

Roadmap to a Stronger New Mexico

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Revenue Stabilization and Tax Policy Committee
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Are kids prioritized in the budget?

Issues in the tax code

- “Don't tell me what you value; show me your budget, and I'll tell you what you value.”
 - We proportionately spend money in the right areas.
- But there's another side to the budget:
 - We don't make kids and families a priority in tax expenditures.
 - We don't raise enough revenue through the tax code to support education, health, public safety, and infrastructure needs.

Where are we now?

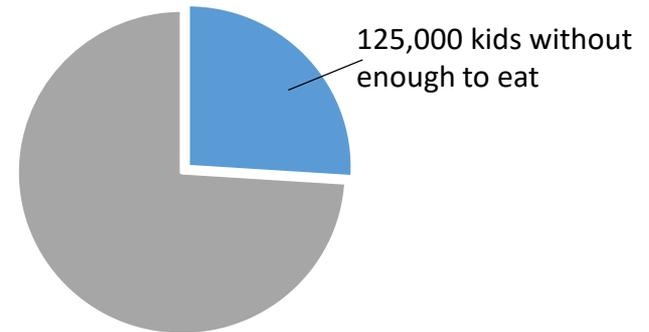
NM's families and kids face big challenges

Ranked worst in child well-being

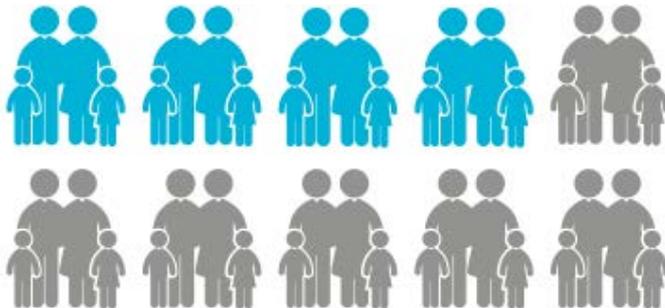
Ranked worst in education

50th

26% of NM Kids are food insecure



42% of working families are low-income



Some of the highest poverty rates in US among:

- children
- people who work full-time, year-round
- people with a bachelor's degree or higher

Sources: Annie E. Casey Foundation; U.S. Dept. of Education; U.S. Census American Community Survey data; Feeding America; U.S. Dept. of Agriculture

How did we get here?

We've tried to tax cut our way to prosperity

Actions

- PIT: personal income tax cut in 2003
- CIT: corporate income tax cut in 2013
- GRT: gross receipts tax carve-outs

Results

- Unbalanced and inadequate revenue system
- Increased reliance on volatile oil and natural gas
- Inability to fund services

The results of bad tax policy:

A K-12 education example

- 50th in the nation in educational outcomes.
- Recently lost a school funding lawsuit that highlighted underfunding and racial and ethnic disparities.
- 14% cut in per-pupil K-12 spending from 2008-2018.
- Cuts to special education funding, resulting in an even greater loss of federal dollars for special ed.
- Near the bottom in educator pay.
- Teacher shortages.

Where else it got us:

Programs have been grossly underfunded

- Large vacancy rates across state government.
- Credit downgrades.
- 35% cut in per-pupil higher education spending, leading to steep tuition increases.
- Enrollment in child care assistance has dropped more than 20% since 2010.
- Cut U.I. benefits, including the increment for children of unemployed workers.
- Underfunding of the Medicaid program leading to cuts in provider payments.
- Over a billion dollars drained from various targeted funds that may need to be restored.
- **Tax cuts made our tax system even more regressive AND we have hundreds of millions of dollars less AND the tax cuts failed to create jobs.**

Revenue Outlook

- In 2008 the state general fund was \$6.1 billion
 - Would be \$7.1 billion in inflation-adjusted dollars
- For FY19 it was \$6.3 billion...
- Bust-to-boom cycle continues
 - 2017: \$300 million shortfall
 - 2019: \$1.2 billion+ surplus
- Sustainability risk
 - 85% of surplus is oil and gas
 - How much should be considered recurring?
- Unique opportunity to re-structure the tax system
 - While shoring up reserves, addressing infrastructure, adding progressivity, raising revenue, and spending prudently

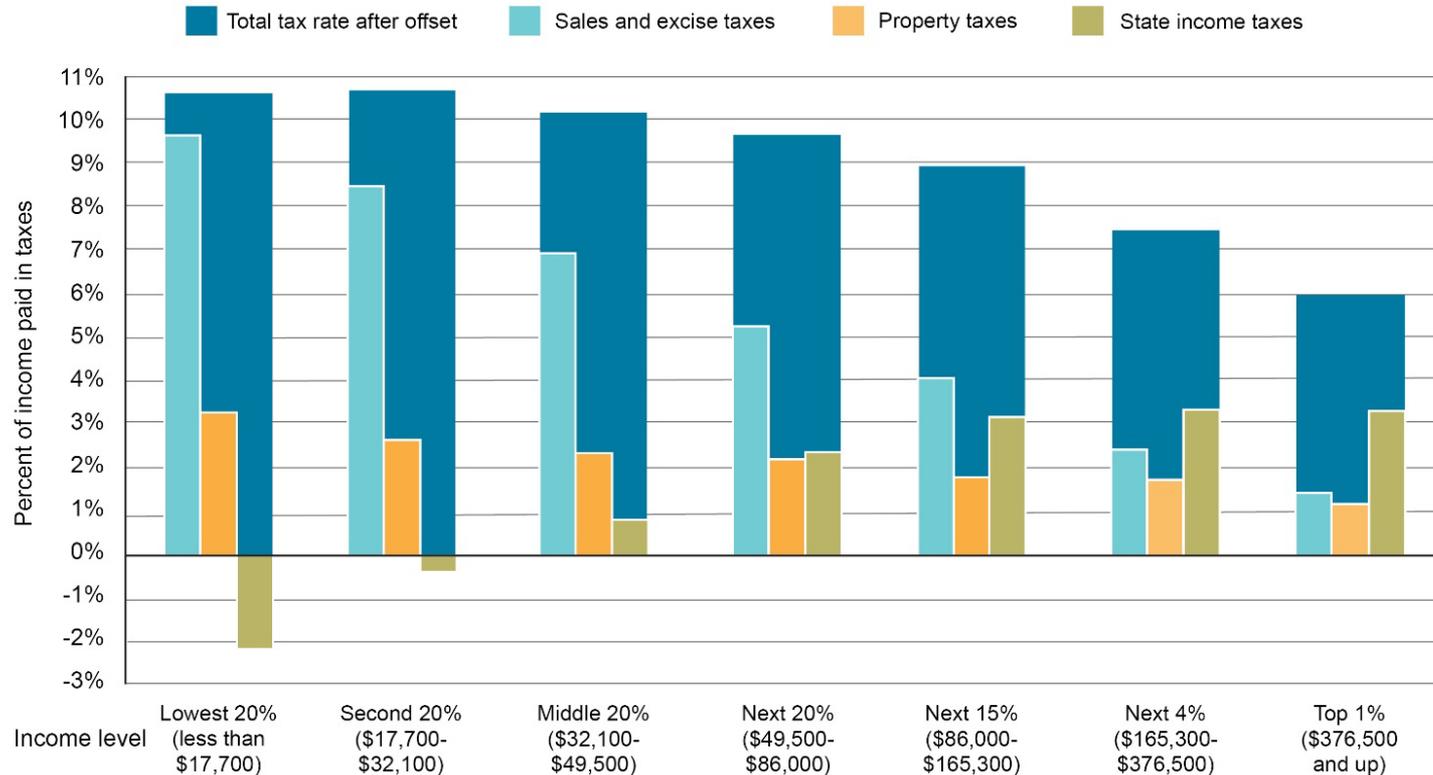
Principles of good tax policy

- 1. Adequacy:** Revenue should raise enough to fund needed government services.
- 2. Sustainability:** Tax base should be as broad as possible and avoid excess reliance on one tax.
- 3. Equity:** Taxpayers should be treated fairly.

Our tax system fails all three

New Mexicans with the lowest incomes pay the highest rates in state and local taxes

The majority of New Mexicans (those earning less than \$49,500) pay more than 10 percent of their incomes in state and local taxes, while a tiny minority (making more than \$376,500) pay just 6 percent.



Source: *Who Pays?*, The Institute on Taxation and Economic Policy, 2018
 Note: Table shows permanent law in New Mexico enacted through September 10, 2018 at 2015 income levels
 NEW MEXICO VOICES FOR CHILDREN



Our tax package proposal

- **Adds progressivity to NM's tax system**
- **Reduces reliance on volatile oil and natural gas revenues**
- **Increases the budget pie**

Key tax policy proposals

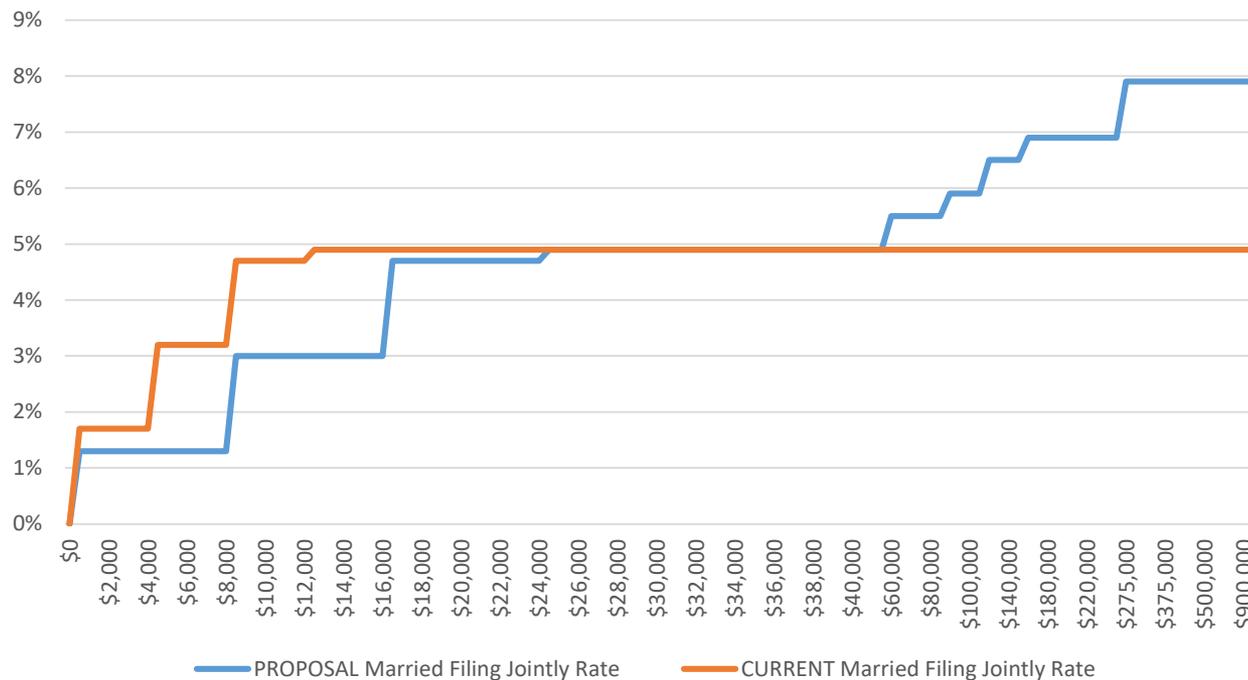
- **Personal Income Taxes (PIT)**
- **Gross Receipts Taxes (GRT)**
- **Corporate Income Taxes (CIT)**

PIT: Restore progressivity

- 2003 personal income tax cuts slashed PIT collections
- E&Y study:
 - PIT is a very stable revenue source
 - But New Mexico underutilizes PIT
 - NM residents are relatively less burdened by PIT than in peer states

PIT: Restore progressivity

- Repeal the 50% capital gains deduction
- Increase rates for higher earners
 - Primarily over \$100K AGI (97% of new revenue)



Increasing rates for higher earners and repealing the capital gains deduction would raise \$250+ million

PIT: Enact a Child Tax Credit

- NEW tax credit of \$25 to \$175 per child
- Linked to improvements in health, education, and economic outcomes
- *75% would go to families of color*
- Would help to address child poverty
- Would help to address the tax on kids that resulted from the new federal tax law

Enacting a new credit for all children would cost \$67 million

PIT: Increase the Working Families Tax Credit

- **Claimed by 1 out of 4 filers**
- **96% of the value goes to working families with kids**
- **Proven to incentivize work and improve outcomes for kids**
- **Good for business, the economy, and 200,000 NM families**

Increasing WFTC to 20% of EITC would cost \$55 million

PIT: Increase LICTR

- Targeted to very low-income taxpayers
- Was designed to offset regressivity, but returns only \$20 million of the \$2 billion GRT to the poorest of the poor
- Hasn't been updated in 20 years

Indexing LICTR to 1998 CPI would cost \$36 million

GRT: Damage done

- Over the years, we've carved out preferences
- Rates have increased, especially in some localities
- Taxpayers are treated differently
- E&Y study:
 - *Disproportionate benefits to large businesses*
 - *Complicated*
 - *GRT is regressive and relatively volatile*

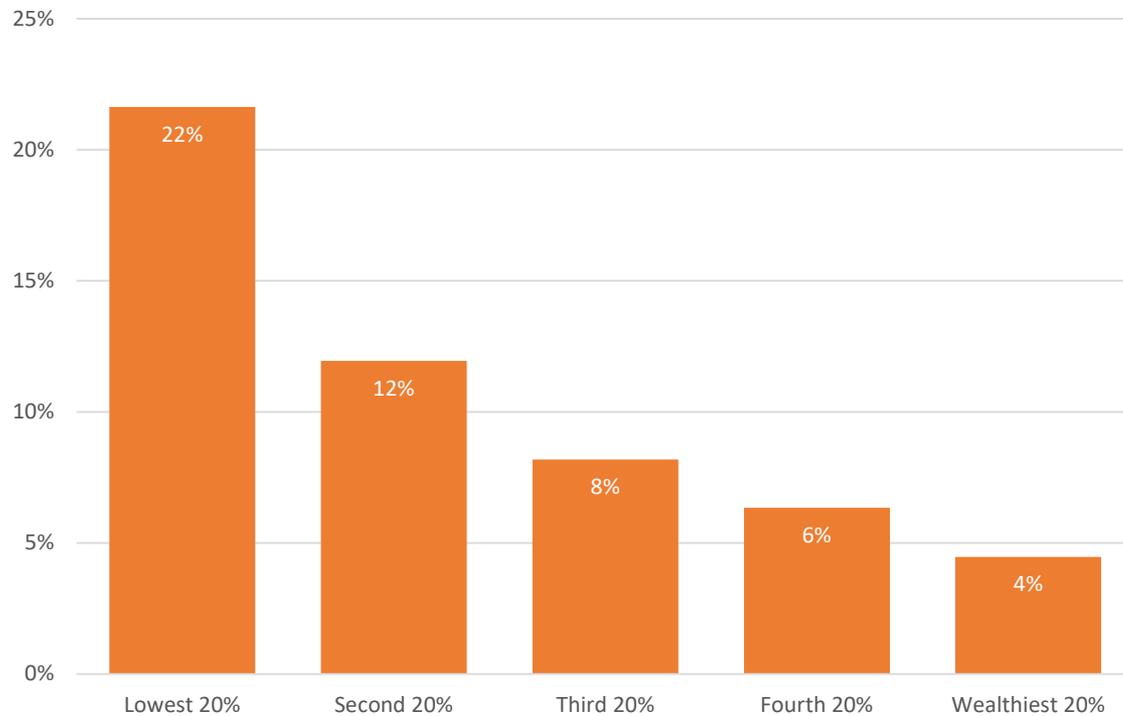
GRT: Close loopholes, lower rate

- Tax internet sales
- Lower state rate by $\frac{1}{4}$ percent
- Repeal ineffective breaks
- Taxing non-profits is problematic
- Don't tax food

Taxing internet sales would raise \$25+ million

The lower your income, the higher the share that is spent on food

Percent of income spent on food at home by income quintile (2017)



Source: BLS, Consumer Expenditure Survey, 2017

SNAP benefits are not adequate to address food insecurity



80% of SNAP benefits are used up within the first half of the month

Exhaustion of SNAP benefits at the end of the month decreases test scores



Very low-income New Mexicans not receiving SNAP spend **\$215 million** a year on groceries



Low-income* New Mexicans miss, on average,

3 meals per week

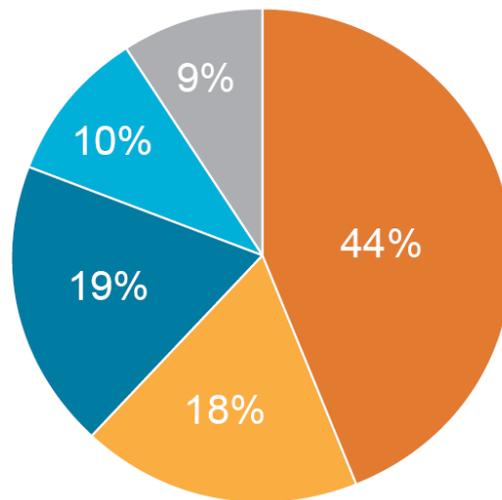
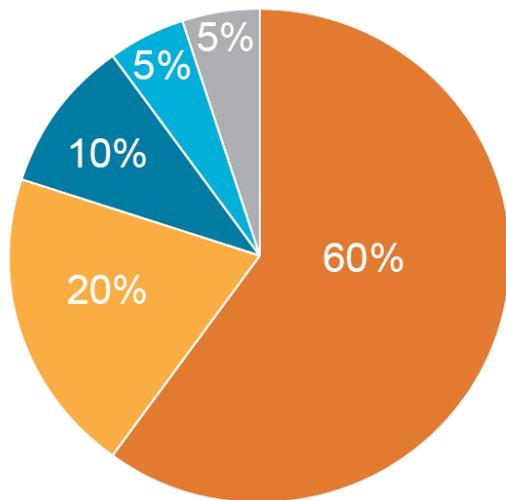


*\$31,244 for a family of 3 (185% of FPL)

New Mexicans strongly oppose a food tax

Currently, New Mexico does not tax food purchases. Would you favor or oppose applying the sales tax to food?
(If choice) Would you strongly (favor/oppose) that or only somewhat?

Would you favor or oppose taxing food if it was part of a proposal that lowered the sales tax on all other purchases?
(If choice) Would you strongly (favor/oppose) that or only somewhat?

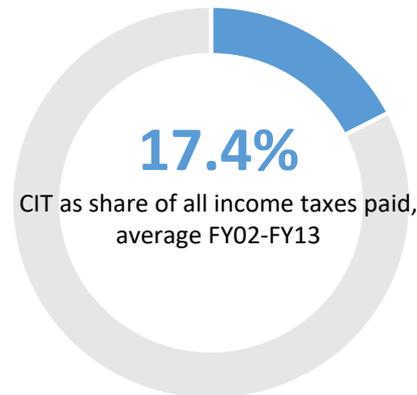


Poll of 602 likely voters • Dec, 4 - 7, 2015 • by Third Eye Strategies

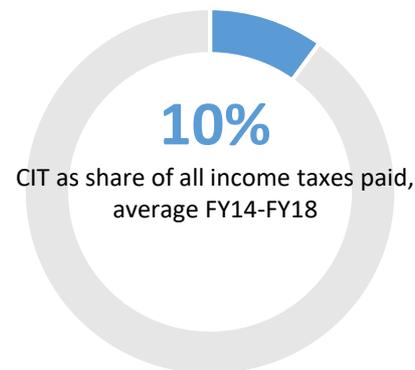
CIT: Sharing responsibility

- Corporations should be responsible for paying their fair share for use of NM's land, water, roads, and services too.
- Lower rate than national average.
- 2013 cut significantly reduced revenues.
 - *From \$240 million average pre-2013 cut to \$143 million since*

Average Share of Total Income
from Corporate Income
Pre CIT Cut



Average Share of Total Income
from Corporate Income
Post CIT Cut



CIT: Sharing responsibility

- **Raise corporate tax rates**
- **Enact mandatory combined reporting**

**Raising rates and enacting MCR would
raise more than \$125 million**

Outstanding needs

We have some looming financial responsibilities

- **Massive infrastructure needs**
- **Educational lawsuit responsibilities**
- **\$1 billion in swept funds since 2008**
- **Problematic agency vacancy rates**
- **Outstanding tax refund claims**
- **Public employees retirement system needs**
- **Film subsidies**
- **Shoring up reserve funds**

Summary numbers

- Restore ~\$600 million in revenue
- Spend ~ \$300 million through the tax code to help NM thrive

EVERY \$50 MILLION IN NEW REVENUE COULD...



Provide college scholarships of **\$2,000** to each high school student in the graduating class of 2019. OR



Give **48,000** New Mexicans health care coverage. OR



Provide **8,000** families with child care assistance. OR



Double the Working Families Tax Credit for all **200,000** families who benefit from it.

Now is the time

You have a unique opportunity to shape a stronger NM

- New Mexico has enormous needs
- We also must make our revenue system sustainable
- Now is the safe time to enact tax reform
- It is a once-in-a-lifetime opportunity to enact bold action on behalf of New Mexico's families



Thank you!

