

# New Mexico Personal Income Tax

A Brief History and Review of Selected Provisions

Presented to Revenue Stabilization and Tax Policy Committee

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By

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## Purpose

To provide some historical perspective of the Personal Income Tax (PIT)

- A Simplified Overview of the PIT Structure

- Rate Tables

- Use of Broad-based Tax Rebates

- Recommendations of the Blue Ribbon Tax Commission

To review existing PIT tax expenditures that are classified as providing “citizen benefits”

- Special Provisions Based on Income

- Special Provisions Based on Age

- Other Targeted Special Provisions

To illustrate the interaction of these tax expenditures and their effect on hypothetical taxpayers

To briefly review a few expired tax provisions that continue to be relevant in current tax discussions

## A Simplified Overview of the Personal Income Tax Structure

The income tax system starts with federal adjusted gross income (AGI).

Threshold levels of adjusted gross income are provided below which no income tax applies.

This has generally been accomplished through the adoption of the federal standard deduction and personal exemption amounts. For 2018, the federal exemption amount is zero but federal standard deduction amounts were increased.

Threshold income levels by filing status for 2018 were:

Single Individuals and married filing jointly - \$12,000 – plus an additional amount if 65 or over or blind of \$1,600

Married filing joint - \$24,000 – plus an additional amount if taxpayer or spouse is 65 or over or blind of \$1,300

Head of household - \$18,000

Federal standard and itemized deductions are subtracted from AGI to arrive at federal taxable income.

Additional New Mexico exemptions and deductions from income apply to arrive at New Mexico taxable income.

For example:

The Low- and Middle-Income Exemption

Capital Gains Deductions

A progressive tax rate table is applied to specified taxable income brackets.

A progressive tax rate means that the marginal tax rate increases as taxable income increases.

The number and width of the tax brackets affect the progressivity and the income-elasticity of the tax.

Four categories of tax filers are identified and different tax rates and other provisions may apply.

Single Individuals

Married filing joint and surviving spouses

Head of household

Married filing separate

Several refundable tax credits and rebates have been enacted.

These provide benefits to taxpayers not directly tied to their personal income tax liability.

Major examples include:

The Low Income Comprehensive Tax Rebate (LICTR)

The Working Families Tax Credit

The Property Tax Credit for Persons Aged 65 or Over

Various non-refundable tax credits are allowed that may be claimed against tax liability.

These are mostly credits that apply to businesses rather than individuals.

## History of PIT rate tables

Table 1 provides a summary of the PIT rate tables since the original enactment of the tax in 1917.

Major rate restructuring affecting the number of tax brackets occurred in 1933, 1974, 1978, 1986, 2003 and 2019.

The 1974 increase in the number of brackets from 4 to 16 was the most drastic restructuring. It was reported that this provided a first-year tax decrease of about 25% by lowering the bottom rates but provided significantly more future progressivity and income elasticity of the tax.

The 2003 rate reduction and restructuring collapsed the rate table from 7 brackets down to 4 brackets, leaving the top rate applicable at the relatively low income level of \$24,000 of taxable income for married filing joint and head of household filers.

2019 legislation created one additional rate bracket of 5.9% rate for taxable income of \$315,000 for married filing joint of head of household filers. This has a contingent effective date applicable to the 2021 tax year.

In several years, tax rates and bracket amounts were adjusted, often in response to overall budget surpluses or needs.

**TABLE 1**  
**NM Personal Income Tax**  
**History of Major Rate Changes**

Year	Income Brackets (MFJ)		Rate Range	Comments
	Number	Income Range		
1919	7	\$5,000 - \$50,000	.5% - 3.0%	--
1933	4	\$10,000 - \$100,000	1% - 4%	--
1965	4	\$10,000 - \$100,000	1.5% - 6%	--
1974	16	\$2,000 - \$200,000	1.0% - 9.0%	Major rate restructuring to add progressivity
1978	19	\$2,000 - \$200,000	.8% - 9.0%	Slight bracket changes; first year rate reduction
1981	19	\$2,000 - \$200,000	.5% - 6.0%	Part of Big Mac tax cut; rates reduced by about 33%
1983	19	\$2,000 - \$200,000	.8% - 7.8%	Part of Big Max tax increase; rates increased by about 30%
1986	7	\$8,000 - \$64,000	2.4% - 8.5%	Raised tax by about 15%; major bracket restructuring
1994	7	\$8,000 - \$64,000	1.7% - 8.5%	Reduced rates mostly at low and middle brackets by about 5.6%
1998	7	\$8,000 - \$64,000	1.7% - 8.2%	Reduced top rate
2003	4	\$8,000 - \$24,000	1.7% - 4.9%	Collapsed brackets down to 4; reduced top rate over 4 years; suspended for 1 year, so 4.9% rate applied in 2008.
2019	5	\$8,000 - \$315,000	1.7% - 5.9%	Added new top bracket without restructuring; contingent upon FY20/FY19 GF recurring revenue increasing by less than 5%

## Use of Broad-based Tax Rebates and Credits

Beginning in the 1970's, the personal income tax became a vehicle to achieve public policy goals broader than just the raising revenues from the taxation of income.

The use of rebates and refundable credits provided public funds to NM residents not tied to their income tax liability.

Some were tied to specific policy goals, such as reducing the regressivity of the State and local gross receipts tax, such as:

The low income comprehensive tax rebate, enacted in 1972 and still in effect

The expired food and medical rebates

Others were tied to more general budget policy goals of providing fast and visible tax relief to New Mexicans during periods of revenue surpluses, such as:

The 1977, two-year rebate of the greater of \$30 per exemption or 30% of tax liability

Table 2 provides a brief history of the enactment and amendment or repeal of these rebates.

**TABLE 2**  
**Expired Broad-based Tax Rebates**

**Tax Rebates**

1975	Enacted medical expenses and dental rebate of greater of \$5 per exemption or 4% of expenses
1977	Provided 2 year rebate of greater of \$30 per exemption or 30% of tax liability
1979	Enacted food tax rebate of \$40 per exemption
1981	Increased food tax rebate to \$45 per exemption and medical to \$7.50 per exemption and eliminated 4% of expenses option
1987	Food and medical rebates suspended for 2 years and new rebate provided for low-income taxpayers of \$52.50 per exemption
1988	Food and medical rebates repealed and low-income rebate renamed as low-income food and medical rebate
1993	Low-income food and medical rebate repealed. (Gross receipts tax on food and most medical services continued to apply until 2004.)
2005	One year tax rebate for taxpayers with AGI up to \$60,000 of \$64 to \$289 depending on AGI and number of exemptions
2007	One year rebate for taxpayers with AGI up to \$70,000 depending on AGI, filing status and number of dependents. Maximum \$100 for taxpayer and spouse plus \$50 per dependent.



## Recommendations of the Blue Ribbon Tax Commission

The Blue Ribbon Tax Commission, created in 2003, undertook a fairly comprehensive review of PIT.

The Commission created several working subcommittees to look at specific areas of the tax code. Recommendations were brought to the full Commission for endorsement.

The Families Subcommittee was charged with undertaking a comprehensive review of PIT as it applies to families.

The Subcommittee began their work following the PIT rate reduction and capital gains deduction bill enacted in 2003

Two overall goals were endorsed by the Families Subcommittee

Providing Additional Income Tax Relief to Families

Restoring Progressivity of the Income Tax

Recommendations included

Expanding LICTR using FAIR\* concepts

Increasing personal exemption amounts at lower income levels

Phasing out the capital gains deduction for high-income taxpayers

Providing a capital gains deduction for sales of closely held businesses.

Consolidating the filing status to two categories to provide relief to single-parent families

\*FAIR is the family and individual rebate proposed by the New Mexico Voices for Children that significantly increased the income eligibility levels of LICTR and provided greater rebate amounts for families with dependents. As proposed, it was estimated to cost \$65 million.

## Existing PIT tax expenditures that are classified as providing “citizen benefits”

Table 3 provides information on existing “citizen-benefit” tax expenditures.

Nineteen separate provisions are included.

These provide approximately \$150 million of tax relief to NM tax filers.

Tax expenditures have been sorted into three categories.

Those that apply to a broad range of taxpayers that are targeted by income.

Those that apply to individuals based on age eligibility.

Those that apply to a more narrowly defined group of recipients, types of expenditures or types of income.

The effectiveness of these tax expenditures has not been comprehensively reviewed in many years.

Most have no sunset clauses or reporting and evaluation requirements.

Many have been eroded by income growth and inflation in reaching their intended goals.

Some may result in significant “cliff” effects.

The number of taxpayers claiming each provision, the cost to the State, and the average tax benefit per filer is shown in the table.

The full Commission accepted the recommendations of the subcommittee, but expanded the recommendation relating to the increase in the personal exemption amounts at lower income levels to coincide with their recommendation to maintain the gross receipts tax on food.

The final report of the Commission noted:

... the commission voted to retain the current tax treatment of food, but to provide targeted tax relief to low- and middle-income families roughly equivalent to their food tax burden through the state income tax. The proposal adopted by the commission would provide \$45 million in tax relief to about 500,000 families and individuals by raising the low income comprehensive tax rebate (LICTR) and increasing the personal exemption allowance. In addition to addressing the food tax burden, this proposal was structured to provide tax relief to those New Mexicans who did not benefit from the income tax cuts approved earlier in 2003.

In 2004, the food tax deduction was enacted.

In 2005, a scaled-back exemption for low-and middle-income families costing an estimated \$16.7 million and the consolidation of the filing status for heads of household were enacted.

**TABLE 3**  
**Personal Income Tax Expenditures Classified as Social Benefits**

Income Targeted, All Ages

Program	Section	Year Enacted & Last Amended	Type of Relief	Top Income	Basis of Income	Amount of Tax Relief	Other Eligibility Require.	No. of Claims*	Cost (000'S)*	Ave. Tax Reduction
LICTR	7-2-14	1972, 1994	Rebate	\$22,000	MGI, No. of Exemptions up to 6. Persons 65 or over get an additional exemption	\$450 - \$10	NM Resident	228,735	\$21,675	\$94.76
Working Families	7-2-18.15	2007,18	Credit; Refundable	\$15,720 single \$54,884 mfj; indexed	AGI, total earned income plus no more than \$3,500 investment income	10% of \$2 - \$6431 = 0 to \$643. 17% for 2019.	Federal eligibility for earned income credit	206,014	\$51,171	\$248.39
Low- and middle-income taxpayers exemption	7-2-5.8	2005, 07	Exemption	\$36,667 single \$55,000 mfj	AGI	\$2,500 per federal exemption, reduced by a factor; max. tax reduction = \$122.50 per exemption		556,165	\$8,307	\$14.94
Child day care expenses to prevent indigency	7-2-18.1	1981, 2015	Credit; refundable	Not to exceed 2 x federal minimum wage (\$30,160)	MGI	40% of amount paid, not to exceed \$480 per dependent or \$1,200 in total. Must be reduced by amount of any federal credit.	Must be gainfully employed and obtain certificate from caregiver	1,367	\$523	\$382.59

\*Number of claims and cost from 2017 TRD Tax Expenditure Report

Income Targeted, All Ages (continued)

Program	Section	Year Enacted & Last Amended	Type of Relief	Top Income	Basis of Income	Amount of Tax Relief	Other Eligibility Require.	No. of Claims	Cost (000'S)	Ave. Tax Reduction
Low-income property tax rebate, county option	7-2-14.3	1994, 2003	Rebate	\$24,000	MGI	35% - 75% of property tax liability, up to \$350	Santa Fe and Los Alamos have adopted	1,782	0 to State \$545 to counties	\$305.84

Age-Targeted

Program	Section	Year Enacted & Last Amended	Type of Relief	Age	Income Eligibility	Amount of Tax Relief	Other Eligibility Require.	No. of Claims	Cost (000'S)	Ave. Tax Reduction
Partial income exemption for 65 or over or blind	7-2-5.2	1985, 87	Exemption	65 or over	AGI of \$25,500 Single 51,000 MFJ	\$8,000 - \$1,000 = maximum of \$392 in tax reduction	Includes persons who are blind	97,225	\$983	\$10.11
Full income exemption for 100 or over	7-2-5.7	2002	Exemption	100 or over	none	full amount of income times tax rates		111	\$2.7	\$24.32
Partial property tax credit	7-2-18	1977, 2003	Rebate	65 or over	\$16,000 MGI for State, but up to \$25,000 if county agrees to additional credit	up to \$250	NM Resident	16,552	\$3,374	\$203.84
Exemption for unreimbursed medical care expenses	7-2-5.9	2005	Exemption	65 or over	none	\$3,000 = maximum of \$147 in tax reduction	Expenses must exceed \$28,000	2,492	\$102	\$40.93
Credit for unreimbursed medical care expenses	7-2-18.13	2005	Credit, refundable	65 or over	none	\$2,800	Expenses must exceed \$28,000	2,253	\$6,294	\$2,793.61

\*Number of claims and cost from 2017 TRD Tax Expenditure Report

Other Targeted Recipients, Types of Expenditures or Type of Income

Program	Section	Year Enacted & Last Amended	Type of Relief	Eligibility Criteria	Income Eligibility	Amount of Tax Relief	Other Eligibility Require.	No. of Claims	Cost (000'S)	Ave. Tax Reduction
Dependent deduction to offset federal tax reform	Laws of 2019	2019	Deduction	federal dependents of more than 1	none	\$4,000 per dependent times marginal tax rate = maximum of \$196 per dependent		n.a.	\$23,000 (FIR 2019)	n.a.
Capital gains deduction	7-2-34	1999 (\$1,000), 2003 50% (phased in), 2019 40%	Deduction		none	greater of \$1,000 or 50% of capital gains times marginal tax rate		79,195 (FY15 - 106,780)	\$22,580 (FY 15 = \$47,087)	\$285.12 (FY 15 = \$440.97)
Unreimbursed medical care expenses	7-2-37	2000 with contingency; 2015	Deduction with 2025 sunset	Not reimbursed; includes dental, long-term care and insurance	none	25% to 10% of expenses, based on AGI times marginal tax rate	Heads of household treated differently from MFJ on phase-out	299,686	\$3,020	\$10.08
Medical care savings accounts	7-2-5.6	1995	Exemption	Interest earned and money reimbursed for medical savings accounts	none	full amount times marginal tax rate	Not deductible if amount are excluded or deducted to determine taxable income	1,164	\$49	\$42.10
Adoption of special needs child	7-2-18.16	2007	Credit, refundable	Adopted special needs child as dependent	none	\$1,000 per year child is a dependent	Certified by CYFD	925	\$1,676	\$1,811.89

Other Targeted Recipients, Types of Expenditures or Type of Income (continued)

Program	Section	Year Enacted & Amended	Type of Relief	Eligibility Criteria	Income Eligibility	Amount of Tax Relief	Other Eligibility Require.	No. of Claims	Cost (000'S)	Ave. Tax Reduction
National guard premiums for group life insurance	7-2-5.10	2006	Exemption	none	none	Amount of reimbursement from service members' life insurance fund times marginal tax rate		1,196	\$6.6	\$5.52
Armed forces salaries exemption	7-2-5.11	2007	Exemption	Active duty service in the armed forces of the US	none	Amount of salary times marginal tax rate		11,315	\$1,815.0	\$160.41
Expenses related to organ donation	7-2-36	2005	Deduction	Expenses including lost wages, travel, etc.	none	up to \$10,000 = maximum of \$490 tax reduction		68	\$2.6	\$38.24
Educational trust fund payments	7-2-32	1997	Deduction		none	full amount times marginal tax rate		4,090	\$1,003	\$245.23
Preservation of Cultural Property	7-2-18.2 2A-8.6	7- 1984, 2007	Credit, non-refundable	Expenses of rehabilitating property on NM register	none	50% of cost up to \$25,000 or \$50,000 if property is in an arts and cultural district		63 (PIT & CIT)	\$180	\$2,857.14
Total									\$145,764	

\*Number of claims and cost from 2017 TRD Tax Expenditure Report

## The Effect of Certain Provisions on Hypothetical Taxpayers

Table 5 provides a few examples illustrating the effect of certain of the tax expenditure provisions on hypothetical taxpayers at relatively low- or moderate- income levels.

Calculations of net tax liability under different income scenarios illustrate the potential effect of income growth on the increase in tax liability or the reduction in tax rebates.

The calculations are not extensive enough to draw any broad conclusions. However, they do suggest that further study of the interaction of the various provisions may be warranted.



**TABLE 4**  
**New Mexico Income Tax Liability of Hypothetical Filers**  
**Under Different Income Scenarios**  
**Tax Year 2018**

Single Individual, Aged 65 or Over

Income	Low		Low to Middle	
	Scenario A	Scenario B	Scenario A	Scenario B
Wages	-	-	-	24,000
Social Security	12,000	12,600	12,000	12,250
Interest	50	50	50	50
<b>Total Income (MGI)</b>	<b>12,050</b>	<b>12,650</b>	<b>12,050</b>	<b>36,300</b>
<b>Federal AGI</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>30,175</b>
Standard deduction	(13,600)	(13,600)	(13,600)	(13,600)
NM low and middle income exemption	(2,500)	(2,500)	(2,500)	(974)
Exemption for 65 or over or blind	(8,000)	(8,000)	(8,000)	-
Deduction for unreimbursed medical care	(200)	(200)	(200)	(120)
<b>NM taxable income (negative number = 0)</b>	<b>(24,250)</b>	<b>(24,250)</b>	<b>(24,250)</b>	<b>15,481</b>
<b>NM tax due</b>	-	-	-	<b>479</b>
Rebates and Credits				
Working families tax credit	-	-	-	-
LICTR	(65)	(65)	(65)	-
Low income property tax rebate for >65*	(250)	(250)	(250)	-
Dependent day care credit	-	-	-	-
<b>Net tax (rebate)</b>	<b>(315)</b>	<b>(315)</b>	<b>(315)</b>	<b>479</b>
Change in Tax and Reduction in Rebates		-		794
Change in Total Income		600		24,250
<b>Tax Rate on Additional Income</b>		<b>0.0%</b>		<b>3.3%</b>

\*Assumes property tax = \$660 or 75% of median for 2018

**TABLE 4**  
**New Mexico Income Tax Liability of Hypothetical Filers**  
**Under Different Income Scenarios**  
**Tax Year 2018**

Head of Household, Two Dependents

Income	Low		Lower-Middle	
	Scenario A	Scenario B	Scenario A	Scenario B
Wages	16,000	18,000	18,000	34,000
Social Security	-	-	-	-
Interest	50	50	50	100
<b>Total Income (MGI)</b>	<b>16,050</b>	<b>18,050</b>	<b>18,050</b>	<b>34,100</b>
<b>Federal AGI</b>	<b>16,050</b>	<b>18,050</b>	<b>18,050</b>	<b>34,100</b>
Standard deduction	(18,000)	(18,000)	(18,000)	(18,000)
NM low and middle income exemption	(7,500)	(7,500)	(7,500)	(7,090)
Exemption for 65 or over or blind	n.a.	n.a.	n.a.	n.a.
Deduction for unreimbursed medical care	(200)	(200)	(200)	(120)
<b>NM taxable income (negative number = 0)</b>	<b>(9,650)</b>	<b>(7,650)</b>	<b>(7,650)</b>	<b>8,890</b>
<b>NM tax due</b>	-	-	-	<b>163</b>
Rebates and Credits				
Working families tax credit	(571)	(571)	(571)	(247)
LICTR	(65)	(50)	-	-
Low income property tax rebate for >65	n.a.	n.a.	n.a.	n.a.
Dependent day care credit	(960)	(960)	(960)	-
<b>Net tax (rebate)</b>	<b>(1,596)</b>	<b>(1,581)</b>	<b>(1,531)</b>	<b>(84)</b>
Change in Tax or Reduction in Rebates		15		1,447
Change in Total Income		2,000		16,050
<b>Tax Rate on Additional Income</b>		<b>0.8%</b>		<b>9.0%</b>

**TABLE 4**  
**New Mexico Income Tax Liability of Hypothetical Filers**  
**Under Different Income Scenarios**  
**Tax Year 2018**

Married Filing Joint, Two Dependents

Income	Low		Lower-Middle	
	Scenario A	Scenario B	Scenario A	Scenario B
Wages	18,000	22,000	29,500	45,000
Social Security	-	-	-	-
Interest	50	50	100	100
<b>Total Income (MGI)</b>	<b>18,050</b>	<b>22,050</b>	<b>29,600</b>	<b>45,100</b>
<b>Federal AGI</b>	<b>18,050</b>	<b>22,050</b>	<b>29,600</b>	<b>45,100</b>
Standard deduction	(24,000)	(24,000)	(24,000)	(24,000)
NM low and middle income exemption	(10,000)	(10,000)	<b>(10,000)</b>	<b>(8,490)</b>
Exemption for 65 or over or blind	-	-	-	-
Deduction for unreimbursed medical care	(300)	(300)	(500)	(300)
<b>NM taxable income (negative number = 0)</b>	<b>(16,250)</b>	<b>(12,250)</b>	<b>(4,900)</b>	<b>12,310</b>
<b>NM tax due</b>	-	-	-	<b>291</b>
Rebates and Credits				
Working families tax credit	(571)	(500)	(460)	(134)
LICTR	(60)	-	-	-
Low income property tax rebate for >65	n.a.	n.a.	n.a.	n.a.
Dependent day care credit	(960)	(960)	(400)	*
<b>Net tax (rebate)</b>	<b>(1,591)</b>	<b>(1,460)</b>	<b>(860)</b>	<b>157</b>
Change in Tax or Reduction in Rebates		131		1,017
Change in Total Income		4,000		15,500
<b>Tax Rate on Additional Income</b>		<b>3.3%</b>		<b>6.6%</b>

\* May be eligible for federal credit.

## Selected Expired Personal Income Tax Provisions

Table 5 provides information on tax exemptions for certain types of retirement income and for solar tax credits.

These have been included because they continue to be relevant in current tax discussions

The exemptions for certain types of retirement income ran into legal challenges and equity issues that eventually resulted in the repeal of all of the specific exemptions in 1990. A general exemption of up to \$8,000 in income for all low-income filers aged 65 or over was retained.

Refundable solar tax credits were first enacted in 1975 and by 1986 their costs had risen significantly. In 1986, a 3- year sunset date was added and in 1990 they were repealed. In 2006, new solar tax credits were enacted with a 10-year sunset date and with a \$5 million annual budget cap. These have currently expired, but legislation to re-enact them continues to be introduced.

**TABLE 5**  
**Selected Expired Personal Income Tax Provisions**

**Retirement Income Deductions and Exemptions**

Pre-1967	Full exemption for PERA and ERB "annuities" provided in their statutes.
1967	Enacted \$3,000 exemption for annuities to federal civil service employees.
1979	Enacted \$3,000 deduction for military retirement pay for retirees age 62 or over.
1981	Enacted \$6,000 deduction for all filers age 65 or over, not tied to "retirement" income.
1984	Removed age restriction for military retirement deduction. Provided deduction for social security income taxable under federal law.
1985	Phased-out \$6,000 deduction for all filers age 65 or over by AGI.
1987	\$6,000 deduction increased by \$2,000 and extended to blind individuals to offset federal tax change of eliminating additional deduction for these taxpayers.
1990	Repealed exemptions and deductions for social security income, federal military and civil service retirement and for PERA, ERA and Judicial pensions. This followed Federal and State legal rulings invalidating provisions based on differential treatment of federal retirees compared to state, local and public education retirees.* State paid out \$23 million in refunds to federal retirees.
1991	Paper prepared by TRD and submitted to RSTP in response to Senate Memorial 105 on "Retiree Pension Income Tax Exemption"

\* Federal case was Davis vs. Michigan, 1989. State case was Burns vs. New Mexico, 1989.

**TABLE 5**  
**Selected Expired Personal Income Tax Provisions (cont.)**

**Solar Tax Credits**

1975	Solar tax credit of 25% of cost specified solar installation system up to \$1,000.
1977	Solar irrigation tax credit of 100% of irrigation systems cost up to \$25,000.
1983	Restricted solar irrigation tax credit to 25% of costs.
1986	In response to rapidly rising credit payouts, solar credit restricted to 3 additional years with amounts phased down by year.
1990	Solar tax credit and solar irrigation credit repealed.
2006	Enacted solar market development tax credit where state plus federal amount of cost could not exceed 30% of cost, up to \$9,000 state credit. Credit allowed for 10 years, through 2015. Annual State payout capped at \$2 million for solar thermal systems and \$3 million for photovoltaic systems.
2009	Credit extended for a year, through 2016. State amount changed to 10% to reflect change in federal law.
2016 - 2019	Various bills to reinstate and modify the credit, including SB 79 of 2018 that passed but was pocket-vetoed.