



Revenue Diversification and Education Funding: *Supporting our Students with Equitable Tax Policy*

Legislative Education Study Committee
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New Mexico Voices for Children
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A group of diverse children are playing outdoors, blowing bubbles. The scene is bright and cheerful, with sunlight filtering through the trees in the background. The children are smiling and looking at the camera. The text is overlaid on the center of the image.


**Our mission is to
champion public
policies that improve
the well-being of
New Mexico's
children, families,
and communities**



Why NMVC works on tax policy



**Robust revenues are necessary
to support the programs that
matter most to kids and
families**



Before the pandemic hit, we were moving forward on a path to prosperity


In 2019 and 2020:

- Improved fairness in our tax code
- Raised important revenue
- Increased funding for important programs and services
- Extended relief and protected health and safety of workers

COVID-19 has created new challenges

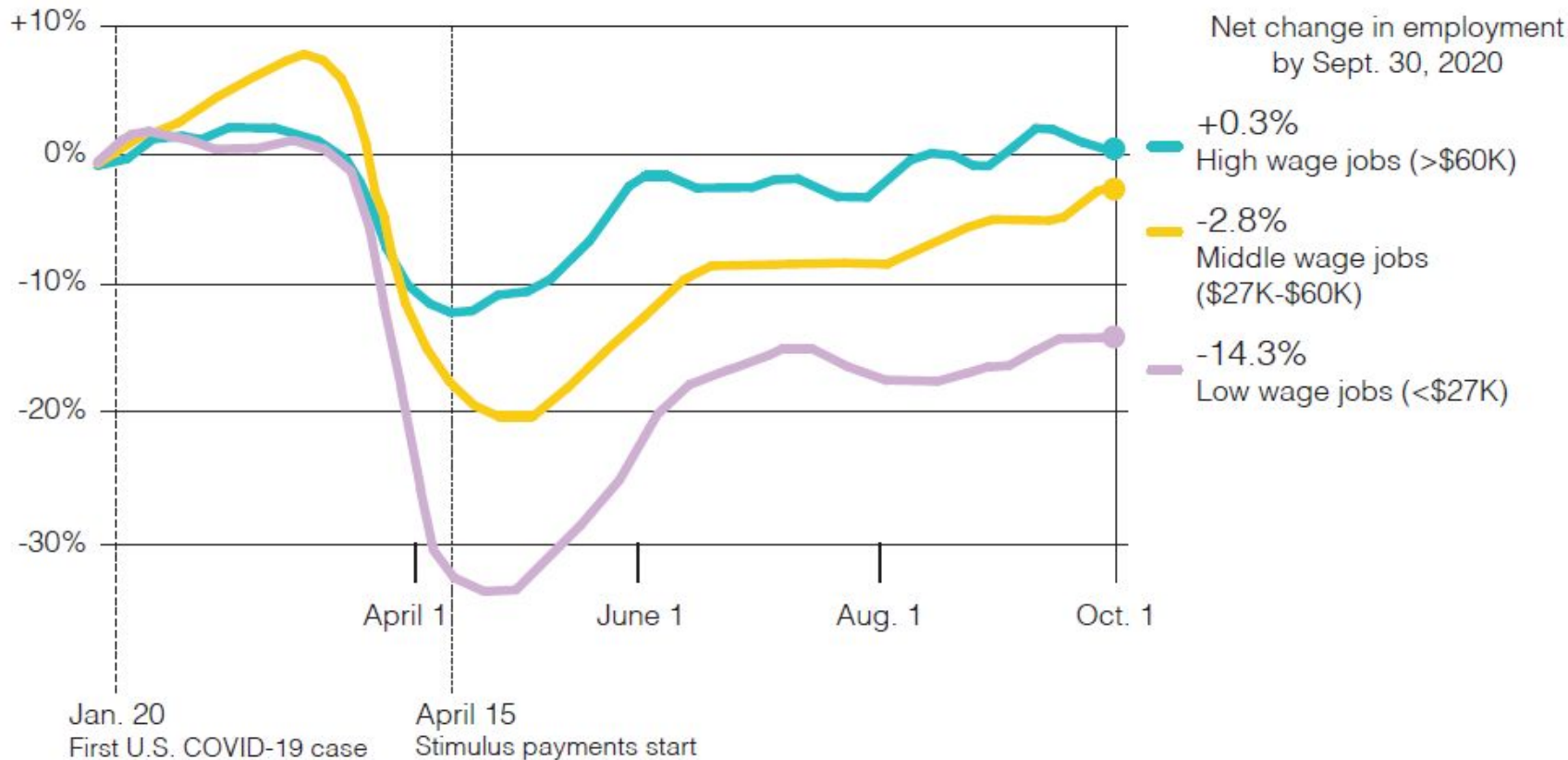


- 52% of adults with children have lost employment income.
- 40% of parents feel anxious or stressed.
- 30% fear eviction or foreclosure in the next two months.
- 34% of children are projected to be food insecure as a result of COVID-19.
- 22% of students without internet access at home



The health and economic impact of COVID-19 has been highly inequitable along lines of income and race

Low-wage workers hardest hit by COVID-19

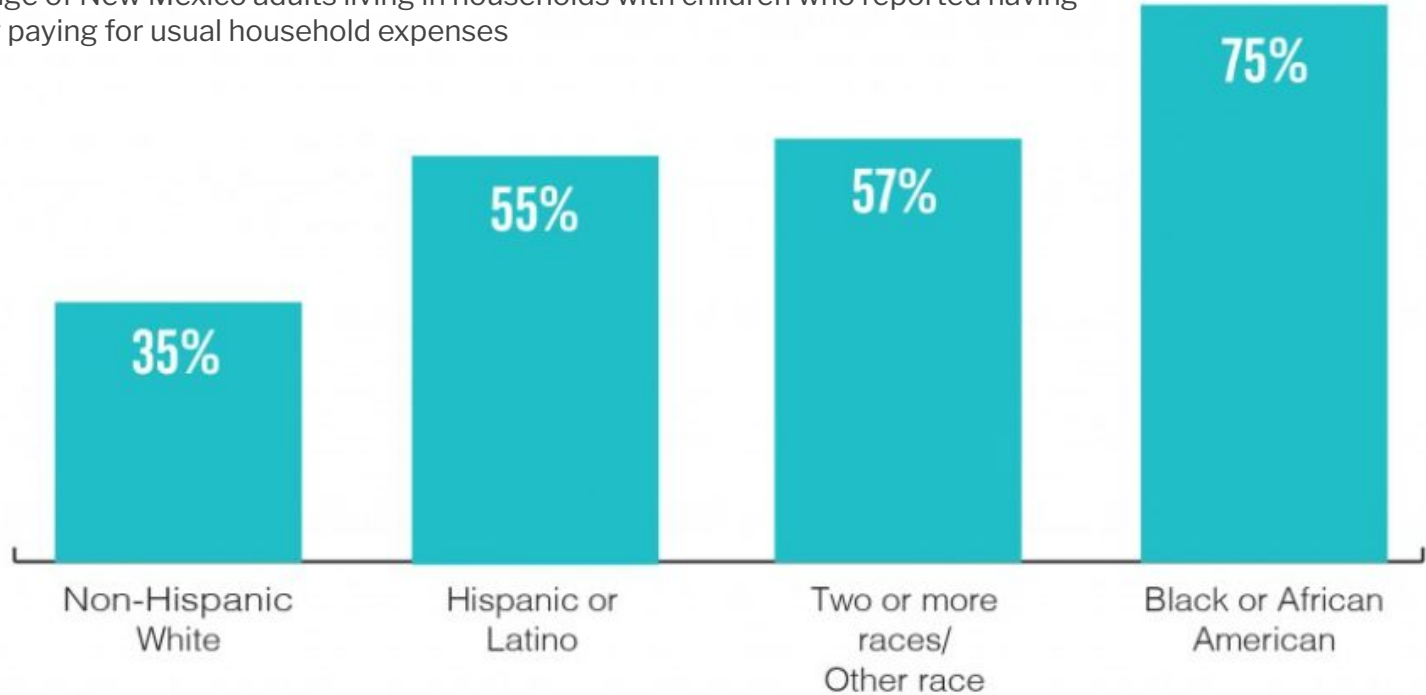


COVID-19 has disproportionately harmed people of color

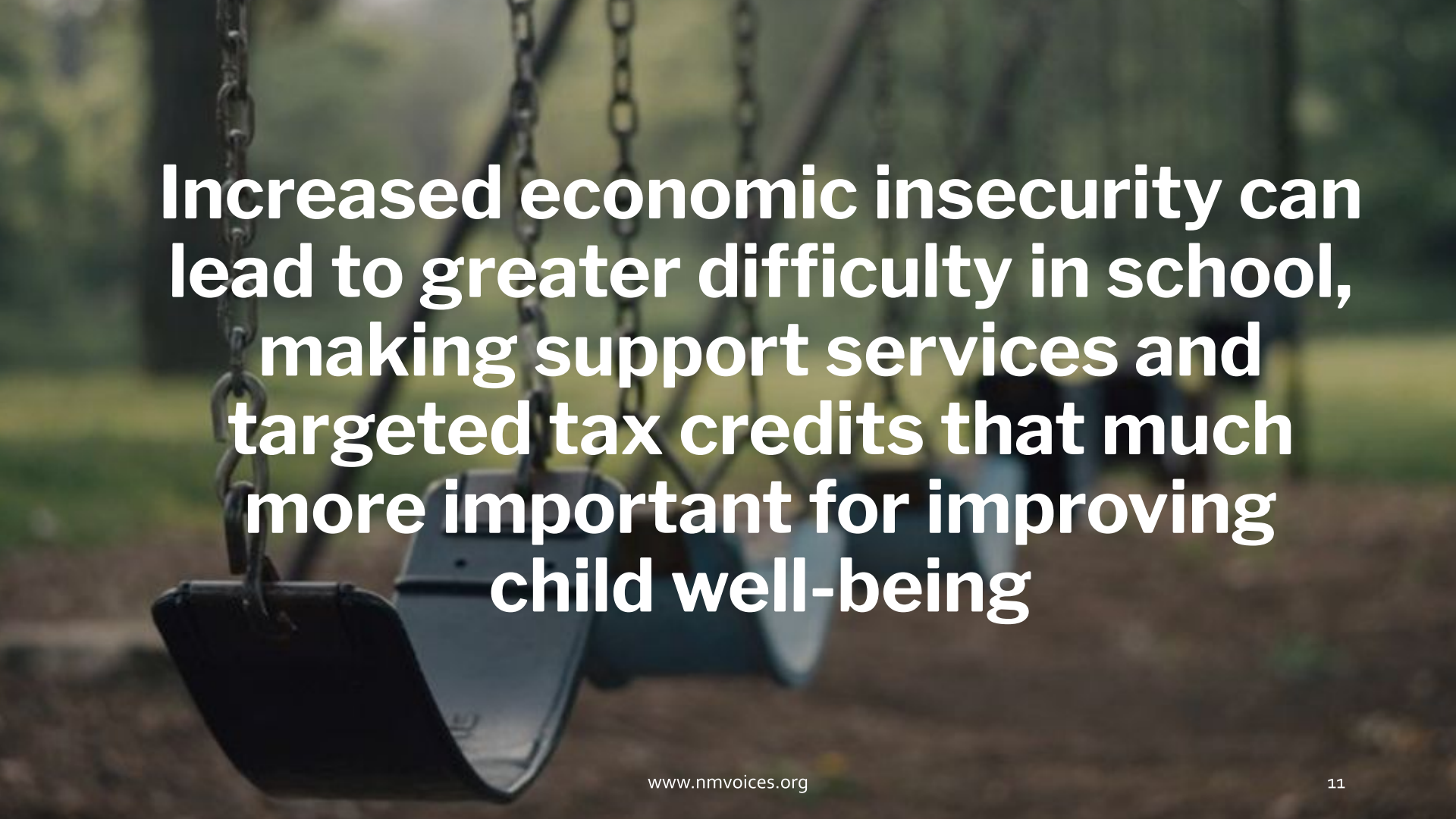
- Hispanic workers saw the steepest initial employment losses and still have the most ground to make up to reach pre-pandemic employment.
- Native Americans make up 11% of NM population, but 30% of COVID cases.
- Low-income residents of mostly *non-white* communities died of the coronavirus at *9 times the rate* of low-income residents of largely white areas.

Families of color are having a harder time affording basic necessities

Percentage of New Mexico adults living in households with children who reported having difficulty paying for usual household expenses



Source: Population Reference Bureau analysis of the U.S. Census Bureau, Household Pulse Survey, Phase 2, 2020



Increased economic insecurity can lead to greater difficulty in school, making support services and targeted tax credits that much more important for improving child well-being

Lack of revenue short-changed education funding

- 50th in the nation in educational outcomes.
- 14% cut in inflation adjusted per-pupil K-12 spending from 2008-2018.
- Near the bottom in educator pay.
- Educator and teacher shortages.
- Recommended staff ratios for student mental & behavioral health services not met.
- *Yazzie/Martinez* lawsuit that highlighted chronic underfunding and racial and ethnic disparities.


Important progress has been made the past two years to address these issues, but work remains.

Tax policy is a powerful tool that can help advance equity because it determines **who pays their fair share of taxes, who doesn't, and who benefits most** from the way the system is structured.



A photograph of four children running happily in a park with autumn foliage. The children are wearing colorful winter jackets. The text is overlaid in the center of the image.

Tax policy recommendations to support educational outcomes

A photograph of a family of three sitting on the floor. A young girl with curly hair is on the left, high-fiving a man in the center. A woman is on the right, also high-fiving the man. They are all smiling and appear to be celebrating. The background is a simple, light-colored wall.

**Improving tax credits
for families will drive
economic recovery and
support student
educational success**

The Working Families Tax Credit (WFTC)

- Claimed by 1 out of 4 filers; 200,000 NM families
- 97% of the value goes to working families with kids
- Tied to improvements in health and education outcomes
- Best measure for reducing child poverty

Recommendation

- End exclusions based on immigration status (\$5m) and age (\$2m)
- Increase the rate overall (\$16m)

Supported by 80% of NM voters

The Low-Income Comprehensive Tax Rebate (LICTR) helps those most in need

- Targeted to very low-income taxpayers (less than \$22,000)
- Benefits kids, families, and seniors who need it most
- Hasn't been updated in 22 years

Recommendation

- Index LICTR to inflation from 1998 (\$30m)
- Increase income threshold to \$36,000
- Benefit 125,000 more New Mexicans every year

Unmet education needs



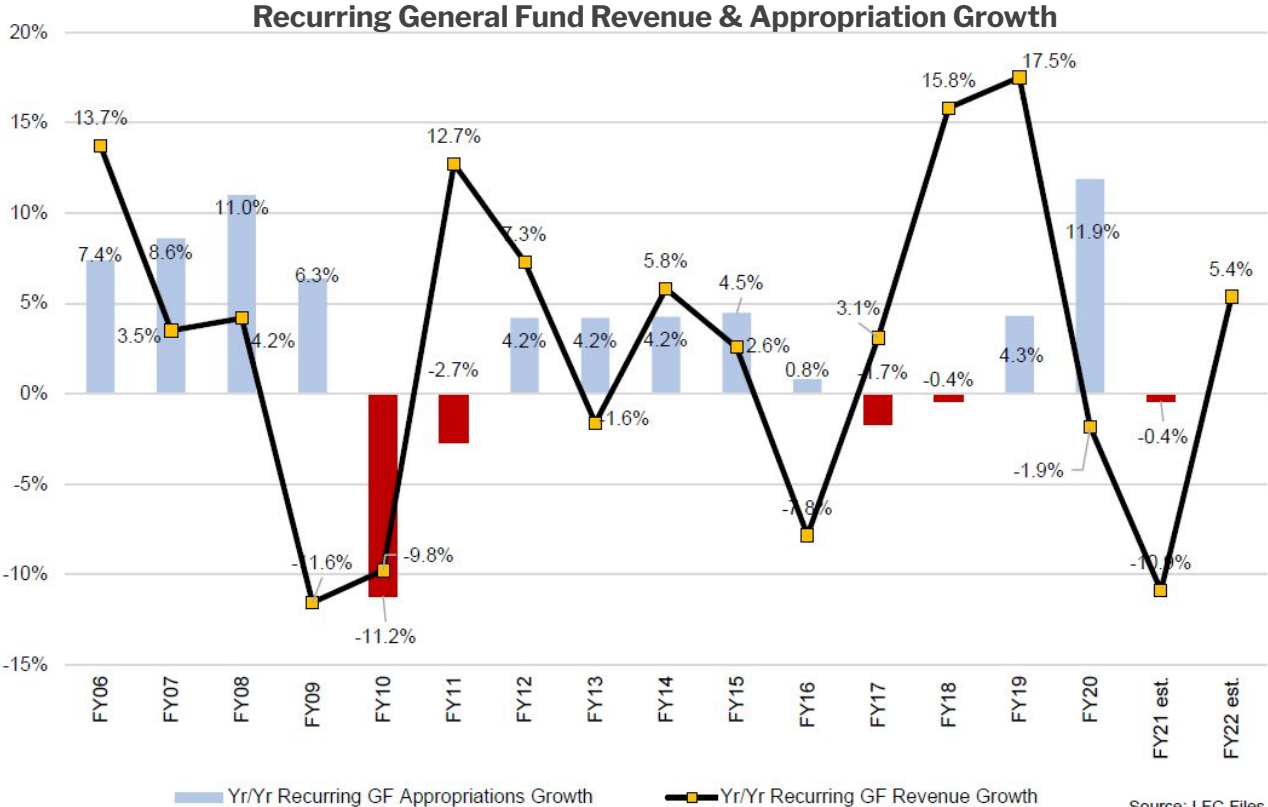
- *Yazzie/Martinez* responsibilities.
- Address school employee compensation, vacancy, and retention rates.
- Provide funding to fully implement IEA, HEA and BMEA.
- Increase support for ECE programs.
- Provide more support to Native American, low-income, and ELL students and students with special needs.
- Increase funding for school-based health centers, social services, and community schools.
- Public employees retirement system needs.

Past tax policy decisions made it harder to meet those needs

- 2003 personal income tax cuts for wealthy earners
- 2013 corporate income tax cuts for big businesses
- These tax cuts: reduced revenue, shrunk our tax base, made us over-reliant on oil and gas revenues

2019 and 2020 sessions avoided these pitfalls and began to tackle these issues.

Volatile revenues make it hard to budget sustainably



Over-reliance on oil and gas revenue limits our educational progress

- O&G revenues account for 33% of K-12 funding.
- Declines in O&G account for 70% of projected revenue loss for FY21.
- The industry is in long-term decline.

Volatility and decline put our education system at risk.

A silhouette of a person carrying a child on their shoulders, with both having their arms outstretched. They are standing in a field with mountains in the background under a sunset sky. The text is overlaid in the center.

**Stable, sustainable, and
diversified revenue builds
the foundation for a strong
education system**

Personal income tax revenues

Issues

- 2003 personal income tax cuts
 - More than \$500 million
 - Did not generate economic growth
 - Made our system more regressive and reduced revenue
- E&Y and PFM studies: NM's PIT is significantly underutilized

Revenue options

- Raise rates at high end (\$50m-\$250m)
- Tax all of high earners' income at same rate (rate recapture) (\$75m-\$100m)

Supported by 70% of NM voters

The capital gains deduction

Issues

- Income that an investor gets when selling an asset at a profit
- Overwhelmingly benefits the wealthiest taxpayers
- One of only 9 states that allows this deduction
- An unproven and costly tax giveaway

Revenue Options

- Repeal the capital gains deduction (\$30m-\$60m)

Corporate income tax revenues

Issues

- Corporations should be responsible for paying their fair share for use of NM's land, water, roads, and services
- Lower rate than national average
- Major cuts at state level in 2013 and federal level in 2017

Revenue options

- Raise rates for more profitable corporations (\$30m-\$50m)

Supported by 63% of NM voters

Other revenue options

- Land Grant Permanent Fund
- Alcohol, tobacco, and cigarette taxes
- Health Insurance Premium Tax
- Motor Vehicle Excise Tax
- Estate or inheritance taxes
- Re-examining GRT expenditures

A group of approximately 30 children are sitting in a circle on a light-colored tiled floor. In the center of the circle is a large, detailed mosaic of an eagle with its wings spread, perched on a banner that reads "CONSTITUCION". The children are dressed in various costumes, many wearing yellow shirts with a circular logo and colorful masks. Some children are waving, and one child in the foreground is making a peace sign. The overall atmosphere is joyful and communal.

We're all in this together



Thank you!

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