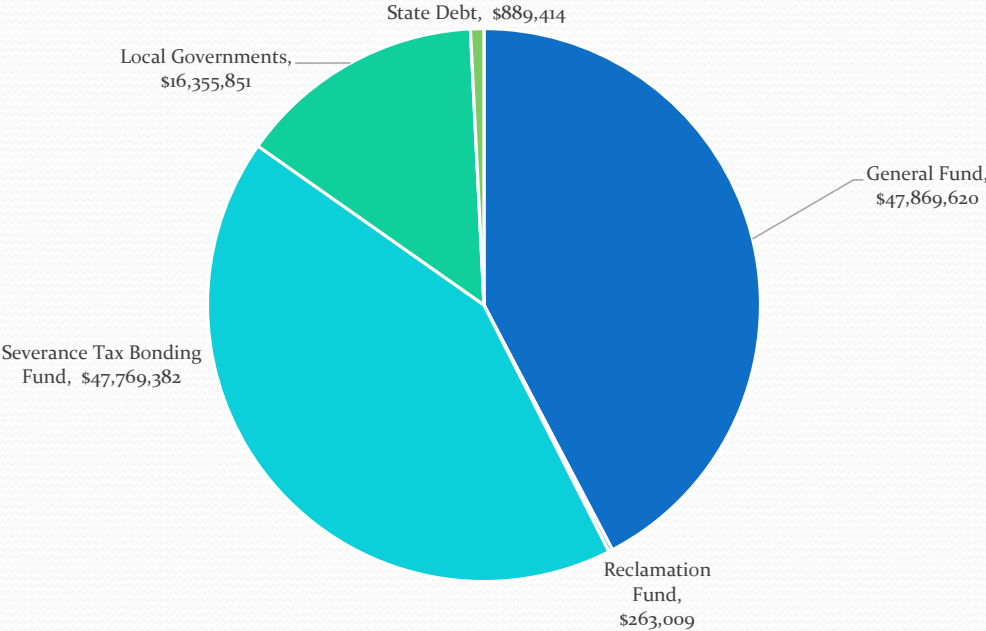
Oil & Gas Taxes Conversion to GenTax

- Benefits to TRD, Local and State Beneficiaries
 - 25-year-old ONGARD system written in COBOL, a language with diminishing support resources at TRD into a GenTax system consistent with 29 tax programs
 - Self-assessment of statute compliance across all oil & gas tax processes
 - Additional controls in place to enforce business rules such as screening electronic returns before they are accepted by TRD
- Taxpayer Benefits
 - Taxpayers can now manage and view all account activity through Taxpayer Access Point (TAP)
 - New report detailing to taxpayers how payments are allocated - by period and interest

Oil & Gas Taxes Conversion to GenTax

- Over \$113 million in revenue distributed to beneficiaries in April distribution

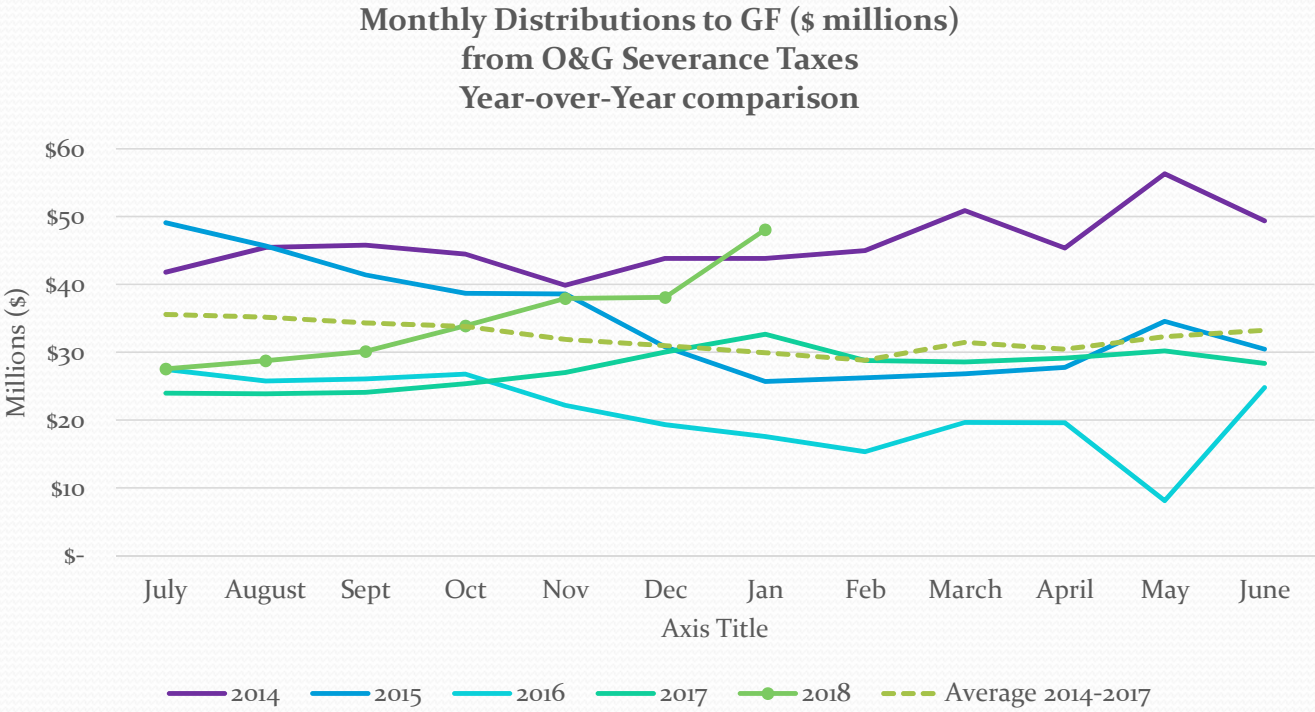
O&G Revenue Distributions: April 2018



Note: General Fund includes Natural Gas Processors Tax

Oil & Gas Taxes Conversion to GenTax

- GF Revenues from Oil & Gas are back to peak levels; up more than 50% vs year ago



Note: General Fund includes Natural Gas Processors Tax

Business Credit Bureau

- Over 30 credits with widely varying criteria/business rules
- Examples of complexity: Film Credit cap and HWJTC
- Expectations that TRD will carefully review prior to approval, but a credit application should not be a request for audit
- Expectations that TRD will evaluate effectiveness
- Need for stakeholder input; Clean-up legislation



Data Analytics

- Increase sophistication of fraud detection, audit selection and collections
- ID non-compliance for education and managed audits
- Increased data and system security
- Improve economic forecasting and policy analysis
- Phase I: GRT audit selection
- Estimated roll-out: Q1 CY 2019

Taxpayer Advocate: Since January 2016

- 537 Closed Cases
- 30 Open Cases
- Of closed cases:
 - 71 Closed due to lack of continued engagement by taxpayer
 - 35 Closed with no resolution
- Common Resolutions: Refund, Payment Plan, Innocent Spouse Relief, Abatement, Levy Reduction, Release of Liens, Hardship Granted, Entered into Managed Audit
- Average time for closure: 20 days



Possible Actions

- GRT treatment of partnership payments to partners
- GRT deduction of TPP on government/IRB construction
- Alternative Evidence for GRT deductions
- Single sales factor apportionment for headquarters
- TAA update

COST report on Sales Tax Administration

- Previous COST report: NM Overall Administration of Taxes moved from a D to a B+ (top 5)
- Latest report: NM was ranked near the bottom in Sales Tax
 - Primary criticism being sales taxes on business inputs
 - Excluded IRB's for manufacturers
- NM received a “B” grade for Fair Audit and Refund Procedures, and also for the relative simplicity of our local sales tax administration
- NM not member of SSUTA, but meets many of the requirements for a streamlined sales tax
- NM working on boundary database for remote vendors

2017 Tax Expenditure Report

- 6th version of report based on Gov. Martinez's Exec. Order 2011-071
- Continued improvements in data and analysis
- Each expenditure assigned to a category: Citizen Benefits; Economic Development; Environment, Conservation, and Renewable Energy; Healthcare; and Specialized Industry Incentives
- Provisions that define the tax base or constitute the “normal” tax applied to that type of activity or group of entities are separately identified as not “tax expenditures”



Interim/2019 Issues

- State impacts of Federal tax reform
- Tax Stabilization Reserve
- GRT deduction for chemicals in lots of 18 tons or more
- LCS/LFC model support

Interim/2019 Issues

- Comprehensive Tax reform:
 - Taxation of remote commerce
 - Additional Pyramiding relief
 - Expansion of the Base

Governor Initiatives and Successes: 2011-2018

- Since 2011, Governor Martinez has cut taxes and fees 57 times
- Premium Tax
- Tax Payer Advocate
- Independent Hearing Office
- Corporate Income Tax Reform
- Legacy of pro growth Tax Reform (Angel Investment, Technology Jobs, R&D, Manufacturing & Construction)
- Modernized IT Systems: GenTax, Tapestry, ONGARD Replacement
- Record Assessments and Collections
- REAL ID

Summary and Conclusions

- TRD is making progress on many fronts though new challenges are always arising
- Tax issues are always more complicated than they appear
- Tax code may be due for “modernization”: e.g. issues like remote commerce, pyramiding, and require comprehensive re-write