

Improving Poverty with Policy: *Leveraging Tax Credits Amid Federal Changes*

Revenue Stabilization & Tax Policy Committee
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**We champion public policies that
improve the well-being of New
Mexico's children, families, and
communities**



Why Tax Policy?

1. Adequate, reliable revenue is essential to support programs that matter most to kids and families
2. Tax policy is one powerful tool to advance equity and well-being in New Mexico



Agenda:

- Overview of Two Poverty Measures
- Policy Choices to Reduce Poverty by Measure
- Importance of Tax Credits and Other Investments
- Recommendations for Continuing Anti-poverty Policies



Two poverty measures provide distinct insights

- **Official Poverty Measure (OPM)**
 - Most commonly recognized measure
 - Created in the 1960s
 - Used to determine eligibility for benefit programs
- **Supplemental Poverty Measure (SPM)**
 - Less known but offers a more comprehensive and contemporary view of poverty
 - Created in 2000s
 - Used by researchers and policymakers to assess the effectiveness of income-support programs



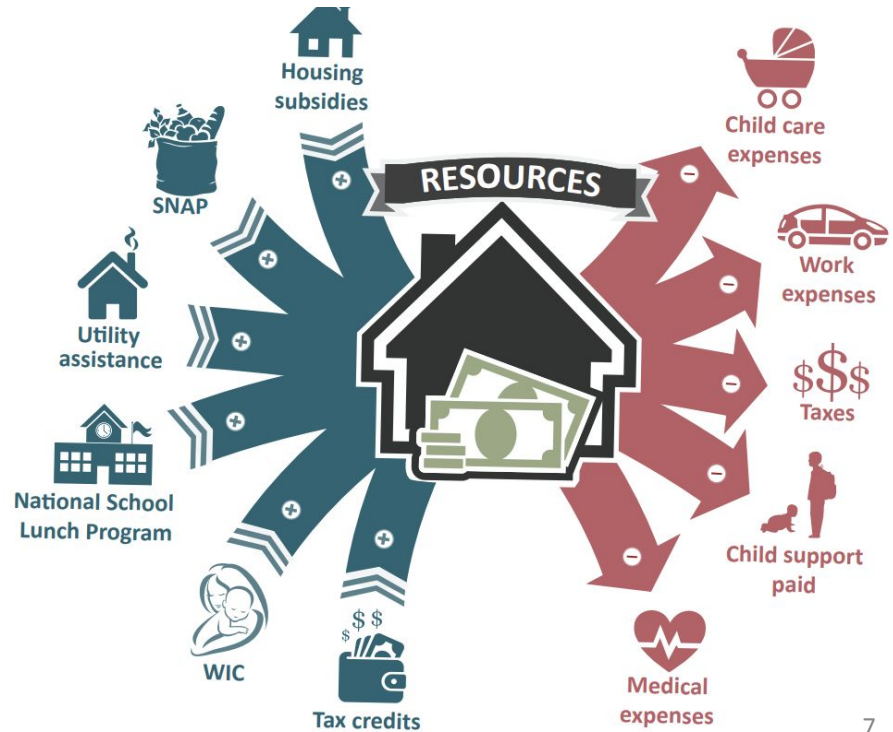
The OPM only measures money income

- Only includes pre-tax money income
 - Wages and salaries
 - Social Security benefits
 - Interest and dividends
 - Pensions and other retirement income



The SPM measures tax credits and non-cash income supports

- Shows how many households are lifted out of poverty by benefits
- Shows how many households are pushed in to poverty by expenses
- Thresholds include adjustment for geographic differences in housing costs



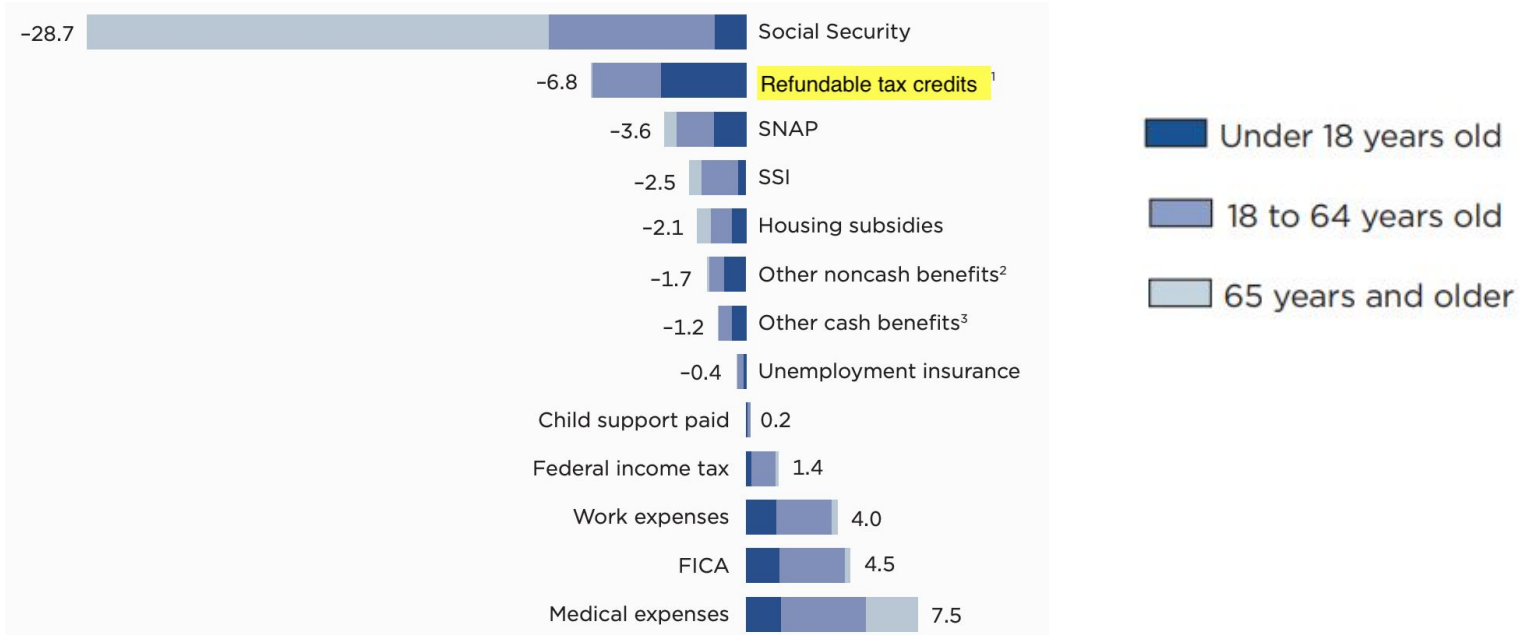
What policies move the needle for the OPM and the SPM?

- The OPM is improved by:
 - Higher wages
- The SPM is improved by:
 - Stronger tax credits
 - Improved tax fairness
 - Strong investments in income support programs
 - Low housing costs and other living expenses



National data shows the importance of refundable tax credits in reducing poverty

Change in Number of People in Supplemental Poverty After Including Each Element: 2024

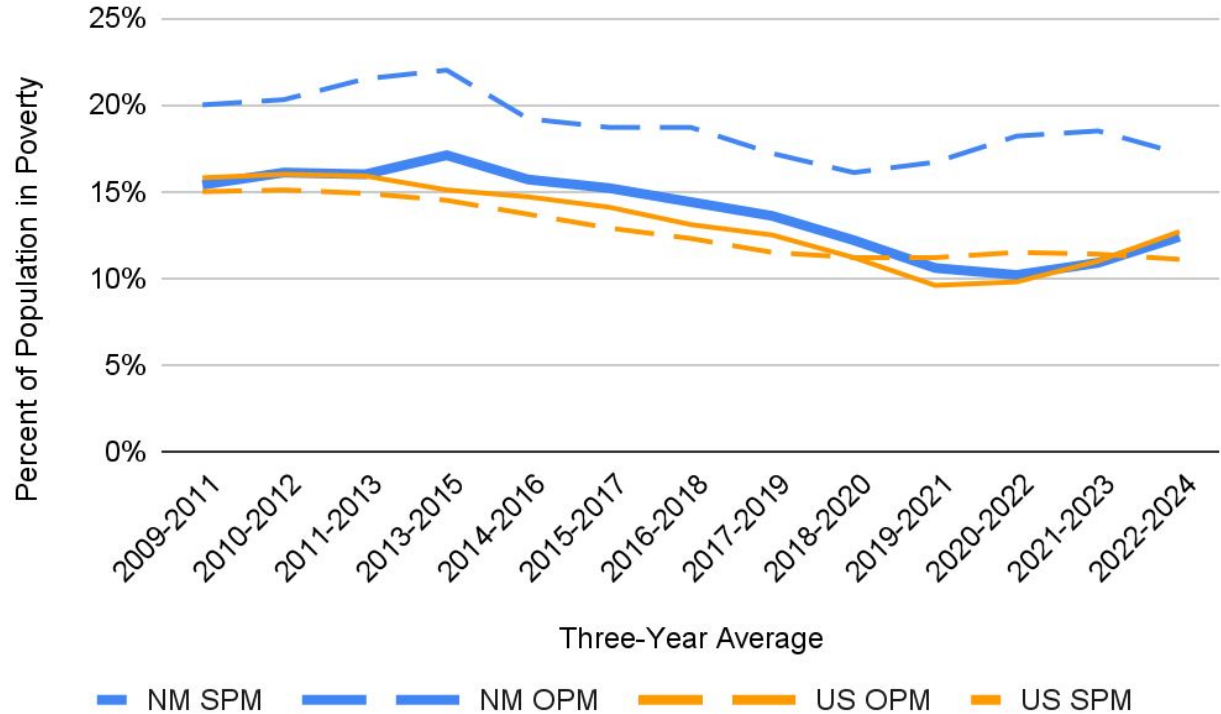


Source: U.S. Census Bureau, Current Population Survey, 2025 Annual Social and Economic Supplement (CPS ASEC)

The supplemental poverty measure shows that our policies have a large impact on poverty rates, and, most importantly, the lives of New Mexico's children



Federal and state anti-poverty policies greatly improve poverty in NM



Tax policies, in particular, play an important role in reducing poverty in the U.S. and in New Mexico



The temporary expansion of the federal Child Tax Credit resulted in the largest one-year decline in child poverty in 2021

- 454,000 children – 95% of the total – benefited from the expanded CTC, reducing child poverty by 32,000
- When the expansion expired, the inverse occurred
- Under current law, 36.5% of children in New Mexico are ineligible for the *full* federal CTC
- Our new state CTC supports the most vulnerable families in need of financial assistance



The federal Earned Income Tax Credit also improves poverty and economic security

- Expanded during the pandemic to include younger workers and seniors still in the workforce
- Together, the expanded EITC & CTC lifted an estimated 9.6M people out of poverty in 2021 compared to 6.4M in 2023
- EITC has many studied benefits, especially for families with children
 - Effectiveness of the EITC amplified as many states, like NM, have created and expanded their own credits



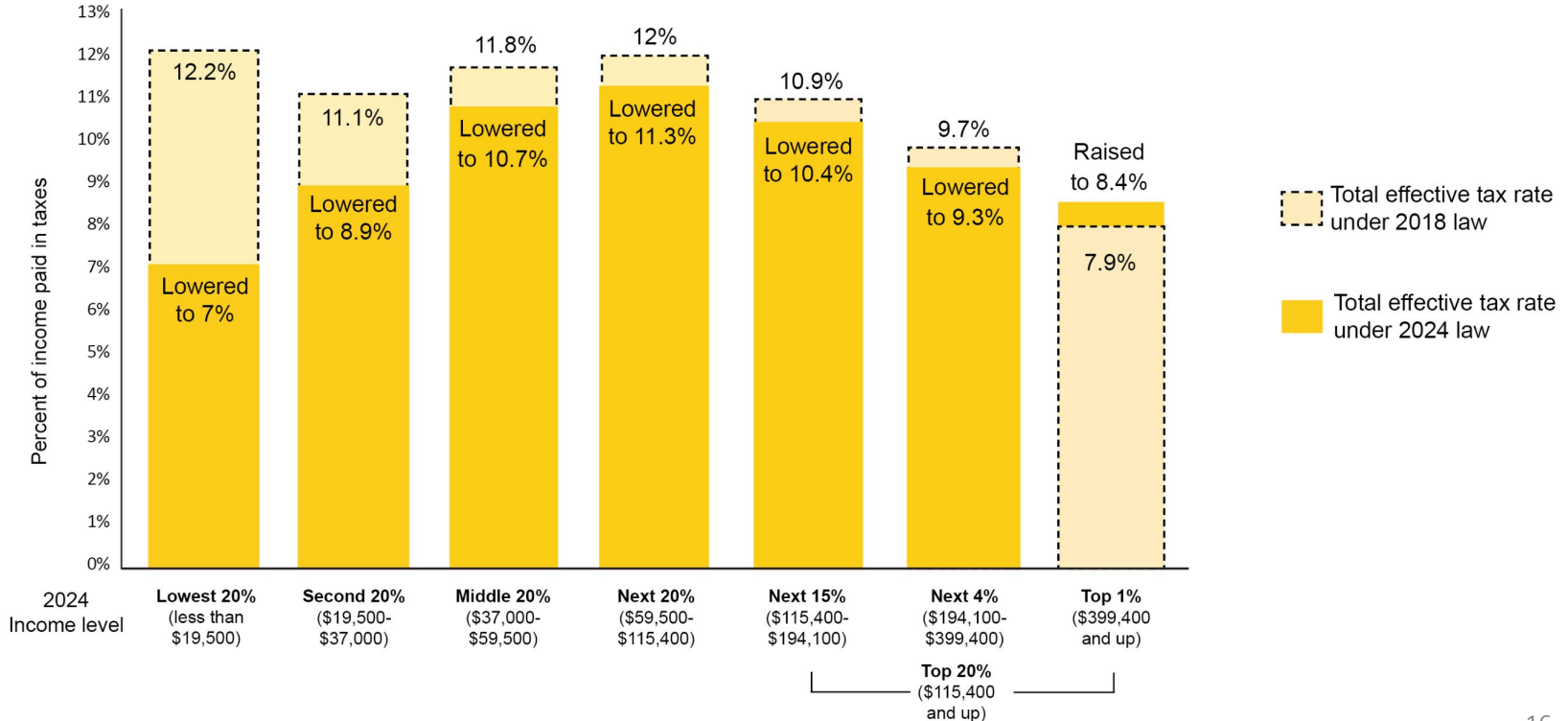
Recent state tax improvements that support families

Legislative Tax Changes (by Year)		Additional Annual Recurring Benefit to Families (in Millions)	One-time Non-recurring Benefit to Families (in Millions)
2019	Working Families Tax Credit increased (HB 6)	\$41	
	Dependent deduction created (HB 6)	\$28	
2021	LICTR increased & expanded (HB 291)	\$51	
	Working Families Tax Credit increased & expanded (HB 291)	\$49	
	Income tax rebate enacted (SB 1)		\$109
2022	Child Tax Credit created (HB 163)	\$74	
	Income tax rebate enacted (HB 163)		\$312
	Second income tax rebate enacted (HB 2; 2022 special)		\$678
2023	Child Tax Credit increased (HB 547)	\$105	
	Income tax rebate enacted (HB 547)		\$667
Totals		\$348	\$1,766

Source: New Mexico Legislative Finance Committee, 2022 and 2023

New Mexico's tax system is now the 9th most progressive in the nation

Share of family income paid in state and local taxes by income group, 2018 and 2024



Tax recommendations to improve fairness and family economic security



Amplify the impact of the CTC and WFTC by:

- **Boosting the credit amount for young children under 6**
 - Currently ranges from \$25 to \$600 per child (indexed)
 - Eight states have CTCs targeted towards young children
- **Increasing the matching percentage**
 - The WFTC is currently 25% of the federal EITC
 - 31 states offer state level EITCs, about half return more than 25%



Sustain and protect investments in non-tax credit anti-poverty policies

- Supplemental Nutrition Assistance Program (SNAP)
- National School Lunch Program and universal school meals
- Housing subsidies and support
- Other non-cash government benefits (WIC, energy assistance)
- Cash government benefits (TANF)
- Child Care Assistance
- Medicaid



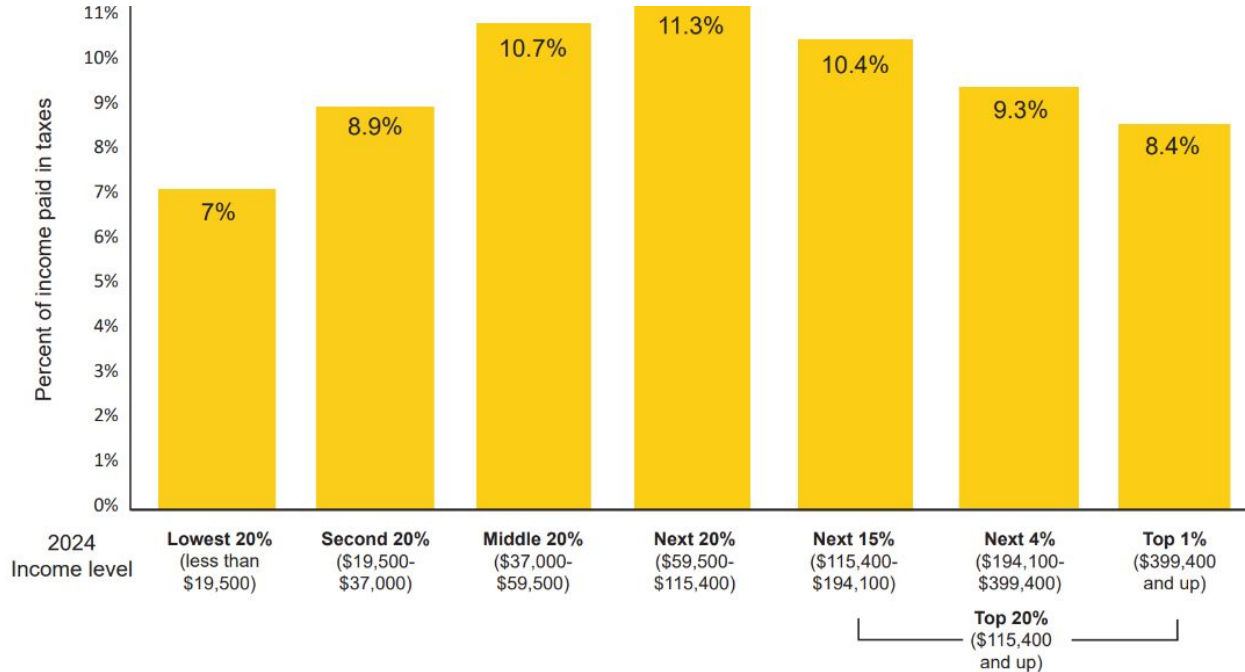
Maximize efficacy and uptake of tax credits and support programs by:

- Continuing to support new and existing initiatives that make tax filing simple, free and accessible
 - i.e. partnering with the IRS to implement the new Direct File in New Mexico
- Supporting state agencies and staff to remove existing enrollment barriers



We can do more to address lingering regressivity and raise reliable revenue

Share of family income paid in state and local taxes by income group (2024)



Tax recommendations to improve equity and build a stable, sustainable, and diversified revenue system



Options for raising fair, reliable revenue to sustain meaningful investments:

- Increase the personal income tax for high income earners
- Enact mandatory worldwide combined reporting
- Enact a real estate transfer tax
- Enact a wealth tax like an estate or inheritance tax
- Repeal or reform itemized deductions
- Increase the royalty rate on state lands
- End existing oil and gas tax subsidies



Thank you!

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