



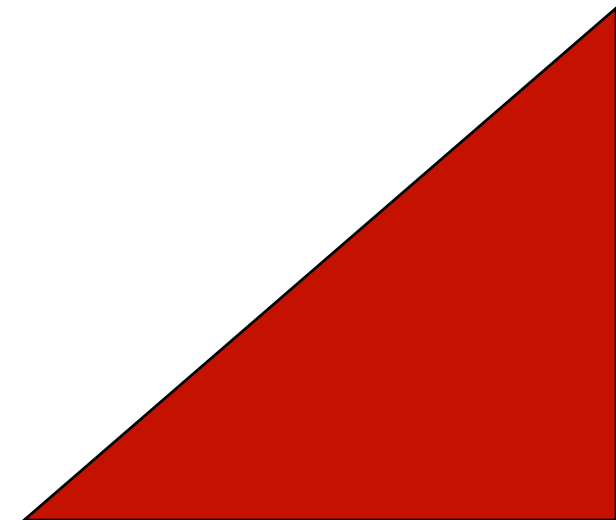
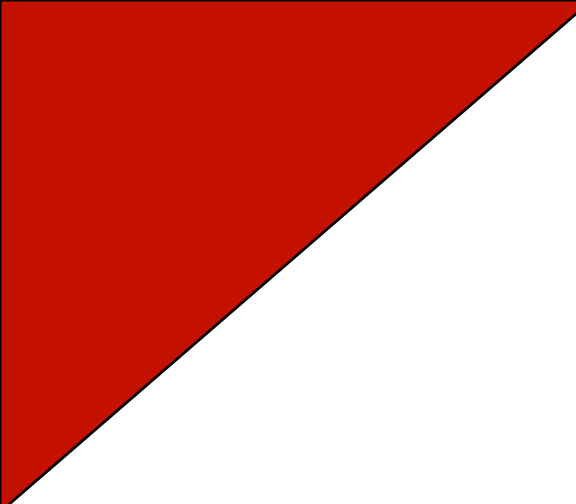
How Socio Economic Policies Affect Children

(What child advocates need to know
about state fiscal policy and taxes)

Kay Monaco, J.D.

Poor children have:

- ✓ Greater risk for serious and chronic health problems
- ✓ Greater exposure to violence at home and in the neighborhood
- ✓ Reduced school readiness due to cognitive and developmental delays
- ✓ Higher risk of dropping out of school



**Children under the age of 6
are particularly vulnerable
to the effects of poverty.**

Poverty Status by State in 2002

(Census Population Survey -- March 2002)

	Population	<100% FPL	<125% FPL
United States	281,475	11.7%	16.1%
Arizona	5,314	14.6%	19.4%
Colorado	4,402	8.7%	12.6%
New Mexico	1,785	18.0%¹	22.8%²
Texas	21,030	14.9%	20.4%
Utah	2,257	10.5%	13.9%
New Hampshire	1,254	6.5%	9.0%
Mississippi	2,784	19.3%	28.3%
¹ 323,100 people			
² 409,260 people			

2002 HHS Poverty Guidelines

100% FPL				125% FPL
Size of Family Unit	48 Contiguous States and D.C.	Alaska	Hawaii	48 States
1	\$8,860	\$11,080	\$10,200	\$11,075
2	\$11,940	\$14,930	\$13,740	\$14,925
3	\$15,020	\$18,780	\$17,280	\$18,775
4	\$18,100	\$22,630	\$20,820	\$22,625
5	\$21,180	\$26,480	\$24,360	\$26,475
6	\$24,260	\$30,330	\$27,900	\$30,325
7	\$27,340	\$34,180	\$31,440	\$34,175
8	\$30,420	\$38,030	\$34,980	\$38,025
For each additional person, add	\$3,080	\$3,850	\$3,540	

New Mexico

Income Inequality Among Families in New Mexico

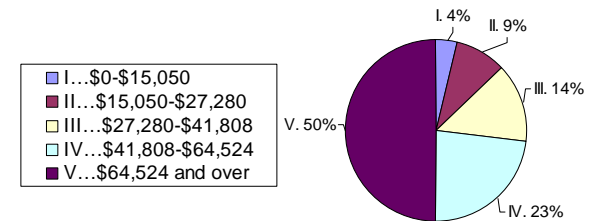
Has Increased Since the 1970s

Income Gaps, Late 1990s

	Rank
Richest fifth vs. poorest fifth	3
Richest fifth vs. middle fifth	2

(1 is most unequal)

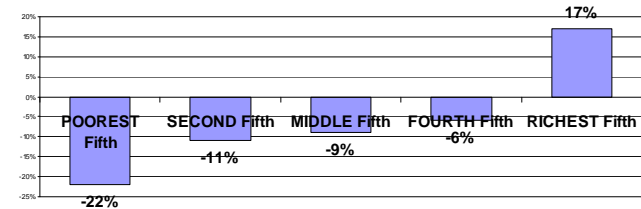
Share of Income Held by Each Income Fifth, Late 1990s



Inflation-Adjusted Change in Incomes Late 1970s to Late 1990s

	Dollar Change	% Change
Poorest Fifth	-\$2,390*	-22%
Middle Fifth	-\$3,360*	-9%
Richest Fifth	\$16,400*	17%

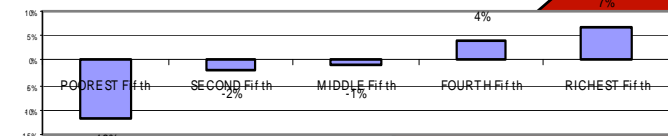
Income Change for New Mexico Families Late 1970s to Late 1990s, by Fifth of Families



Inflation-Adjusted Change in Incomes Late 1980s to Late 1990s

	Dollar Change	% Change
Poorest Fifth	-\$1,130*	-12%
Middle Fifth	-\$280*	-1%
Richest Fifth	\$7,450*	7%

Income Change for New Mexico Families Late 1980s to Late 1990s, by Fifth of Families



* Change is statistically significant at the 95 percent level of confidence.
 No statistical significance test was conducted for percentage changes.
 Source: Economic Policy Institute/Center on Budget and Policy Priorities

Bare Bones Budget for New Mexico, 2002

Albuquerque

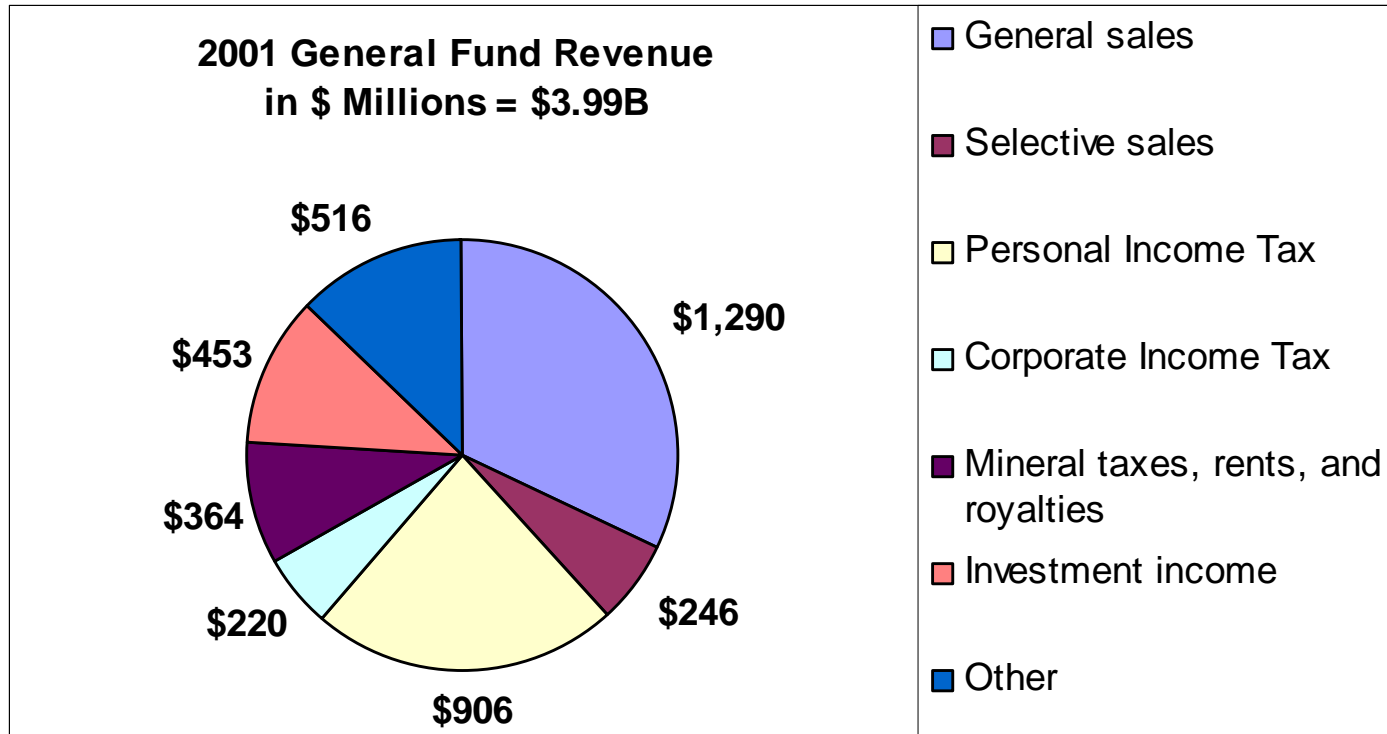
	2 Adults 2 Children	Mother 2 Children	2 Grandparents Grandchild	Retired Couple
Annual Expenses:				
Housing	\$8,462	\$8,462	\$8,462	\$6,854
Food	\$4,449	\$3,738	\$3,853	\$2,710
Transportation	\$2,895	\$2,199	\$2,975	\$2,247
Clothing	\$742	\$754	\$611	\$321
Health Care	\$4,747	\$3,405	\$8,284	\$7,376
Child Care	\$7,379	\$4,199	¹ \$0	\$0
Housing Furnishings	\$0	\$0	\$0	\$0
Savings/Retirement	\$0	\$0	\$0	\$0
Education	\$0	\$0	\$0	\$0
Second Vehicle	\$0	\$0	\$0	\$0
Vacations	\$0	\$0	\$0	\$0
Entertainment	\$0	\$0	\$0	\$0
Meals away from home	\$0	\$0	\$0	\$0
Misc.	\$1,330	\$493	\$493	\$317
Subtotal	\$30,005	\$23,250	\$24,678	\$19,825
Federal Taxes	\$0	\$0	\$0	\$0
State Taxes	\$225	\$222	\$0	\$0
Taxes	\$1,237	\$941	\$714	\$546
EITC (-)	\$783	1,898	\$0	\$0
Over 65 Property Tax Rebate (-)	\$0	\$0	\$0	\$0
Child Care Credit (-)	\$0	\$0	\$0	\$0
LICTR (-)	\$0	\$0	\$45	\$105
	\$30,683	\$22,515	\$25,347	\$20,266
Social Security Income ²	n/a	n/a	\$21,738	\$16,767
FICA	\$2,488	\$1,826	n/a	n/a
Annual Income ³	\$33,171	\$24,340	-\$3,610	-\$3,499
Wage per hour	\$16	\$12		
100% of Federal Poverty Level, 2002	\$18,100	\$15,020	\$15,020	\$11,940
Bare Bones Budget as % of 2002 FPL	183%	162%	169%	170%

¹ We assume grandparents at home with children and therefore no child care costs.

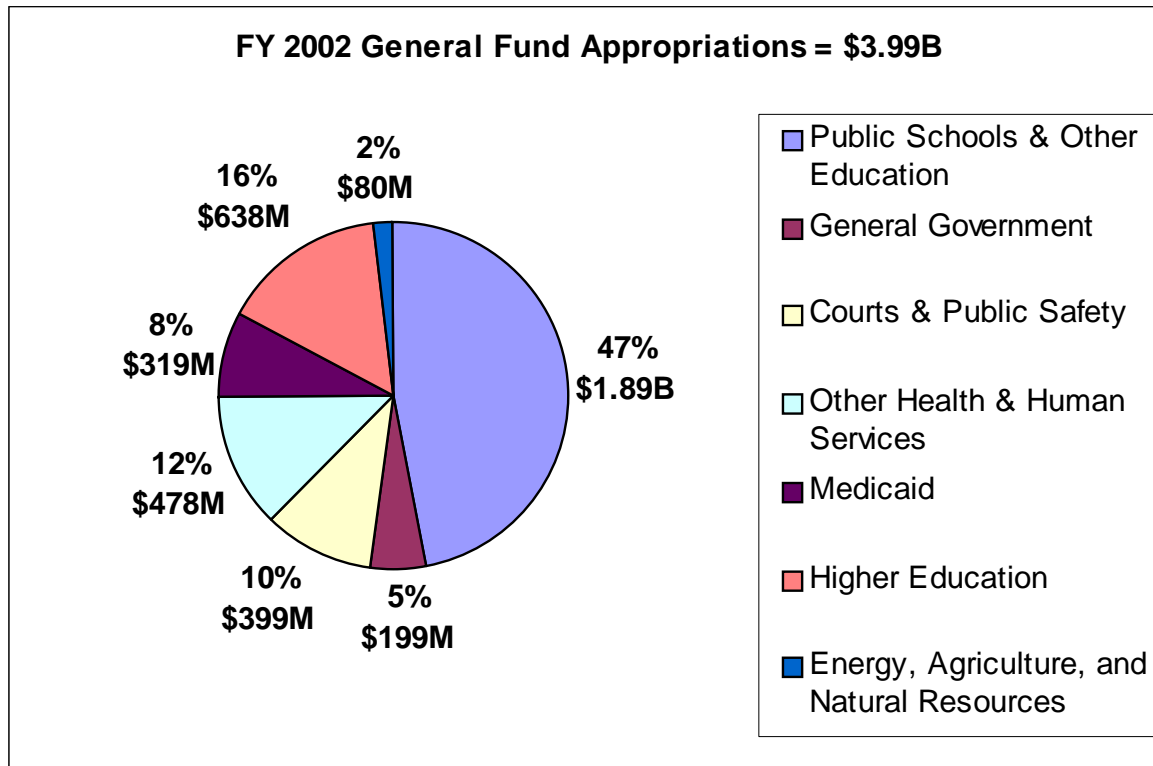
² Average Social Security by County

³ Calculated on 52 weeks/40 hours per week

2001 General Fund Revenue in \$ Millions



FY 2002 General Fund Appropriations



Who Pays Taxes?



Myth: Poor people don't pay taxes.

Reality:

New Mexico's heavy reliance on the gross receipts tax ensures that low-income households contribute at least their fair share of general fund revenue. In addition, low-income households pay property taxes that are passed through in rent, gas taxes, and motor vehicle fees. Even undocumented workers pay New Mexico's gross receipts tax every time they purchase food or goods.

Regressive Tax

A tax that consumes a larger **percentage** of income as income levels fall. The **gross receipts** tax is regressive because low-income households spend a larger **percentage** of their income on gross receipts taxable goods and services than do upper-income households.

Progressive Tax

A tax that consumes a larger **percentage** of income as income level rises. The **personal income tax** is a progressive tax because the rate at which income is taxed increases with income level.

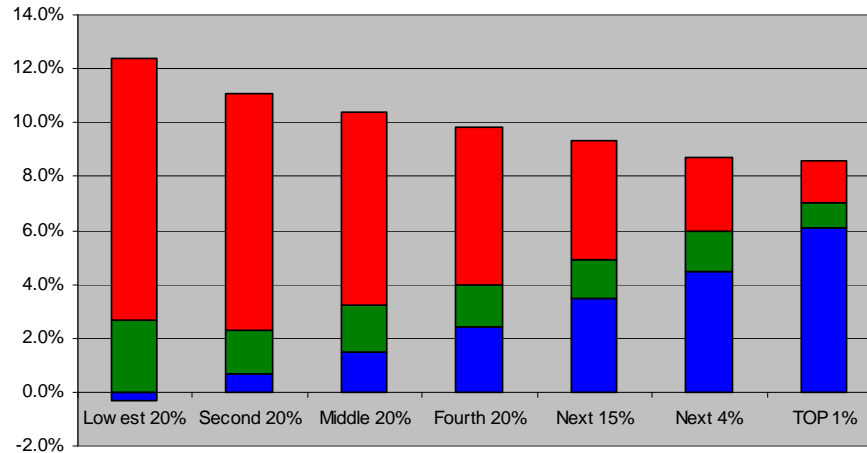
The Ten States with the Highest Taxes on the Poor

Washington	17.6%
Florida	14.4%
Michigan	13.3%
Illinois	13.1%
New York	12.7%
Hawaii	12.6%
Arizona	12.5%
New Jersey	12.4%
Rhode Island	12.2%
New Mexico	12.1%

New Mexico

State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers

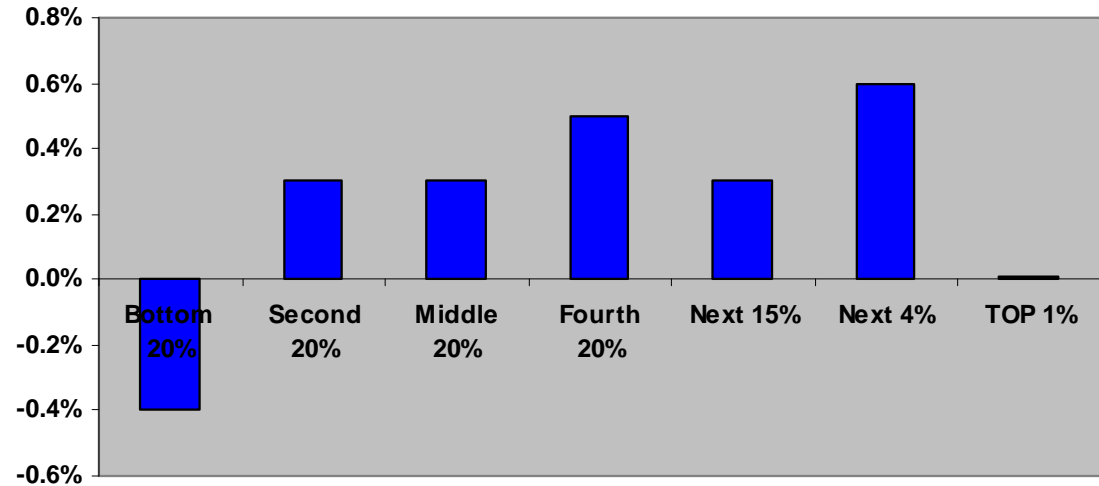


Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	TOP 1%
Income Range	Less than \$13,000	\$13,000-\$23,300	\$23,000-\$36,000	\$36,000-\$60,000	\$60,000-\$112,000	\$112,000-\$243,000	\$243,000 or more
Average Income in Group	\$7,800	\$18,300	\$28,700	\$46,000	\$79,100	\$148,600	\$610,900
Sales & Excise Taxes	9.7%	8.8%	7.2%	5.8%	4.4%	2.7%	1.6%
General Sales - Individuals	6.3%	5.7%	4.8%	3.9%	3.0%	1.9%	1.2%
Other Sales & Excise - Ind.	1.3%	1.2%	1.0%	0.7%	0.6%	0.3%	0.1%
Sales & Excise on Business	2.1%	1.9%	1.5%	1.2%	0.9%	0.5%	0.3%
Property Taxes	2.7%	1.6%	1.7%	1.6%	1.4%	1.5%	0.9%
Property Taxes on Families	2.6%	1.5%	1.6%	1.5%	1.2%	1.2%	0.5%
Other Property Taxes	0.0%	0.1%	0.1%	0.1%	0.1%	0.3%	0.4%
Income Taxes	-0.3%	0.7%	1.5%	2.4%	3.5%	4.5%	6.1%
Personal Income Tax	-0.3%	0.7%	1.5%	2.3%	3.5%	4.4%	5.9%
Corporate Income Tax	0.0%	0.1%	0.0%	0.0%	0.1%	0.1%	0.2%
TOTAL TAXES	12.1%	11.1%	10.4%	9.8%	9.3%	8.7%	8.6%
Federal Deduction Offset	0.0%	0.0%	-0.1%	-0.3%	-0.8%	-1.4%	-2.4%
TOTAL AFTER OFFSET	12.1%	11.1%	10.4%	9.5%	8.5%	7.3%	6.3%

Source: Who Pays? A Distributional Analysis of the Tax Systems in All 50 States, 2nd Edition, Institute on Taxation & Economic Policy, January 2003

Note: Table shows 2002 tax law at 2000 income levels.

Changes in Tax as Share of Income, 1989-2002



	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	TOP 1%
Sales & Excise	-0.2%	-0.1%	-0.1%	-0.1%	-0.1%	0.0%	0.0%
Property	0.3%	0.4%	0.4%	0.4%	0.0%	0.2%	0.0%
Income	-0.5%	0.1%	0.0%	0.2%	0.5%	0.7%	0.8%
Federal Offset	3.3%	0.0%	0.0%	-0.1%	-0.2%	-0.2%	-0.7%
Overall Change	-0.4%	0.3%	0.3%	0.5%	0.3%	0.6%	0.0%

A Low Income Comprehensive credit and prescription drug credit took the place of a generous credit for food and medicine. The gross receipts tax increased a quarter percent.

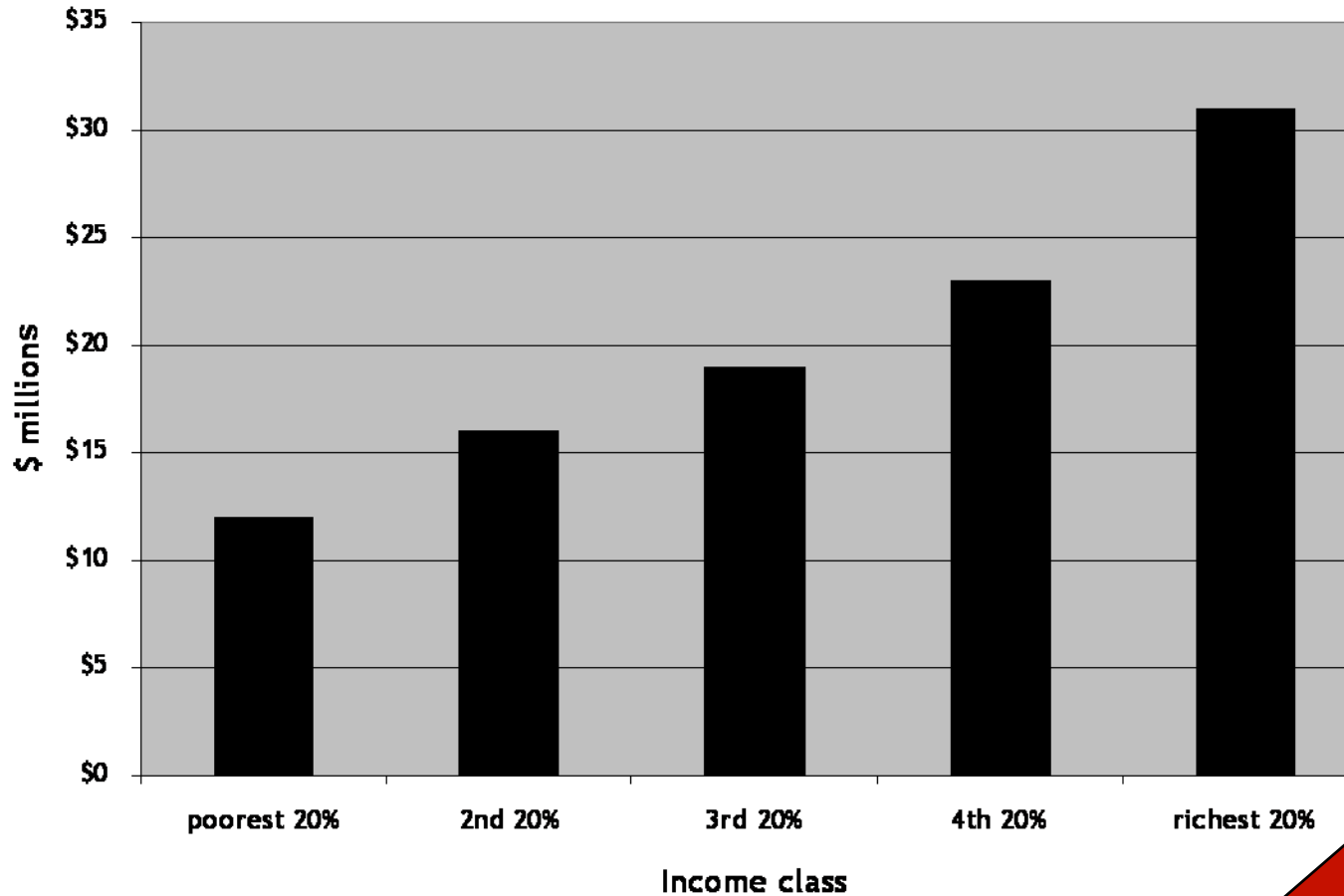
Source: Who Pays? A Distributional Analysis of the Tax Systems in All 50 States, 2nd Edition, Institute on Taxation & Economic Policy, January 2003

One approach to equalizing tax burden is to reduce sales or gross receipts taxes.

Who benefits from the repeal of the gross receipts tax on groceries?

In New Mexico, more than one third of the benefits of exempting groceries from the gross receipts tax would accrue to the richest 20% of households. Less than 20% of the benefits would go to the poor.

Benefits of Food Tax Elimination by Income Class



The Effect of the Repeal of the Gross Receipts Tax on Food

Repeal of gross receipts tax on food

=

\$120 million less total revenue

63% general fund = \$75.6 million

37% local government = \$44.4 million

Another approach to equalizing tax burden is to use one tax program to offset the burden of another.

The Earned Income Tax Credit (EITC) at the federal level is intended to offset the regressiveness of the Social Security tax.

Eliminating gross receipts tax on food cost ~ \$120 M
Poor New Mexicans pay ~ \$12 M in food tax a year

Solution

Increase LICTR by \$12 million:

- ✓ **targets the relief to poor families, and not across the board**
- ✓ **makes personal income tax system more progressive**
- ✓ **additional benefit -**

500 children lifted out of poverty

Myth: Selective gross receipts tax exemptions for necessities such as food equalize tax burden more efficiently than refundable tax credits.

Reality:

Gross receipts tax breaks are most beneficial to households that spend the most money. Refundable tax credits such as LICTR are more efficient because they specifically target the low-income households most in need of tax relief.

“Automatic Stabilizers”

Public programs, such as unemployment insurance and food stamps, which contract when the economy is strong and expand during a downturn, are known as “automatic stabilizers.” Automatic stabilizers minimize the depth of recession and speed economic recovery by putting money into the pockets of people who will generate immediate economic activity by spending all of it within the local economy.

Impact of food stamps on family income

Single mom with two children:

working full time @ \$5.15 hour	=	\$10,712
- FICA		<u>803</u>
Gross Income		\$ 9,909
+ EITC		<u>\$ 4,008</u>
		\$13,917
Family of Three FPL		<u>\$15,020</u>
		-\$1,103

With Food Stamps @ \$282 per month		
Annual after tax income	=	\$17,306

15% above FPL

Economic Impact of Increased Food Stamp Utilization to 80% of Eligible Family with Children *

Expenditure type	New Spending	New Jobs	Value Added		Average compensation per new job
			Compensation	All other	
Food Spending	\$ 12,600,000	134	\$ 3,353,565	\$ 2,041,230	\$ 25,083
Other household expenditures	\$ 29,400,000	418	\$ 9,929,615	\$ 7,132,653	\$ 23,784
State Gov't	\$ 1,900,000	47	\$ 1,530,927	\$ 596,424	\$ 32,366
Total	\$ 43,900,000	599	\$ 14,814,107	\$ 9,770,307	\$ 24,752

*\$42 million increase in food stamp benefits.



Unemployment Insurance:

Powerful Economic Stimulus

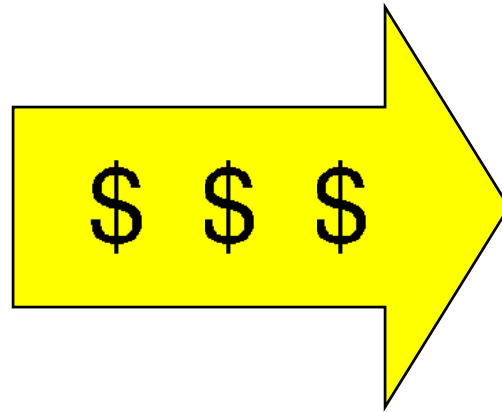
Supports Workers

Boosts Local Communities



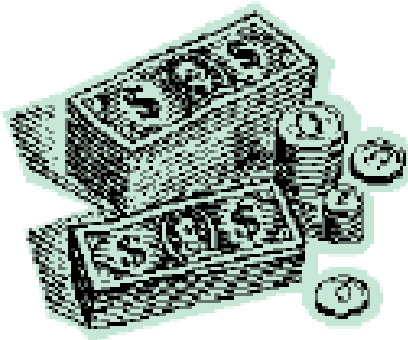
Economic Stimulus Effect of UI Benefits

\$1.00
paid in
UI
benefits



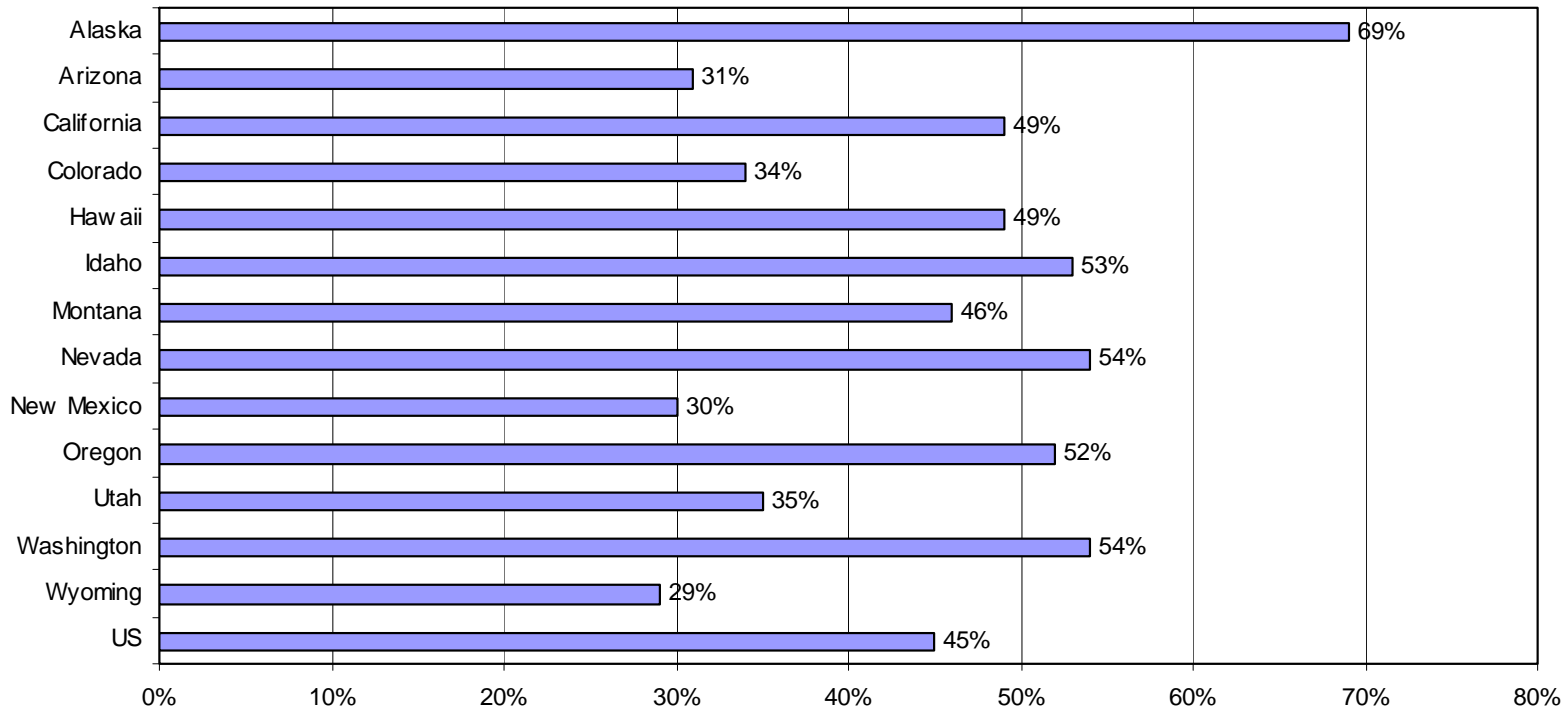
\$2.15
in Gross
Domestic
Product

**New Mexico has the
MOST SOLVENT
UI trust fund
in the nation**



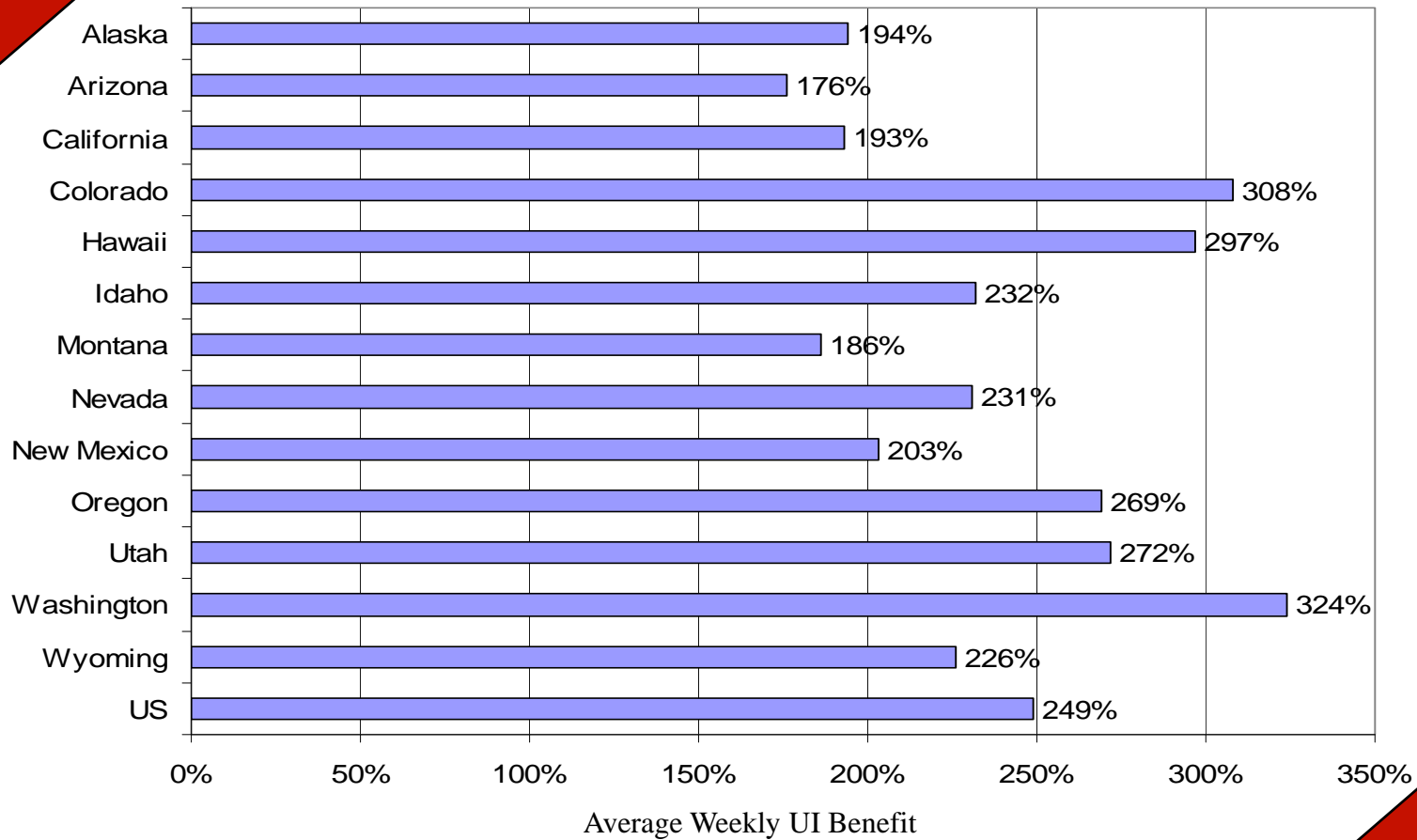
(~\$600,000,000)

Percent of Western Unemployed Workers Who Receive Benefits “U.I. Reciprocity Rate,” 2002 2nd Quarter*



* 12 month average

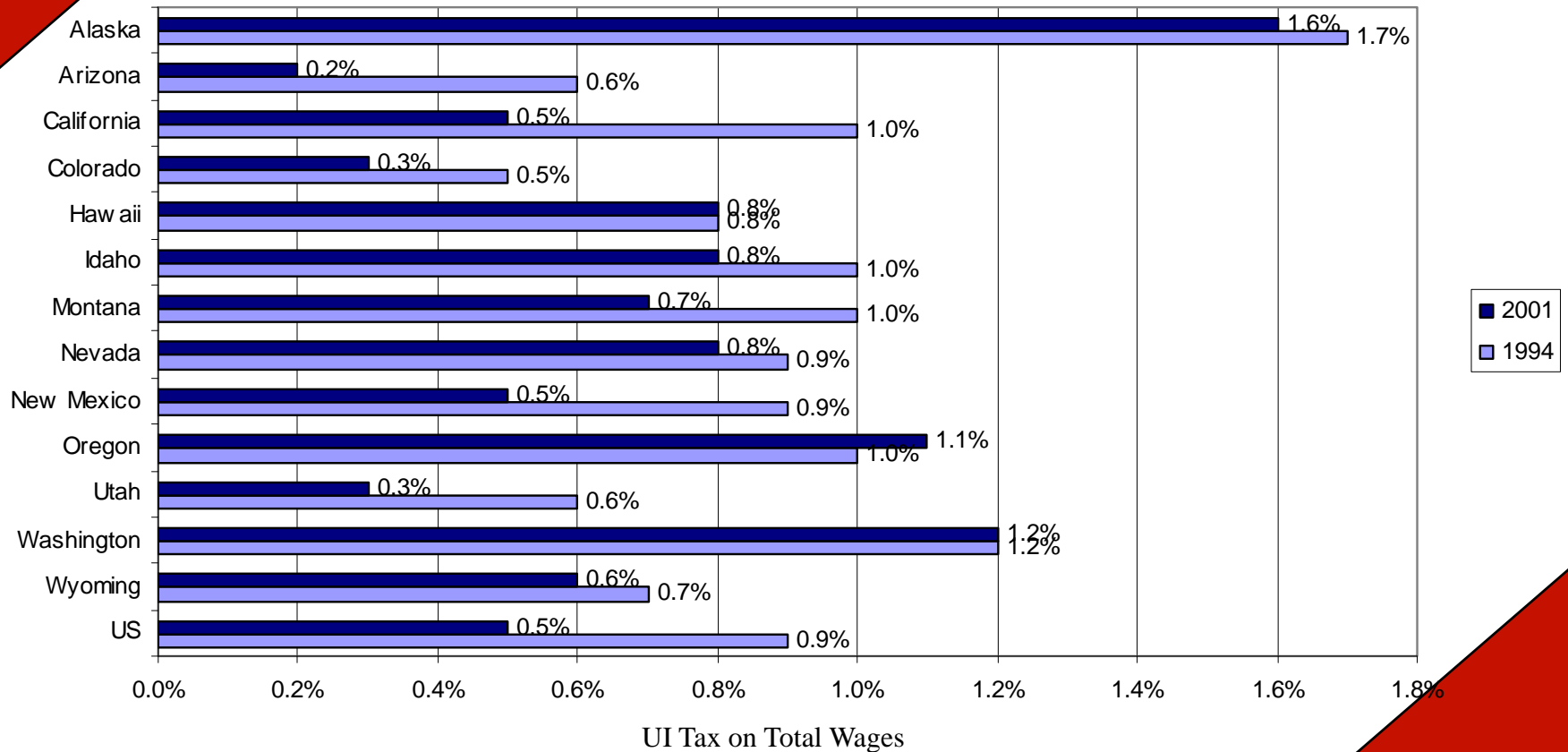
Average Weekly UI Benefits in Western States - \$2002 2nd Quarter*

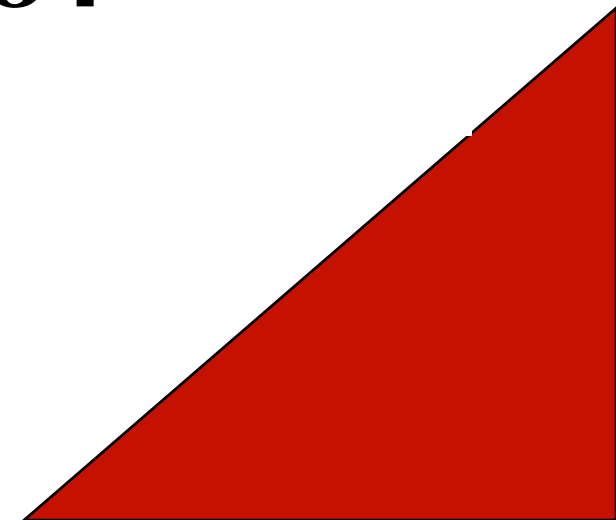
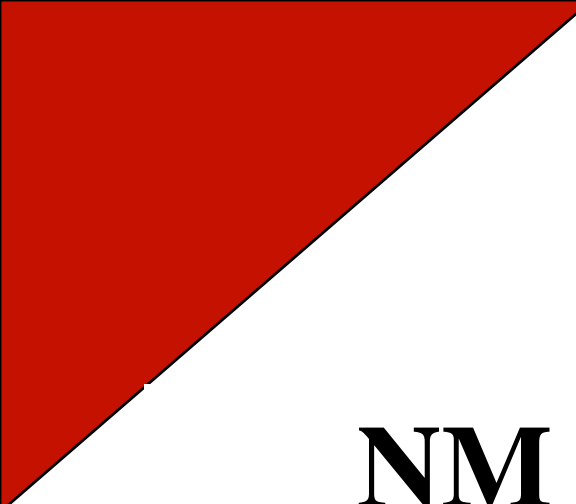


*12 month average

How High are UI Payroll Taxes in Western States?

State UI Payroll Rates on Total Wages, 2001 and 1994





**NM has done nothing to
improve benefits or eligibility
for unemployed workers
since at least 1984**



**Some reforms implemented
in other states are being considered
for New Mexico's UI plan...**



1. Extend benefits to workers seeking part-time work.

(\$4 million)





2. Use the most recent quarter of work in determining work history.

(\$7 million)



3. Provide UI benefits for persons who “voluntarily” leave their job because of domestic violence.

(\$22,000)

**4. Raise the UI benefit
amount by 5%.**

(\$9 million)

5. Enact a “dependents allowance” of \$15 per week per dependent.

(\$3 million)

6. Adjust the triggering mechanism for determining extended benefits.

(\$3 million)

For more information:

Visit the NM Voices website at

www.nmvoices.org

**to download the Policy Brief series and other
research papers on Food Stamp Utilization
and Unemployment Insurance Reform.**