

# Roadmap to a Stronger New Mexico

Presented to the  
**Revenue Stabilization and Tax Policy Committee**  
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# Are kids prioritized in the budget?

## Issues in the tax code

- “Don't tell me what you value; show me your budget, and I'll tell you what you value.”
  - We proportionately spend money in the right areas.
- But there's another side to the budget:
  - We don't make kids and families a priority in tax expenditures.
  - We don't raise enough revenue through the tax code to support education, health, public safety, and infrastructure needs.

# Where are we now?

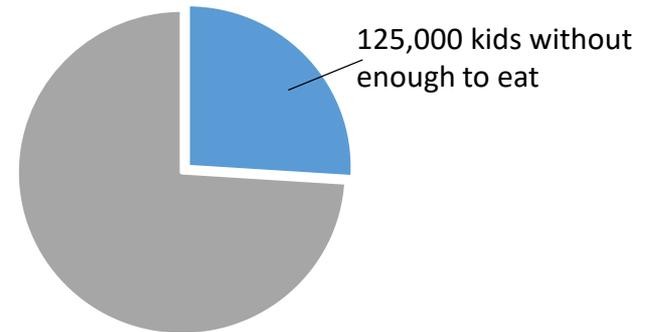
## NM's families and kids face big challenges

Ranked worst in child well-being

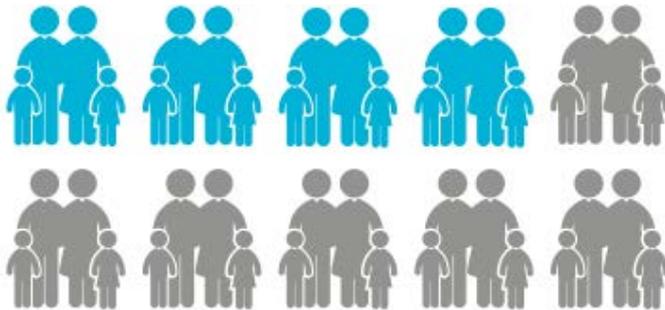
Ranked worst in education

# 50<sup>th</sup>

26% of NM Kids are food insecure



42% of working families are low-income



Some of the highest poverty rates in US among:

- children
- people who work full-time, year-round
- people with a bachelor's degree or higher

Sources: Annie E. Casey Foundation; U.S. Dept. of Education; U.S. Census American Community Survey data; Feeding America; U.S. Dept. of Agriculture

# How did we get here?

We've tried to tax cut our way to prosperity

## Actions

- PIT: personal income tax cut in 2003
- CIT: corporate income tax cut in 2013
- GRT: gross receipts tax carve-outs

## Results

- Unbalanced and inadequate revenue system
- Increased reliance on volatile oil and natural gas
- Inability to fund services

# The results of bad tax policy:

## A K-12 education example

- 50<sup>th</sup> in the nation in educational outcomes.
- Recently lost a school funding lawsuit that highlighted underfunding and racial and ethnic disparities.
- 14% cut in per-pupil K-12 spending from 2008-2018.
- Cuts to special education funding, resulting in an even greater loss of federal dollars for special ed.
- Near the bottom in educator pay.
- Teacher shortages.

# Where else it got us:

## Programs have been grossly underfunded

- Large vacancy rates across state government.
- Credit downgrades.
- 35% cut in per-pupil higher education spending, leading to steep tuition increases.
- Enrollment in child care assistance has dropped more than 20% since 2010.
- Cut U.I. benefits, including the increment for children of unemployed workers.
- Underfunding of the Medicaid program leading to cuts in provider payments.
- Over a billion dollars drained from various targeted funds that may need to be restored.
- **Tax cuts made our tax system even more regressive AND we have hundreds of millions of dollars less AND the tax cuts failed to create jobs.**

# Revenue Outlook

- In 2008 the state general fund was \$6.1 billion
  - Would be \$7.1 billion in inflation-adjusted dollars
- For FY19 it was \$6.3 billion...
- Bust-to-boom cycle continues
  - 2017: \$300 million shortfall
  - 2019: \$1.2 billion+ surplus
- Sustainability risk
  - 85% of surplus is oil and gas
  - How much should be considered recurring?
- Unique opportunity to re-structure the tax system
  - While shoring up reserves, addressing infrastructure, adding progressivity, raising revenue, and spending prudently

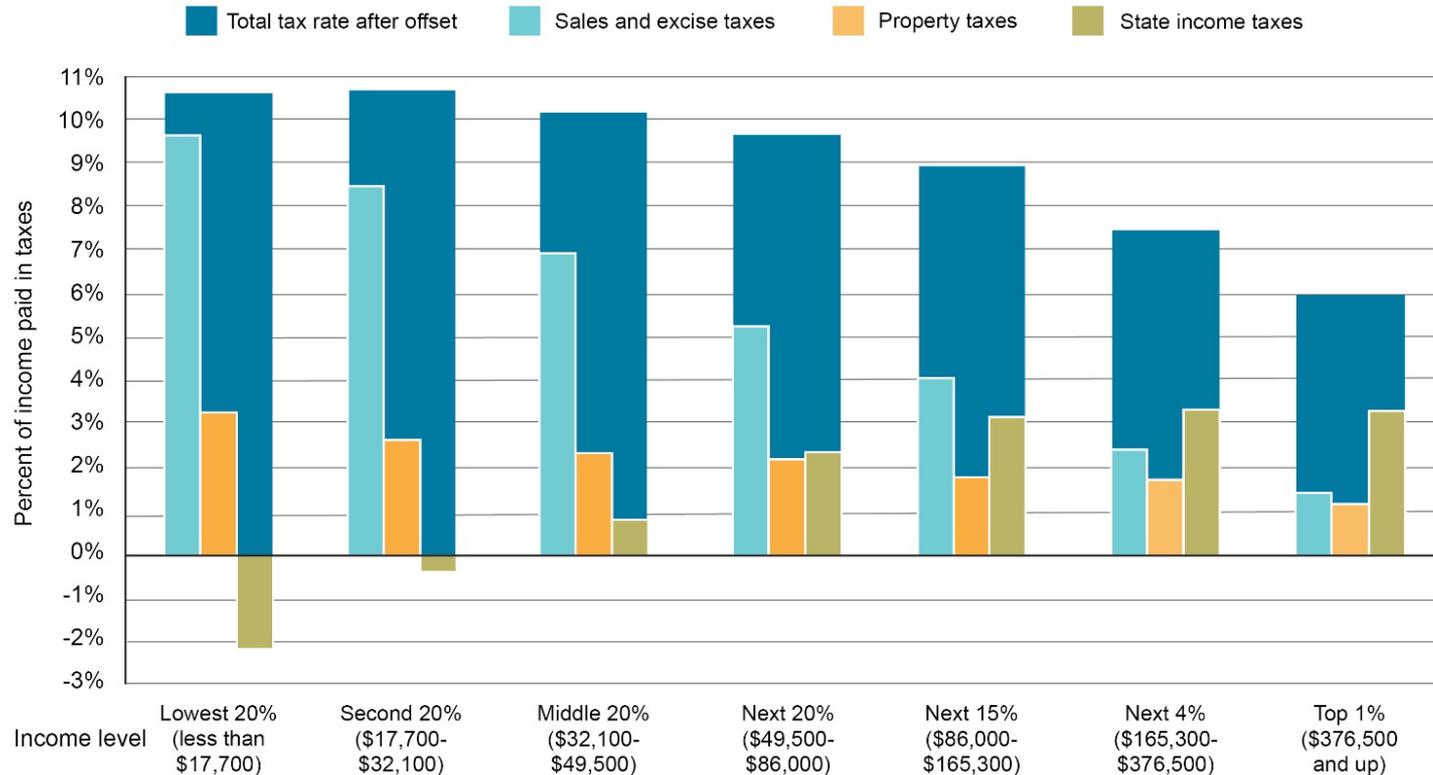
# Principles of good tax policy

- 1. Adequacy:** Revenue should raise enough to fund needed government services.
- 2. Sustainability:** Tax base should be as broad as possible and avoid excess reliance on one tax.
- 3. Equity:** Taxpayers should be treated fairly.

# Our tax system fails all three

## 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



# Our tax package proposal

- **Adds progressivity to NM's tax system**
- **Reduces reliance on volatile oil and natural gas revenues**
- **Increases the budget pie**

# Key tax policy proposals

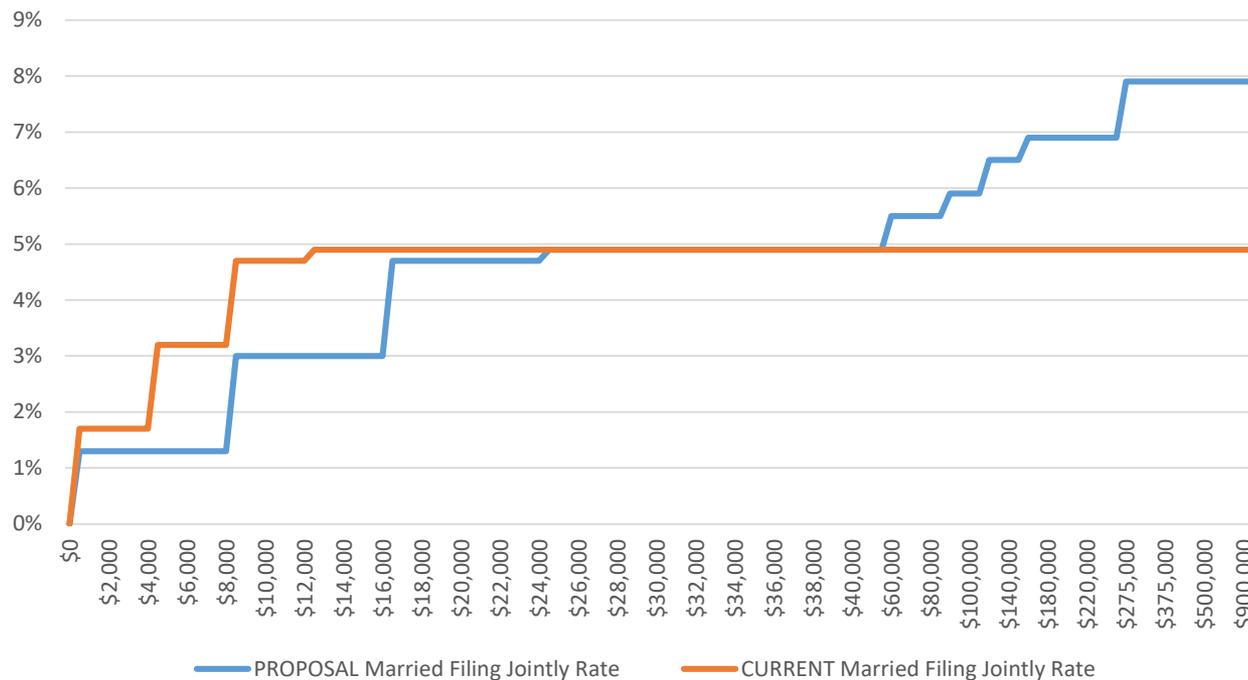
- **Personal Income Taxes (PIT)**
- **Gross Receipts Taxes (GRT)**
- **Corporate Income Taxes (CIT)**

# PIT: Restore progressivity

- 2003 personal income tax cuts slashed PIT collections
- E&Y study:
  - PIT is a very stable revenue source
  - But New Mexico underutilizes PIT
  - NM residents are relatively less burdened by PIT than in peer states

# PIT: Restore progressivity

- Repeal the 50% capital gains deduction
- Increase rates for higher earners
  - Primarily over \$100K AGI (97% of new revenue)



**Increasing rates for higher earners and repealing the capital gains deduction would raise \$250+ million**

# PIT: Enact a Child Tax Credit

- NEW tax credit of \$25 to \$175 per child
- Linked to improvements in health, education, and economic outcomes
- *75% would go to families of color*
- Would help to address child poverty
- Would help to address the tax on kids that resulted from the new federal tax law

**Enacting a new credit for all children would cost \$67 million**

# **PIT: Increase the Working Families Tax Credit**

- **Claimed by 1 out of 4 filers**
- **96% of the value goes to working families with kids**
- **Proven to incentivize work and improve outcomes for kids**
- **Good for business, the economy, and 200,000 NM families**

**Increasing WFTC to 20% of EITC would cost \$55 million**

# PIT: Increase LICTR

- Targeted to very low-income taxpayers
- Was designed to offset regressivity, but returns only \$20 million of the \$2 billion GRT to the poorest of the poor
- Hasn't been updated in 20 years

**Indexing LICTR to 1998 CPI would cost \$36 million**

# GRT: Damage done

- Over the years, we've carved out preferences
- Rates have increased, especially in some localities
- Taxpayers are treated differently
- E&Y study:
  - *Disproportionate benefits to large businesses*
  - *Complicated*
  - *GRT is regressive and relatively volatile*

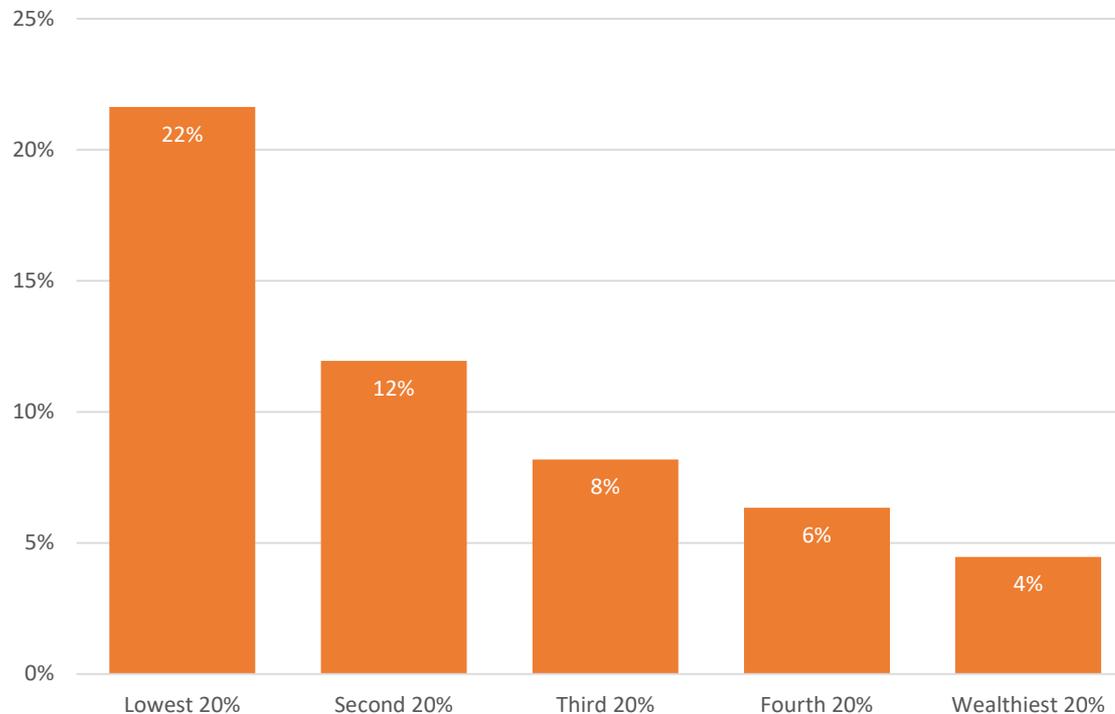
# GRT: Close loopholes, lower rate

- Tax internet sales
- Lower state rate by  $\frac{1}{4}$  percent
- Repeal ineffective breaks
- Taxing non-profits is problematic
- Don't tax food

**Taxing internet sales would raise \$25+ million**

# The lower your income, the higher the share that is spent on food

Percent of income spent on food at home by income quintile (2017)



Source: BLS, Consumer Expenditure Survey, 2017

# SNAP benefits are not adequate to address food insecurity



80% of SNAP benefits are used up within the first half of the month

Exhaustion of SNAP benefits at the end of the month decreases test scores



Very low-income New Mexicans not receiving SNAP spend **\$215 million** a year on groceries



Low-income\* New Mexicans miss, on average,

**3 meals per week**

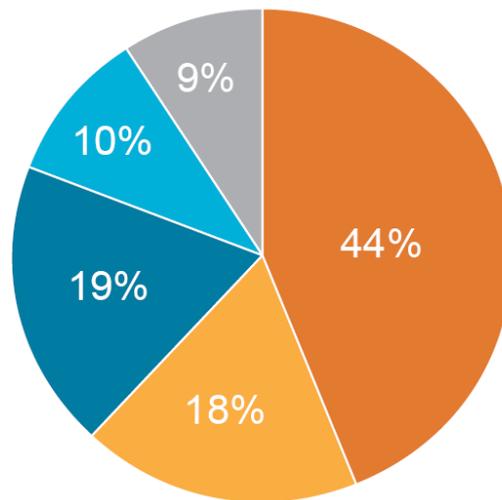
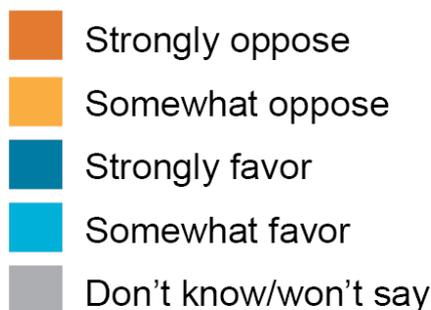
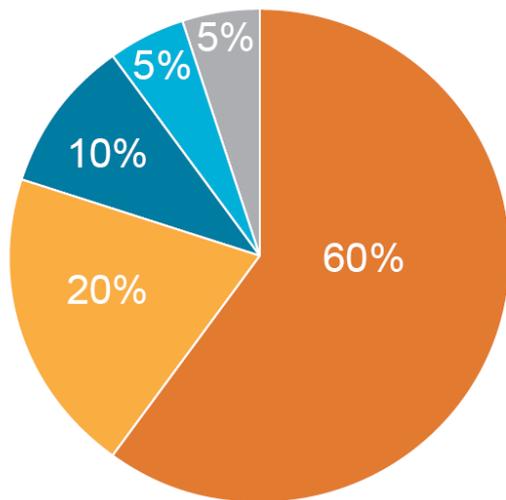


\*\$31,244 for a family of 3 (185% of FPL)

# New Mexicans strongly oppose a food tax

Currently, New Mexico does not tax food purchases. Would you favor or oppose applying the sales tax to food?  
(If choice) Would you strongly (favor/oppose) that or only somewhat?

Would you favor or oppose taxing food if it was part of a proposal that lowered the sales tax on all other purchases?  
(If choice) Would you strongly (favor/oppose) that or only somewhat?

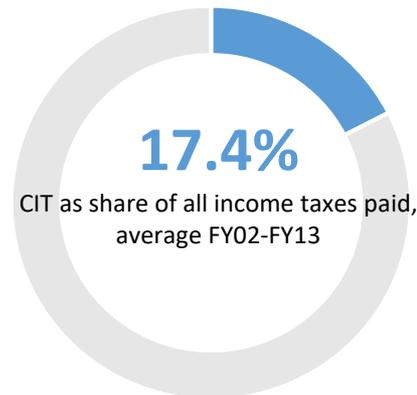


Poll of 602 likely voters • Dec, 4 - 7, 2015 • by Third Eye Strategies

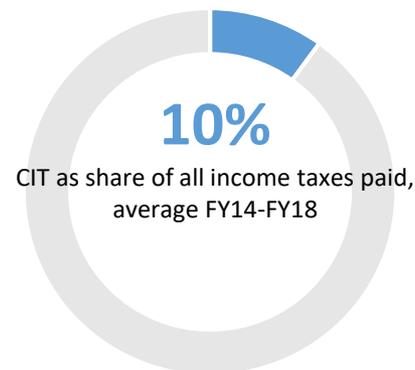
# CIT: Sharing responsibility

- Corporations should be responsible for paying their fair share for use of NM's land, water, roads, and services too.
- Lower rate than national average.
- 2013 cut significantly reduced revenues.
  - *From \$240 million average pre-2013 cut to \$143 million since*

Average Share of Total Income  
from Corporate Income  
Pre CIT Cut



Average Share of Total Income  
from Corporate Income  
Post CIT Cut



# CIT: Sharing responsibility

- **Raise corporate tax rates**
- **Enact mandatory combined reporting**

**Raising rates and enacting MCR would  
raise more than \$125 million**

# Outstanding needs

**We have some looming financial responsibilities**

- **Massive infrastructure needs**
- **Educational lawsuit responsibilities**
- **\$1 billion in swept funds since 2008**
- **Problematic agency vacancy rates**
- **Outstanding tax refund claims**
- **Public employees retirement system needs**
- **Film subsidies**
- **Shoring up reserve funds**

# Summary numbers

- Restore ~\$600 million in revenue
- Spend ~ \$300 million through the tax code to help NM thrive

## EVERY \$50 MILLION IN NEW REVENUE COULD...



Provide college scholarships of **\$2,000** to each high school student in the graduating class of 2019. OR



Give **48,000** New Mexicans health care coverage. OR



Provide **8,000** families with child care assistance. OR



Double the Working Families Tax Credit for all **200,000** families who benefit from it.

# Now is the time

You have a unique opportunity to shape a stronger NM

- New Mexico has enormous needs
- We also must make our revenue system sustainable
- Now is the safe time to enact tax reform
- It is a once-in-a-lifetime opportunity to enact bold action on behalf of New Mexico's families



*Thank you!*

