

## Their view

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# NM personal income tax threshold too low

By Gerry Bradley

While Tax Day may make some of us groan about the check we'll write to the IRS, it's a good time to give some thought about how tax policy affects families that live in poverty. Specifically, we need to think about raising the personal income tax (PIT) threshold so we do not add to these families' hardships. The PIT threshold is the income level at which a worker begins to pay income tax. The threshold in New Mexico is near the federal poverty level — and while it's right that people at this level of income should not be taxed, in reality, the threshold should be set at twice the federal poverty level. That's because even people earning twice the federal poverty level suffer significant hardships.

It is widely thought that the federal

poverty level does not represent an adequate level of income — one that would permit a family to afford decent housing, food, child care, transportation and other necessities. The inadequacy of this level has been thoroughly documented over the last decade or so by the National Academy of Sciences and the U.S. Census Bureau, among others.

Also over the last 10 years, the Economic Policy Institute has produced estimates of the income required for a basic family budget. The institute produces estimates for both one- and two-parent families with either one, two or three children, and correlates them with the cost of living in various cities and rural areas. The basic family budget for a two-parent, two-child family in New Mexico, for example, ranges from a high of \$43,344 for Santa Fe to a low of \$36,576 for rural New Mexico. In general, the basic

family budget for New Mexico families is about twice the federal poverty level.

Families living under twice the federal poverty level encounter many hardships. The Survey of Income and Program Participation and the National Survey of American Families look at hardship under two headings: critical and serious. Critical hardship covers food insecurity — not having enough to eat or missing meals — as well as insufficient health care and housing hardships such as disconnected utilities and doubling up with friends and families. Serious hardship includes food insecurity, insufficient health care and housing problems, as well as inadequate child care. Both critical and serious hardship, as defined by the U.S. Census Bureau, are prevalent in families at twice the federal poverty line. This makes a clear case

for raising the income tax threshold to 200 percent of the federal poverty level.

Consider two examples. Currently, a one-parent one-child family would be at the federal poverty level on an income of \$13,461 — or \$27,000 at the 200 percent level. Using head-of-household income tax filing status, with the standard deduction of \$5,000 and two exemptions of \$3,200 each, the family's taxable income would be \$15,200. New Mexico income tax due on that amount would be \$397. It may not sound like a lot of money, but \$397 represents almost one month of food expenditures for this family.

A two-parent, two-child household would have an income of \$19,806 at the federal poverty level, or \$39,600 at the 200 percent level. Filing their income taxes on a married-filing-jointly basis, with a standard deduc-

tion of \$10,000 and four exemptions of \$3,200 each, the family would have New Mexico taxable income of \$16,800 and owe \$427 in income tax. This level of taxation would almost pay for a month's rent in Albuquerque.

Families with incomes at twice the federal poverty level suffer a significant hardship because the state's income tax threshold is set too low. New Mexico should move the income tax threshold to twice the federal poverty level so families at this income level do not have to pay taxes. This could be done by increasing the exemption for low income tax filers that was enacted during the 2005 legislative session and would help to alleviate a significant source of hardship in low income New Mexicans.

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