

# Improving Child Well-Being Through Tax Policy

Presented to the  
**Revenue Stabilization and Tax Policy Committee**  
October 24, 2019

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# Why NMVC works on tax policy



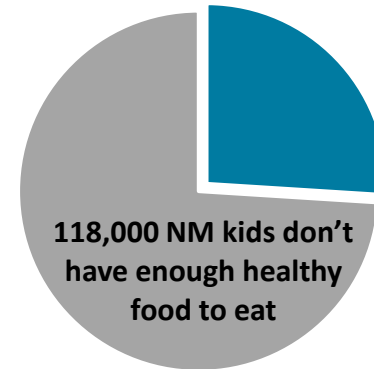
# Where are we now?

## NM's families and kids face big challenges

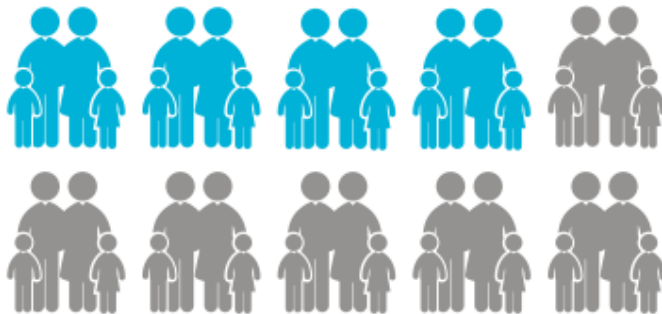
Ranked worst in child well-being

# 50<sup>th</sup>

24% of NM kids are food insecure



42% of working families are low-income



Some of the highest poverty rates in US among:

- Children (49<sup>th</sup>)
- people who work full-time, year-round (50<sup>th</sup>)
- people with bachelor's degree or higher (50<sup>th</sup>)

# 15 years of NM's tax policy history

**We've tried to tax-cut our way to prosperity**

## Major Actions: 2003-2018

- **PIT: Over-zealous personal income tax cut in 2003**
- **CIT: Ineffective corporate income tax cut in 2013**
- **GRT: Gross receipts tax carve-outs**

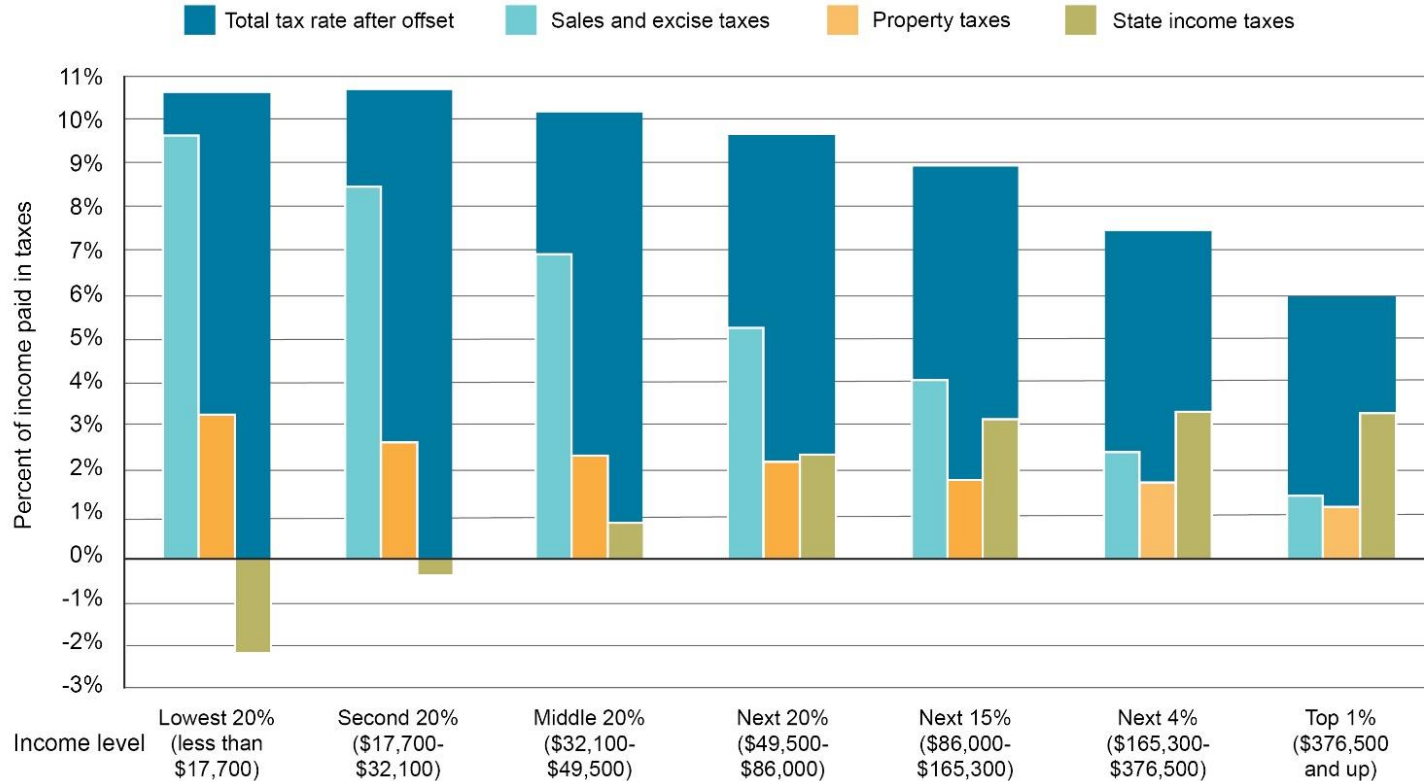
## Major Results

- **Inability to fund education & other services**
- **Increased reliance on less stable revenue sources**
- **Unbalanced & regressive system**

# Our tax system is regressive

## 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





# The 2019 legislative session



# Budget items that will benefit kids

- **\$450 million in K-12 education**
- **New funding of \$3.5 million to support Census 2020 outreach**
- **Medicaid fully funded; Medicaid buy-in study included**
- **Housing trust fund increased by \$2.2 million**
- **College Affordability Fund deposit of \$25 million**
- **NM Pre-K funding increased by \$24.5 million**
- **Child care assistance funding increased by \$9.5 million**
- **Home visiting funding increased by \$1.7 million**
- **DD waiver funding increased by \$7.5 million**
- **Individual Development Accounts funded for \$150,000**

# Tax reform enacted

*More revenue from sustainable sources*

## Raising reliable, recurring revenue

- **A new, contingent top PIT bracket for TY21**
  - Highest 3% of earners
- **Capital gains deduction reduced**
- **Increased taxes on cigs and taxes e-cigs**
  - Linked to youth health improvements
- **Motor vehicle excise tax increased from 3% to 4%**
  - Increases go to road funds
- **Hospital tax reform**
  - Leverages federal funds to address provider shortages



# Tax reform enacted

## *Fairer system for small businesses*

### Leveling the playing field for NM businesses

- Combined reporting for multi-state corporations
- Taxes internet sales
  - Restoring revenues for local governments



# Tax reform enacted

## *Improvements for kids and families*

### Giving working families a break

- **Increase in the Working Families Tax Credit**
  - Increased from 10% to 17% of EITC
  - +\$37 million into the hands of working families
- **Deduction to address harm to families from federal tax changes**
  - Allows a deduction of \$4,000 for each dependent beyond the first, saving families an estimated \$27 million they would have paid in state income taxes due to federal tax changes

# Personal income tax changes and NM families

## Impact on all New Mexico *families with children*

- 70% of taxpayers with children will see income tax *cut*
- \$64 million will be returned to families with children

## Impact on *all* New Mexicans

- 250,000 (29% of all taxpayers) will see income tax *cut*

## Impact on the *wealthiest* New Mexicans

- Just 5% of taxpayers may see an increase in income taxes, paid overwhelmingly by the highest earners

# Other tax changes make for a net tax cut

## General Fund Revenue Increase (or decrease) from 2019 Tax Legislation

	FY20	FY21	FY22	FY23
Tax Changes: HB 6	\$ 71,000,000	\$ 92,000,000	\$ 54,000,000	\$ 54,000,000
Medicaid Provider Rate Increase	\$ (34,000,000)	\$ (34,000,000)	\$ (34,000,000)	\$ (34,000,000)
Film Tax Credit Changes: SB 2	\$ (60,000,000)	\$ (59,000,000)	\$ (98,600,000)	\$ (95,900,000)
Modifying High Wage Jobs Tax Credit: HB 165	\$ -	\$ (2,100,000)	\$ (5,000,000)	\$ (8,000,000)
Tax Deduction for Nonresident Beneficiary: HB 163	\$ (343,000)	\$ (345,000)	\$ (345,000)	\$ (345,000)
Short-Term Occupancy Tax: SB 106	\$ 1,000,000	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000
Liquor Permit, Tax & Definition Changes: SB 413	\$ (770,000)	\$ (880,000)	\$ (1,010,000)	\$ (1,150,000)
Dept. of Defense Satellite Gross Receipts: SB 425	\$ -	\$ (1,500,000)	\$ (2,750,000)	\$ (2,750,000)
<b>OVERALL IMPACT ON GENERAL FUND REVENUES</b>	<b>\$ (23,113,000)</b>	<b>\$ (3,825,000)</b>	<b>\$ (85,705,000)</b>	<b>\$ (86,145,000)</b>

# Tax policy recommendations





# Working Families Tax Credit

- Claimed by 1 out of 4 filers
- 14,000 NM veterans claim it
- 97% of the value goes to working families with kids
- Proven to reward work & improve outcomes for kids
- Good for business, the economy, & 210,000 NM families
- Best measure for reducing poverty



# Improving the WFTC

## Increase

- Rate increase to 20% of EITC (\$15m)
- Increase for parents of young children under 6 yrs
  - 20% of EITC just for families with young children (\$7m)
  - 30% of EITC just for families with young children (\$29m)

## End exclusions

- ITIN filers (\$5m-\$9m)
- Young workers 18-24 (\$3m)

## Ensure trustworthy tax prep for all who qualify

- Tax Help NM saves WFTC filers \$5 million/year
- \$200,000 will help expand programs like this

# Child Tax Credit

- New tax credit of \$25 to \$175 per child
- Linked to improvements in health, education, & economic outcomes
- 75% would go to families of color
- Would directly address child poverty

**Total: \$67 million**



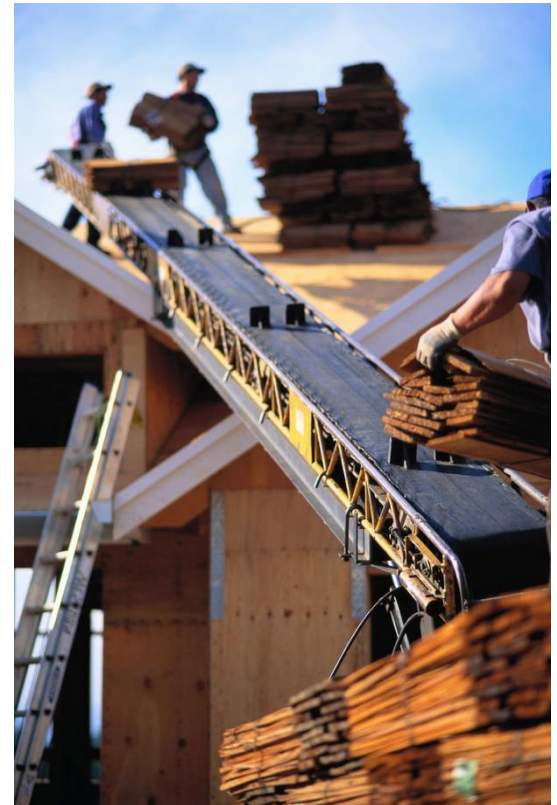
# Outstanding needs

**We have some looming financial responsibilities**

- **Massive infrastructure needs**
- **Educational lawsuit responsibilities**
- **Agency vacancy & retention rates**
- **Outstanding tax refund claims**
- **Public employees retirement system needs**
- **Film subsidies**

# Stable, sustainable, diversified revenue helps build a stronger future

- Infrastructure & program needs
- 75% of revenue surplus is potentially volatile
- Economic downturn on the horizon
- Good tax policy





# Personal income tax revenues

## Issues

- 2003 personal income tax cuts
  - More than \$500 million
  - Capital gains deduction unproven & costly
  - Made our system more regressive
- E&Y study: PIT is underutilized

## Revenue options

- Fully repeal the capital gains deduction
- Restructure brackets & raise rates at high ends

# Corporate income tax revenues

## Issues

- Corporations should be responsible for paying their fair share for use of NM's land, water, roads, & services
- Lower rate than national average
- 2013 cut significantly reduced revenues
- Important source of revenue for Film Tax Credit

## Revenue options

- Raise rates for larger corporations

# The GRT

## Issues

- Regressive & complicated
- Rates have increased, especially in some localities
- E&Y study: taxpayers are treated differently; big business benefits the most

## Recommendations

- Broaden the base by repealing ineffective breaks
- Lower state rate
- Don't tax food
- Update LICTR

# The Low-Income Comprehensive Tax Rebate

- Targeted to very low-income taxpayers (under \$22,000)
- Benefits families & individuals of all ages
- Was designed to offset regressivity, but returns only \$17 million of the \$2 billion GRT to the lowest income families & seniors
- Hasn't been updated in 21 years

**Indexing LICTR to inflation from 1998: \$36 million**

# Conclusion

