

Overview of Who Pays: A Distributional Analysis of New Mexico's Tax System

Presented to the New Mexico Revenue Stabilization
and Tax Policy Committee

August 11, 2022

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About ITEP

The Institute on Taxation and Economic Policy (ITEP)

- Non-profit, non-partisan research organization
- Federal, state, and local tax policy issues

Mission:

- Ensure elected officials, media, and general public have access to accurate, timely, and straightforward information that allows them to understand the effects of current and proposed tax policies with an emphasis on tax incidence analysis.

Tax Incidence Analysis

Provides answers to two vital policy questions:

- Cost (or yield) of proposed tax changes
- Impact of tax changes on families at different income levels

Also gives baseline estimates of how fair (or unfair) the current tax system is.

Basic good government. Don't make financial choices without assessing impact. Whatever vision of fairness you implement, it's better to do it on purpose than by accident.

Several states produce regular tax incidence analyses

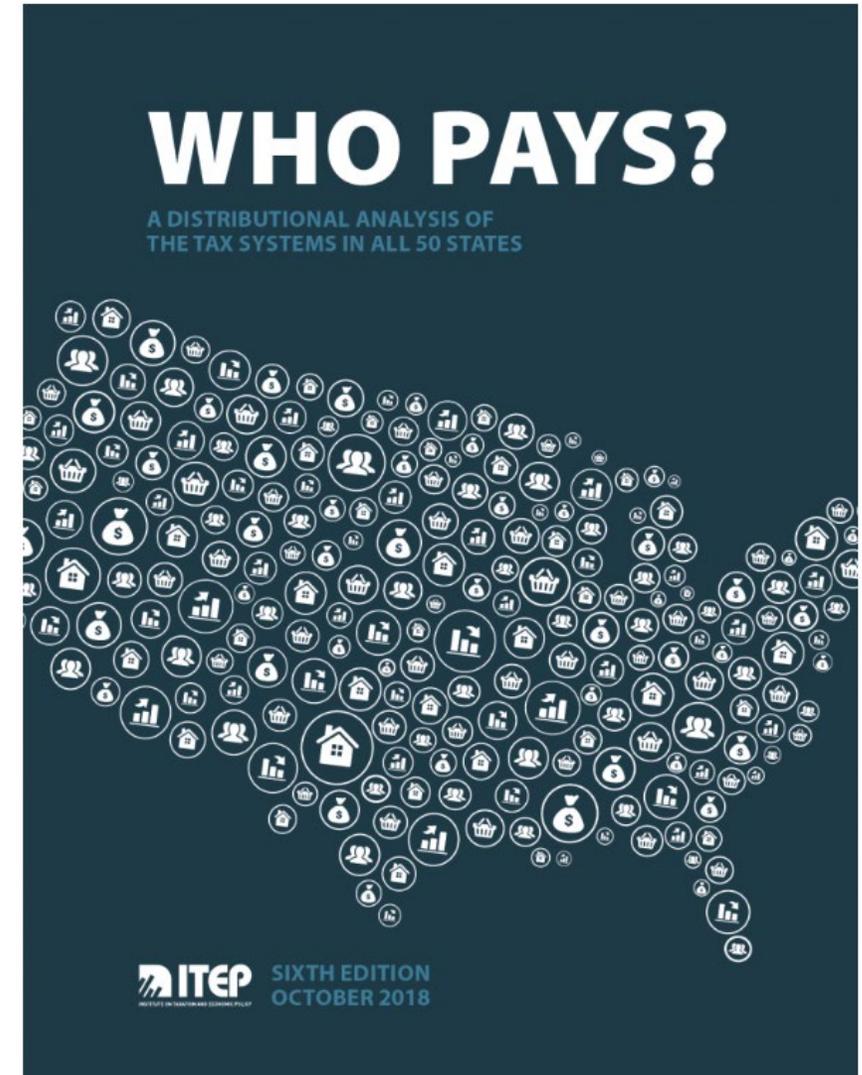
- **Colorado** Department of Revenue
- **Connecticut** Department of Revenue Services
- Comptroller of **Maryland**
- **Maine** Revenue Services
- **Minnesota** Department of Revenue
- **Texas** Comptroller of Public Accounts

ITEP Microsimulation Tax Model

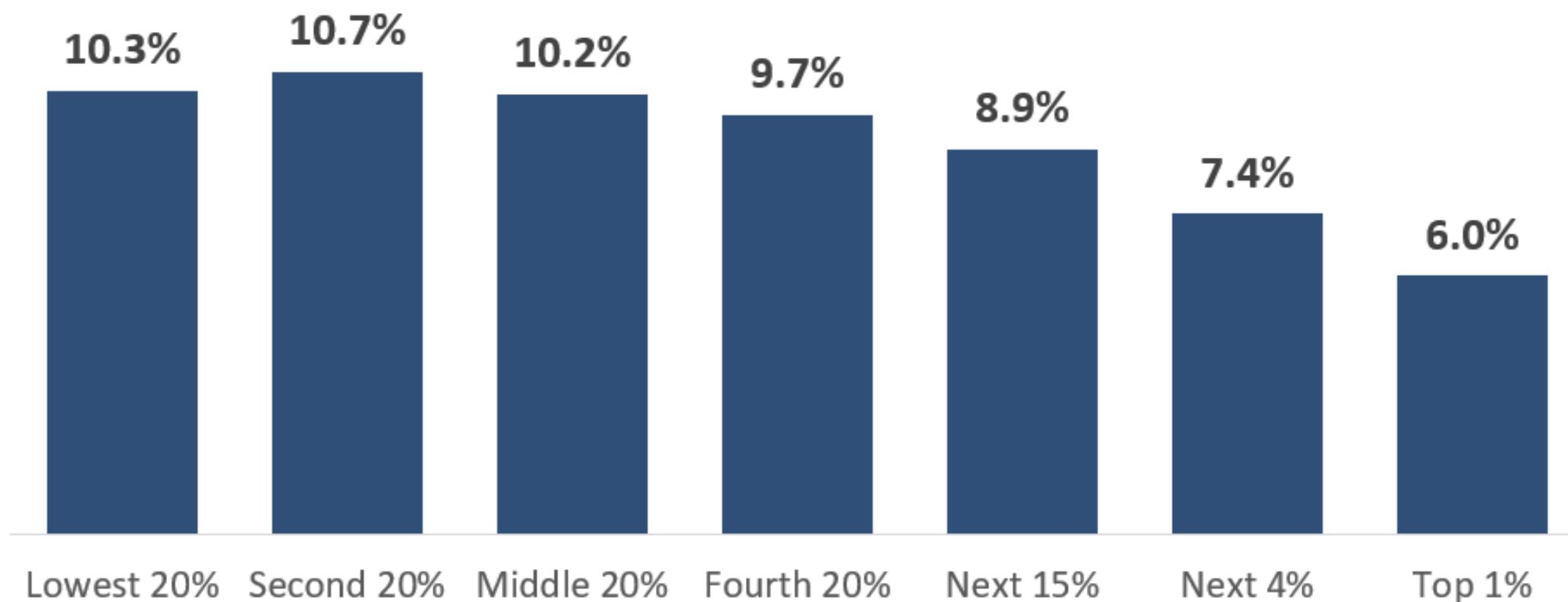
- Economic incidence model
- Similar to tools used by various federal and state agencies
- Includes data for all 50 states, plus DC
- Four modules: personal income tax, property tax, consumption tax, business tax
- Data from IRS, Census, BLS, state tax departments, CBO, JCT, etc.

ITEP's *Who Pays?* study

- First published in 1996 and updated most recently in 2018
- Produced using the ITEP Microsimulation Tax Model
- Results for 50 states + DC
- Includes major tax types (income, consumption, and property)
- Finds that state and local taxes are usually regressive

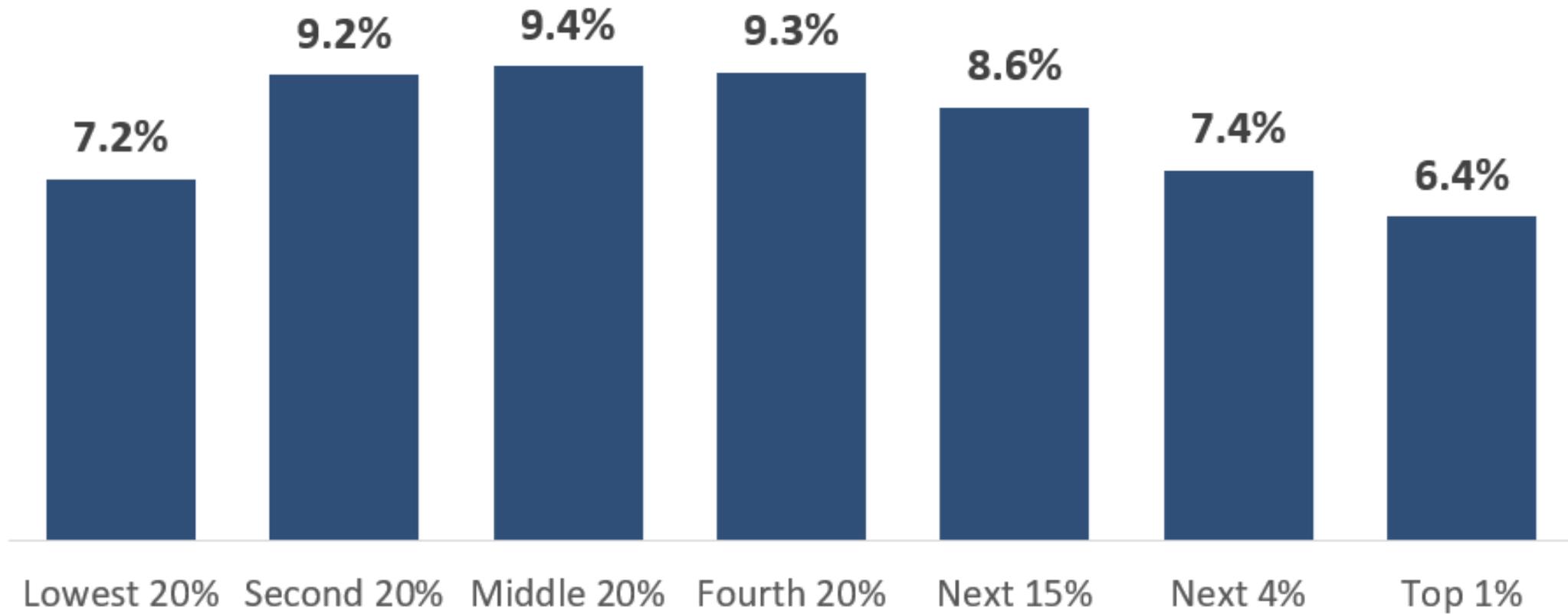


State and Local Taxes in New Mexico as a Share of Family Income Reflecting Laws Enacted through 2018



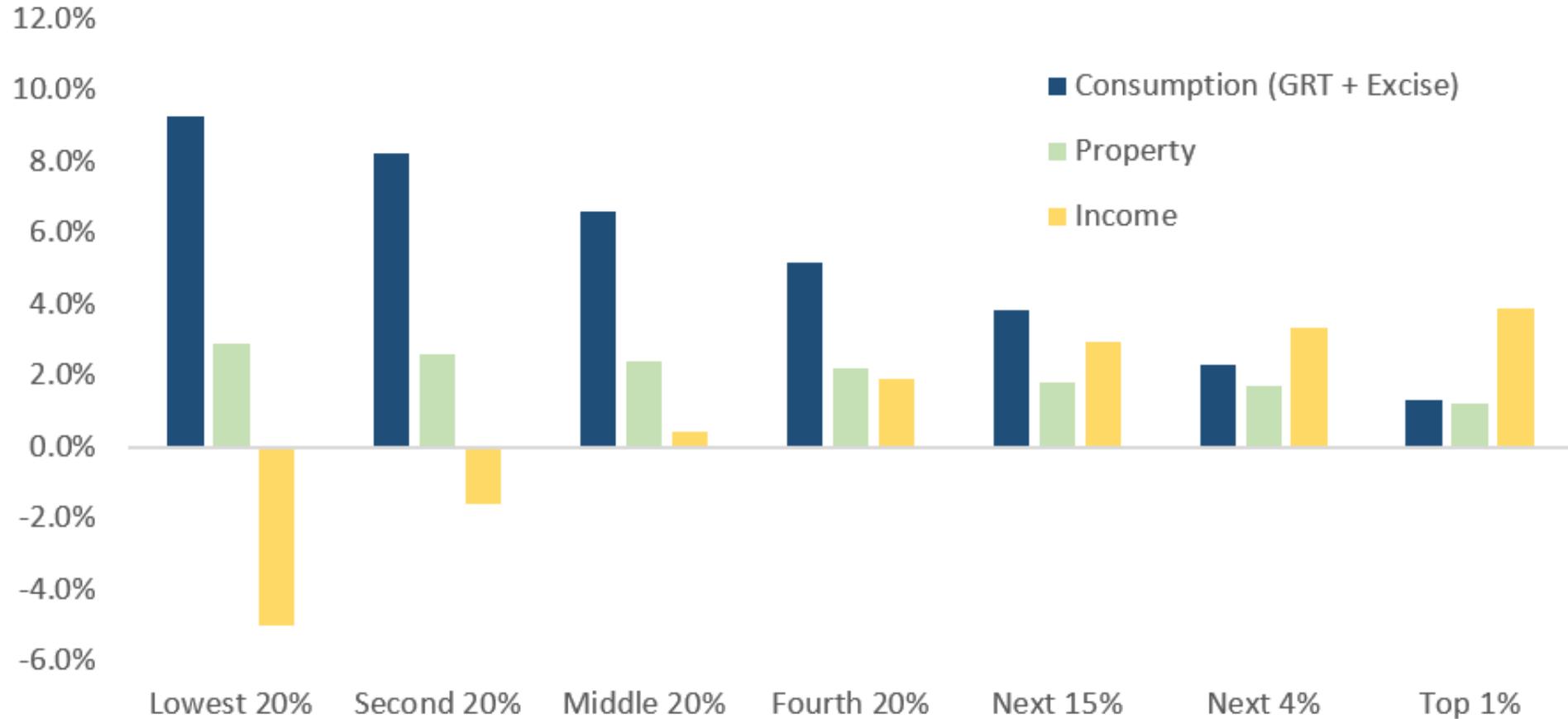
Source: Institute on Taxation and Economic Policy, August 2022 update to *Who Pays?*, 6th Edition

State and Local Taxes in New Mexico as a Share of Family Income Reflecting Laws Enacted through August 2022



Source: Institute on Taxation and Economic Policy, August 2022

State and Local Taxes in New Mexico as a Share of Family Income, by Tax Category Reflecting Laws Enacted through August 2022



Source: Institute on Taxation and Economic Policy, August 2022

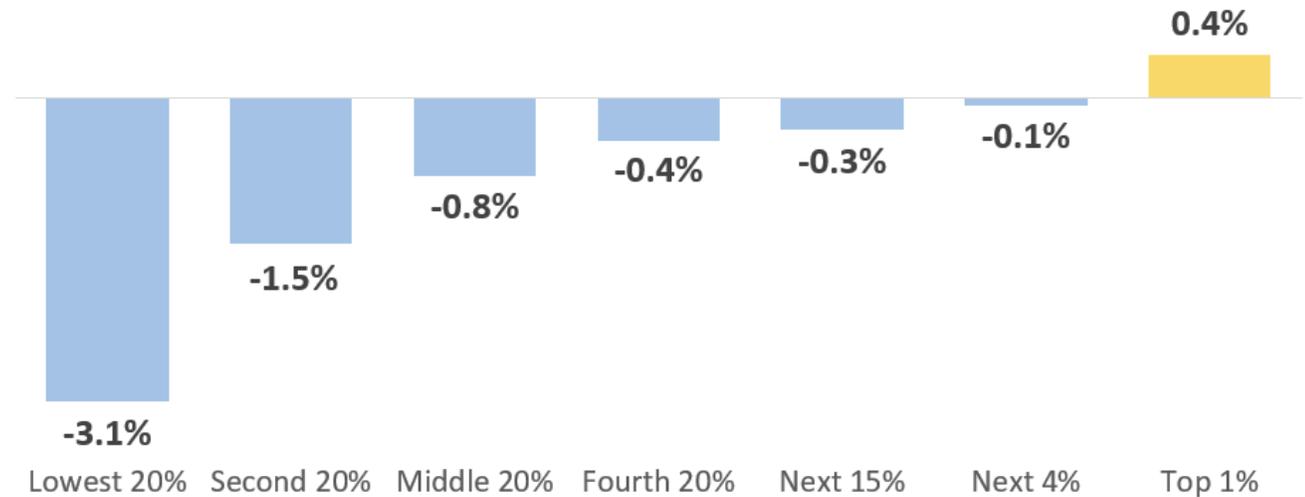
What Changed? (2019-2022)

- Expanded WFTC
- Expanded LICTR
- Created CTC
- Created dependent deduction
- Reduced GRT
- Exempted some Social Security

- Increased tobacco taxes
- Increased top income tax rate
- Reduced capital gains deduction

- New cannabis tax (not shown)
- Nonrecurring tax rebates (not shown)

Impact of 2019-2022 Law Changes on New Mexico Taxes
Tax Change as a Share of Family Income



Source: Institute on Taxation and Economic Policy, August 2022

2022 Changes to CTCs and EITCs

Hover over states for details.

Child Tax Credit Earned Income Tax Credit Child Tax Credit + Earned Income Tax Credit



Source: Institute on Taxation and Economic Policy, July 2022

Some Options for Addressing Lingering Regressivity in Top Half of the Income Distribution

1. Income tax bracket reform
2. Changes in capital gains taxation
3. Itemized deduction reform
4. Estate and inheritance taxation
5. Progressive property tax and transfer tax options

2022 New Mexico Income Tax Brackets

	Single	Married
1.7%	\$0 - \$5,500	\$0 - \$8,000
3.2%	\$5,500 - \$11,000	\$8,000 - \$16,000
4.7%	\$11,000 - \$16,000	\$16,000 - \$24,000
4.9%	\$16,000 - \$210,000	\$24,000 - \$315,000
5.9%	\$210,000+	\$315,000+

Tax Preferences Received on New Mexico Residents' Capital Gains Income

- Deferral (federal and state)
- Stepped-up basis (federal and state)
- Preferential tax rates (federal)
- 40% deduction (state)

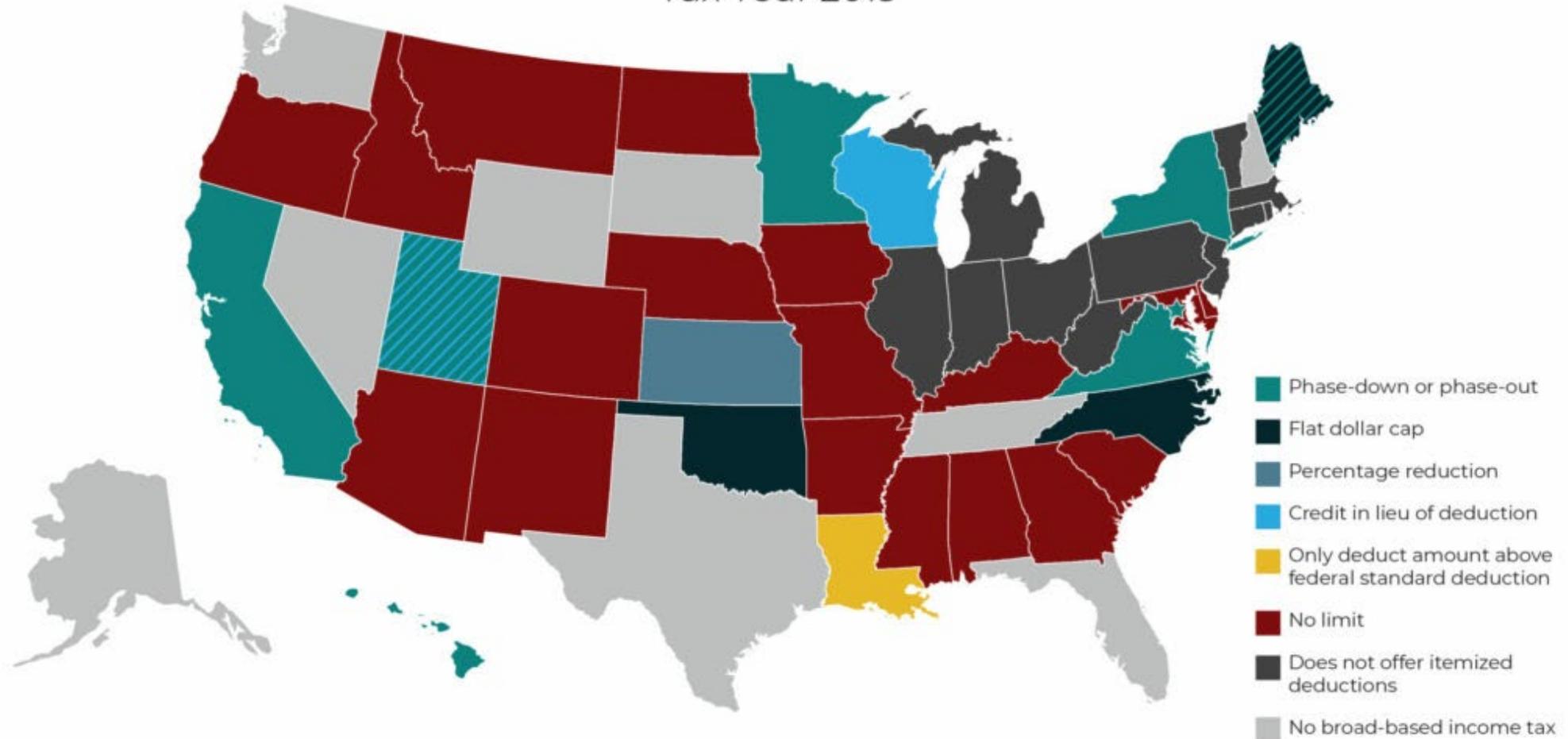
Share of Investment Assets by Race



Source: ITEP analysis of data from the Federal Reserve. • Created with [Datawrapper](#)

State Limitations on Itemized Deductions

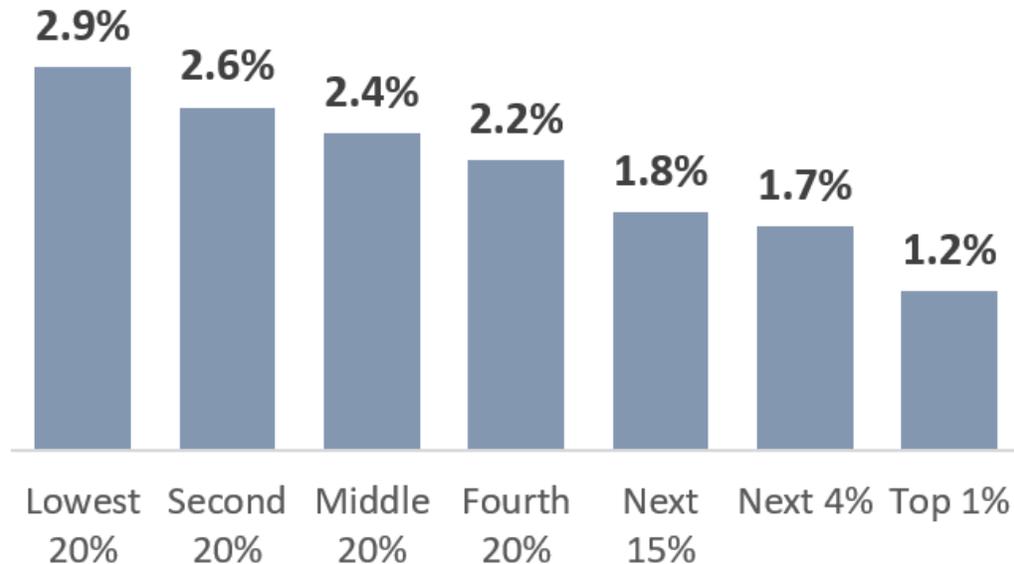
Tax Year 2019



Source: Institute on Taxation and Economic Policy, February 2020

Addressing Property Tax Regressivity

State and Local Property Taxes in New Mexico as a Share of Family Income



Source: Institute on Taxation and Economic Policy, August 2022 update to *Who Pays?*, 6th Edition

- Annual “mansion tax”
- Progressive brackets for real estate transfer tax
- Circuit breaker
- Renters’ credit

Only Three States Have Tax Systems More Volatile than New Mexico's (according to the Pew Charitable Trusts)

1. Alaska

2. North Dakota

3. Wyoming

Read more:

www.itep.org

Or let's talk about it:

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