



PRESS RELEASE

August 25, 2010

FOR IMMEDIATE RELEASE

CONTACT: Gerry Bradley, Research Director, New Mexico Voices for Children

505-244-9505 ext. 23 (p), 505-264-0074 (c), gbradley@nmvoices.org

OR: Meg Wiehe, ITEP State Tax Policy Director, 919-682-6472 or meg@itepnet.org

Report: Reforming 'Itemized Deduction' Tax Breaks Could Save NM Millions, Make State Tax Systems Less Unfair

ALBUQUERQUE—Itemized deductions cost New Mexico millions of dollars in income tax revenue every year while undermining the fairness of the state's tax system, a new report shows. Reforming these tax breaks could play a positive role in making New Mexico's tax system fairer and more sustainable while saving necessary programs like education from further harmful spending cuts, according to the Institute on Taxation and Economic Policy (ITEP), which released the report.

The report, "*Writing Off*" Tax Giveaways: How States Can Help Balance Their Budgets by Reforming or Repealing Itemized Deductions, presents five approaches to reform, each of which would raise significant revenue to fund vital public services.

Itemized deductions were designed to help defray a wide variety of personal expenditures that affect a taxpayer's ability to pay taxes, including charitable contributions, extraordinary medical expenses, mortgage interest payments, and state and local taxes. Yet, low-income families receive virtually no benefit from these deductions, while the biggest benefits are reserved for the upper-income families who arguably need them the least.

"No lawmaker would ever devise a spending program to encourage homeownership that gave the biggest checks to the richest taxpayers, while entirely excluding low-income families," noted Gerry Bradley, Research Director at New Mexico Voices for Children. "Yet itemized deductions have exactly that effect."

The most comprehensive reform approach would be to simply repeal all itemized deductions while increasing the standard deduction available to all families, which would ensure that most middle- and low-income families are not hurt by the reform. Such a measure would result in a tax cut for 46 percent of New Mexico's taxpayers while raising an estimated \$44 million a year. The Rhode Island Legislature enacted a similar reform earlier this year.

The report presents four additional reform options, most of which have been enacted in some form in a number of states: capping the total value of itemized deductions, converting itemized deductions to credits, enacting stand-alone phase-outs, and decoupling from the Bush-era federal tax changes.

"New Mexico's tax system has become more regressive in recent years, meaning more of the responsibility is falling on the families with the fewest resources," said Bradley. "And now that state revenues are down, low-income families are again being asked to take the biggest hit, because they tend to be disproportionately affected by deep budget cuts, like those enacted recently. Reforming itemized deductions would be a step in the right direction in making our overall tax system simpler and more fair, while raising needed revenue to keep our public schools, public safety, and health care systems from deeper cuts."

The full report is available online at: <http://www.itepnet.org/pdf/itemize0810.pdf>; the New Mexico fact sheet is on page 34 of that report.

###



The Fiscal Policy Project is a program of New Mexico Voices for Children and is made possible by grants from the Annie E. Casey Foundation, McCune Charitable Foundation, Public Welfare Foundation, and W.K. Kellogg Foundation.
2340 Alamo SE, Suite 120, Albuquerque, NM 87106-3523; 505-244-9505 (p); www.nmvoices.org