



Taking a closer look at tax and budget policies affecting New Mexico's quality of life

New Mexico Fiscal Policy Project

POLICY BRIEF – PAYING A FAIR SHARE

WHY WE NEED TO PUT SOME PROGRESSIVITY BACK INTO NEW MEXICO'S TAX SYSTEM

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INTENT

Most people agree that those who earn the least should pay the smallest percentage of their income in taxes. But this is not the case in New Mexico.

PROBLEM

New Mexico, like most states, levies a lot of different taxes — sales taxes, income taxes, property taxes, gas taxes — so many taxes, in fact, that virtually everything you buy has at least one state tax on it. Even things that don't seem to be taxed — like rent — are taxed, and even though you may not get the bill, the taxes are often passed along to you anyway.

Still, when people think of taxes, they often think only of the personal income tax (PIT). Because it's levied once a year at tax time, it seems like the biggest tax. But it's not. Sales tax (in New Mexico, we call it a gross receipts tax, or GRT) makes up 34 percent of the state's total tax revenues. In comparison, personal income taxes account for only about 20 percent.

In 2003, the state Legislature enacted cuts to the PIT. Like the federal income tax cuts, the biggest breaks went to the highest wage earners while the bottom 40 percent of taxpayers received no benefit. Now, a family starts paying the top income tax rate of 4.9 percent when they make just \$22,000. A family making \$100,000 or more also pays 4.9 percent.

BACKGROUND

When low-income people pay a larger proportion of their income in taxes than high-income people,

the tax system is called "regressive." The PIT cuts of 2003 have made our tax system much more regressive.

This problem is compounded by the fact that sales taxes are generally regressive. That's because low-income working families usually have to spend all of their income on day-to-day necessities, while higher-income families can put some away in savings or retirement accounts. The more of your income you have to spend just to get by — they larger the proportion of taxes you are likely to pay.

In New Mexico, a family with an annual income of less than \$13,000 pays about 12 percent of their household income in state and local taxes, while a family with an income above \$610,000 pays only 6 percent.

What confuses people, however, is the total amount of taxes paid. The first family paid about \$1,560 in taxes and the second family paid about \$38,430. While the first family paid a lower total amount, it represented a much bigger proportion of their income. Look at it this way — \$1,500 is a lot of money to a family scraping by on \$13,000 a year, while \$38,000 wouldn't likely make the difference between paying rent or putting food on the table for the family with an annual income of \$610,000.

CONCLUSION

New Mexico needs to return to a more progressive tax system so that everyone pays their fair share.