

Improving Child Well-Being Through Tax Policy: *Progress and Possibilities*

Revenue Stabilization & Tax Policy Committee
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Our mission is to champion public policies that improve the well-being of New Mexico's children, families, and communities.



Why NM Voices works on tax policy

1. Adequate, reliable revenues are necessary to support the programs that matter most to kids and families
2. Tax policy can also be a powerful tool to help advance equity and well-being in New Mexico



Our state tax revenue is what allows us to accomplish things that benefit us individually & collectively.



The two things on our agenda:

- **Recent progress** in tax policy and impact on children and families
- **Recommendations** for improving equity and adequacy through our tax code



YOU made important tax policy progress

- More racially and ethnically equitable
- Better for families
- More progressive
- More diversified revenue streams
- More stability through various funds and higher reserves



Recent tax policy improvements for 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

Working Families Tax Credit

The WFTC is a tax credit known to improve outcomes for working families with children. Over the last several years lawmakers have:

- Increased it twice:
 - from 10% to 17% of the federal EITC in 2019 and;
 - From 17% to 25% of the federal EITC in 2021
- Expanded it to include 41,000 young workers without children and 10,000+ immigrant workers
- Ensured it will return an additional \$90 million annually to 250,000 hard-working New Mexicans, for a total benefit of nearly \$130 million once these improvements are completely phased in.



Low-Income Comprehensive Tax Rebate

LICTR benefits those facing the biggest financial challenges in the state, including our seniors. Recently, lawmakers have:

- Increased both the amount and income eligibility, nearly tripling its value for families
- Indexed the rebate amount to inflation so it will hold its value over time
- Ensured it will return an additional \$50 million annually to those who need it the most, for a total benefit of \$70 million to 380,000 residents



Child Tax Credit

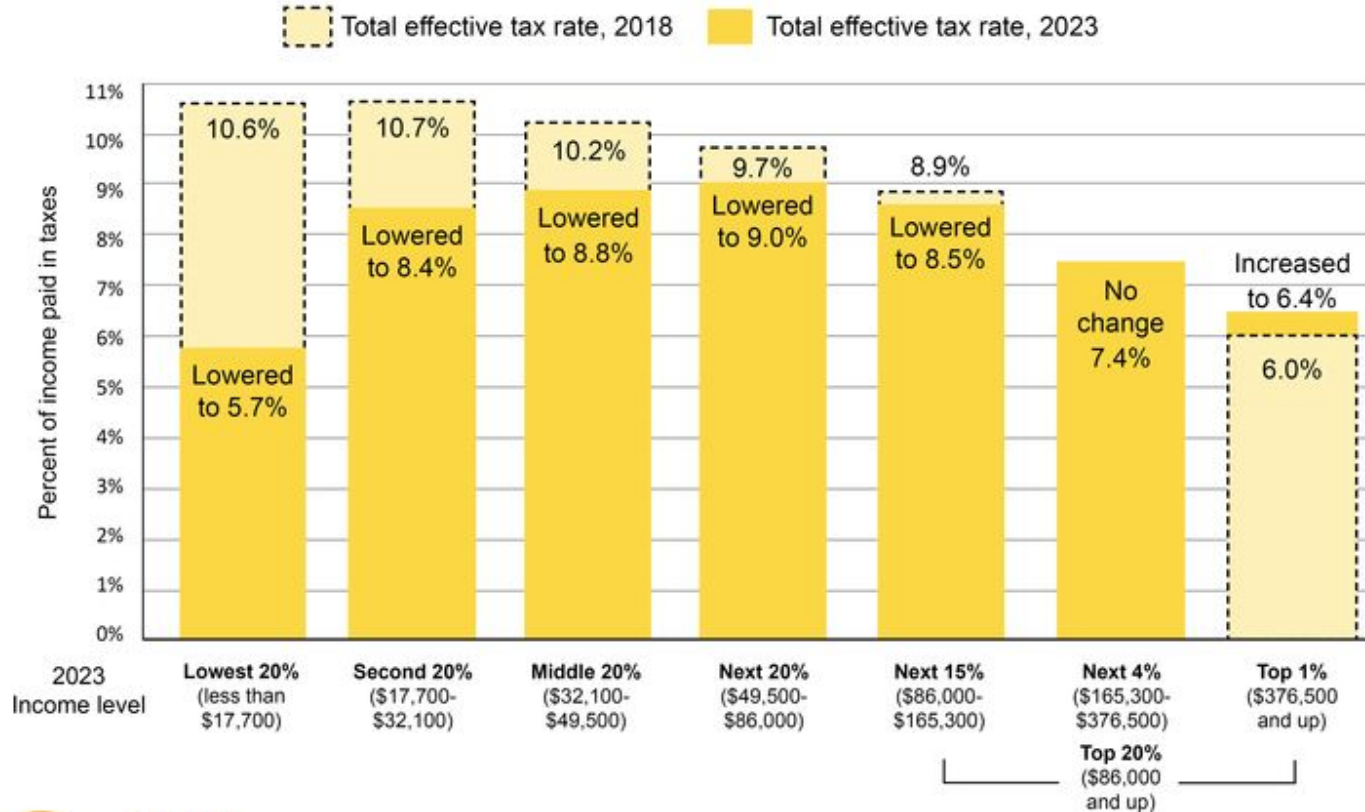
The CTC will help reduce childhood poverty and reach every single child in New Mexico:

- The newly enacted, recently increased, refundable credit ranges from **\$25-\$600 per child**
- It is progressive, so families with lower incomes will receive larger credits
- It will return **\$175 million annually** to families in New Mexico, benefiting 475,000 children
- Notably, a higher CTC has shown to improve both health and educational outcomes for children.



New Mexico's tax system: then and now

Share of family income paid in state and local taxes by income group, 2018 and 2023



2023 tax bill vetoes

- Reducing gross receipts tax rate (vs. anti-pyramiding)
- Improving Low-income Comprehensive Tax Rebate
- Limiting capital gains deduction
- Restructuring personal income tax rates
- Protecting the climate with tax credits
- Increasing liquor excise tax
- Increasing cigar tax
- Changing corporate income taxes



Tax recommendations to improve fairness and family economic security

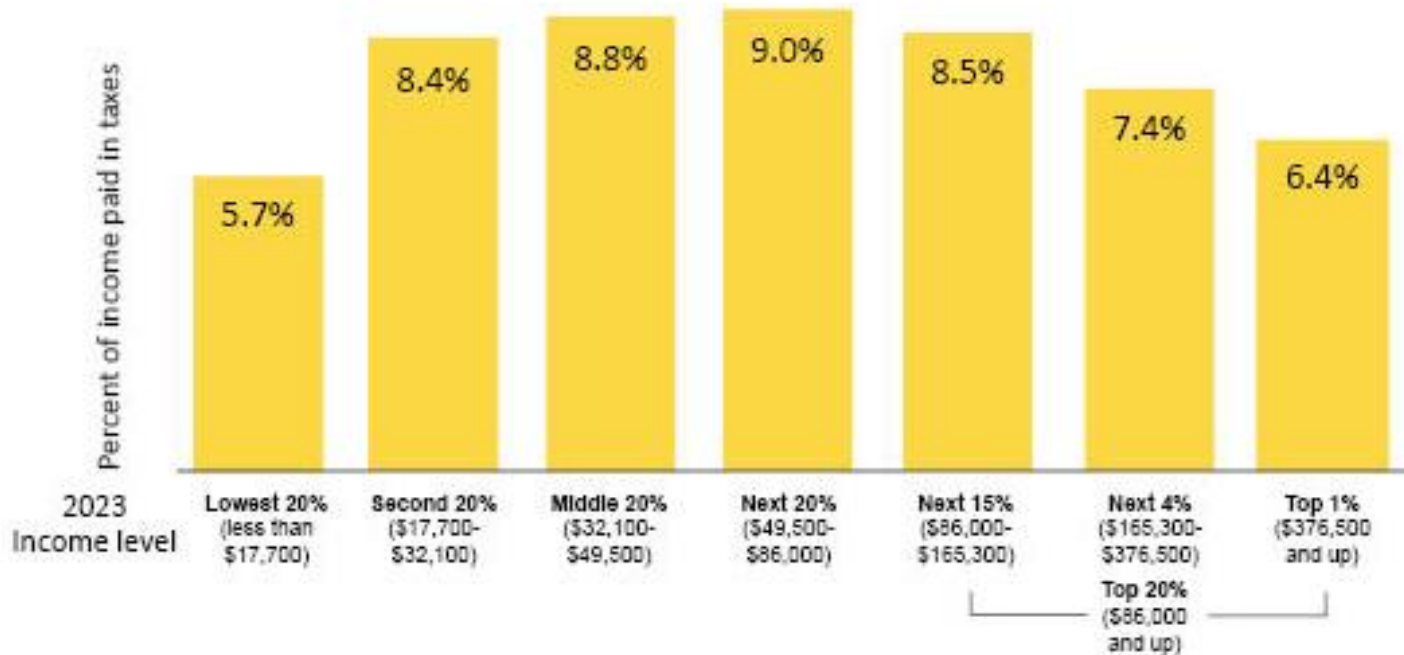


Consider increasing the impact of new Child Tax Credit by:

- **Doubling the credit amount for young children under 6**
 - Historically, poverty has been highest amongst our youngest children
 - Research shows this is the most important time for brain growth and development
 - Tax credits are the best policies for reducing poverty and improving outcomes for families struggling financially
- **Make payments quarterly to better help families afford their basic necessities**



Share of family income paid in state and local taxes by income group (2023)



Source: May 2023 update to *Who Pays?*, 6th edition, Institute on Taxation and Economic Policy
Note: Table shows permanent law passed in New Mexico through April 2023
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Restructure our Personal Income Tax rates

Issues:

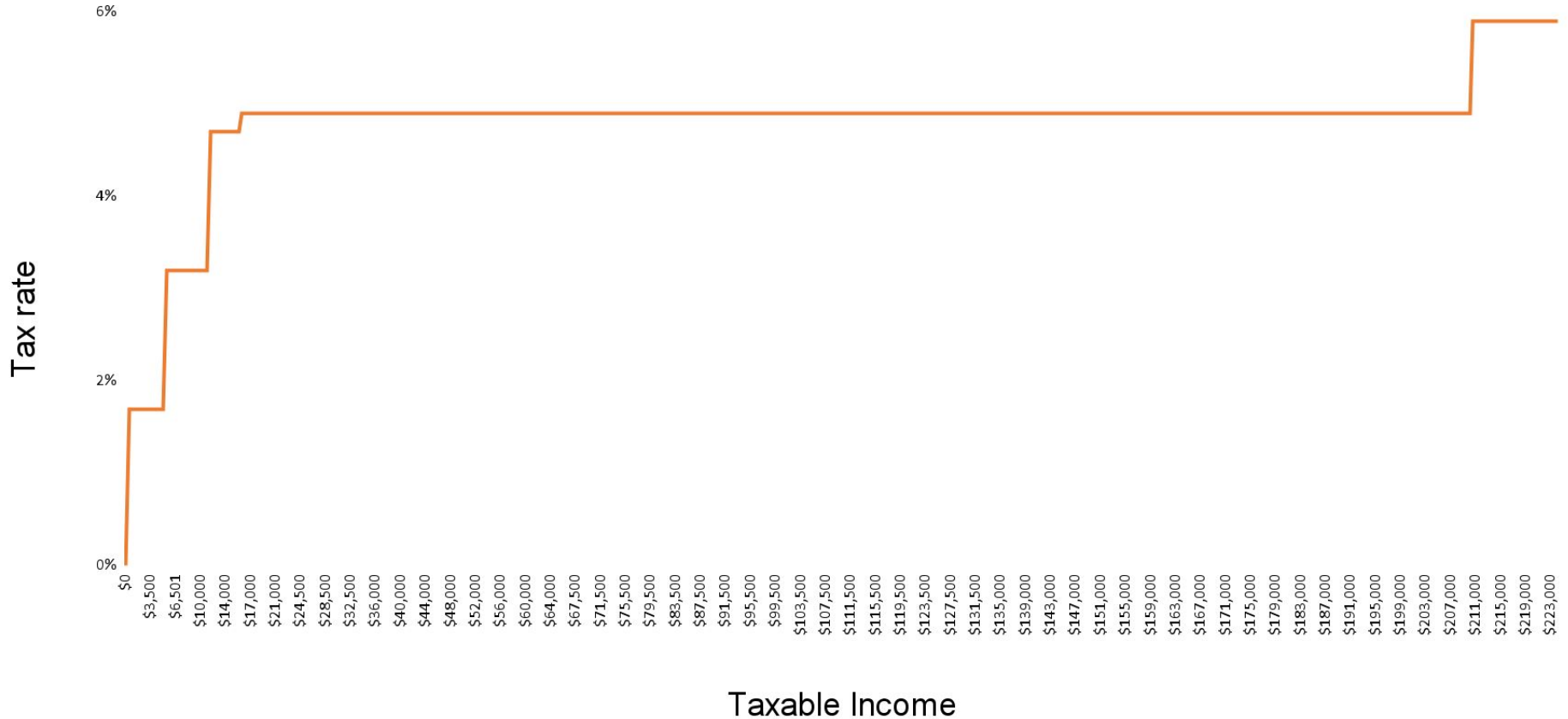
- 2003 personal income tax cuts of more than \$500 million
- NM's PIT is significantly underutilized as compared to other states
- Best option for restoring progressivity

Recommendation:

- Lower rates for low- and middle-income families, and raise rates for high-income households who can afford it



New Mexico's current PIT rates (single filers)



Reduce the Gross Receipts Tax rate

Issues:

- Regressive & complicated
- Rates are high, especially in some localities
- Taxpayers are treated differently; big business benefits the most

Recommendation:

- Lower the state rate
- Do not add more holes to the GRT 'Swiss cheese'
 - NMVC opposes 'anti-pyramiding efforts' that worsen differential GRT treatment and are very expensive for state and local governments



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



Repeal - or limit - the Capital Gains deduction

Issues:

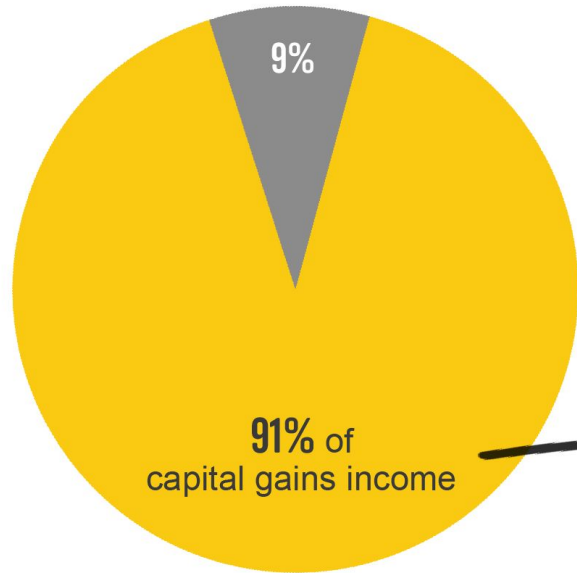
- Capital gains income is income that an investor gets when selling an asset - like stocks, bonds, or artwork - at a profit
- No requirement that the investment or asset is NM-based
- One of *only 9* states that allows this deduction
- An unproven and costly tax giveaway

Recommendation:

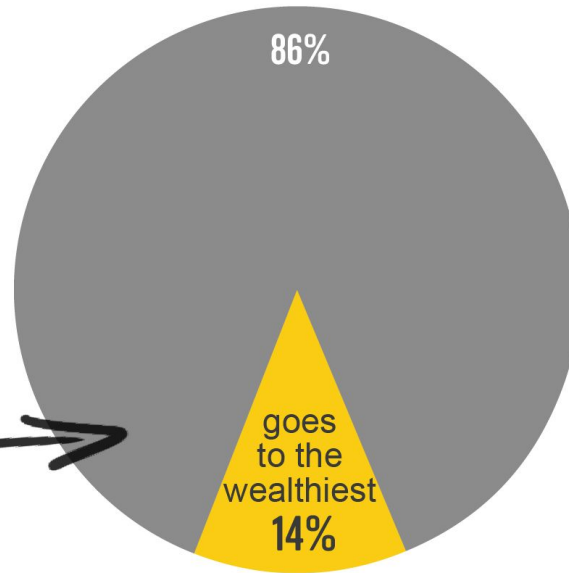
- Tax capital gains income at the same rate as income from work - repeal the 40% capital gains deduction (\$70m +)



Vast majority of capital gains income goes to NM's earning more than \$100K

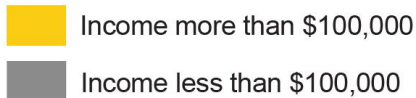


Capital gains income in New Mexico by income group

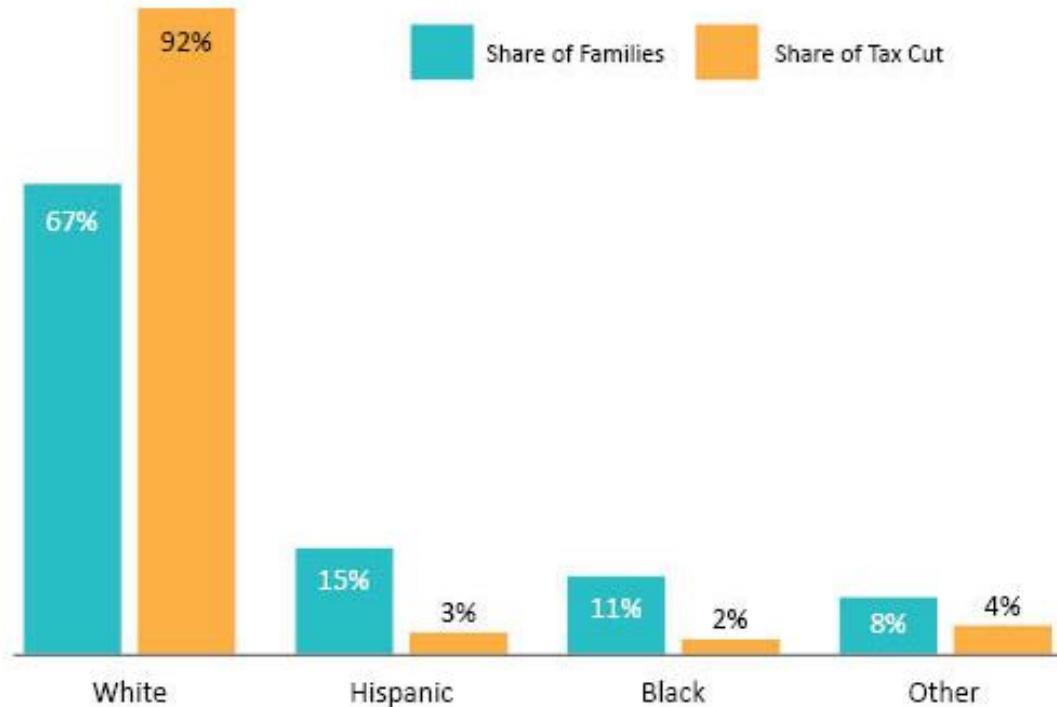


New Mexico tax filers by income group

Even more alarming, over half (54%) of the value goes to the tiny share of New Mexicans (0.1%) who make more than \$1 million.



Share of tax cuts from federal gov. preferential rates for capital gains and dividends income



Source: U.S. Department of the Treasury, Office of Tax Analysis, Working Paper 122, January 2023
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Reform the Corporate Income Tax

Issues:

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

Recommendation:

- Raise rates for profitable corporations
- Enact mandatory worldwide combined reporting



Other revenue options:

- Enact a real estate transfer tax
- Enact a wealth tax like an estate or inheritance tax
- Increase the motor vehicle excise tax
- Repeal or reform itemized deductions
- Increase alcohol and tobacco taxes for improved health outcomes and harms reduction initiatives



Thank you!

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