



New Mexico Fiscal Policy Project

The Working Families Tax Credit: Help Hard-Working Families Become Self-Sufficient

A Working Families Tax Credit provides crucial tax relief to hard-working, low-income families, helping them close the gap between what they earn and what they need to make ends meet. This credit also returns millions of dollars to families who put the money back into the state economy.

Eighteen states and the District of Columbia have enacted similar tax credit for working families, including the Western and Plains states of Oregon, Colorado, Kansas and Oklahoma. It's time for New Mexico to follow their lead and help our working families by **enacting a 7.5 percent refundable Working Families Tax Credit in the 2006 legislative session.**

Why should New Mexico enact a Working Families Tax Credit?

- ***This credit can make a significant difference for hard-working families.***
The federal Earned Income Tax Credit (EITC) is the single most effective policy that lifts low-income working families out of poverty. The National Center for Children in Poverty found that the federal EITC reduces child poverty for young children by nearly 25 percent. A state Working Families Tax Credit builds on the benefits of the federal EITC.
- ***These tax credits have a long history of bi-partisan support.***
Enacted in 1975 under President Ford, and expanded under Republican and Democratic administrations, the federal EITC is supported by policy makers on both sides of the aisle. At the state level, working family tax credits have been enacted under both Democratic and Republican governors.
- ***The Working Families Tax Credit effects rural families more than urban families.***
In 2002, 180,000 New Mexico households in every rural, suburban, and urban community claimed the federal EITC, bringing back \$321 million to low-wage earners. But, 28% of the people claiming the federal EITC lived in rural areas of the state.
- ***A state Working Families Tax Credit stimulates the local economy.***
Local residents often spend their refunds where they live and thereby help boost the local economy. Because so many of the people receiving the EITC live in rural areas, this credit piggyback credit is an extra boost for rural areas.

Who would benefit from a Working Families Tax Credit in New Mexico?

Working families with incomes up to \$37,263 qualify for the federal EITC, which would be the same threshold for the Working Families Tax Credit in New Mexico. New Mexico currently has a Low Income Comprehensive Tax Rebate (LICTR) which gives low-income people making up to \$22,000 a year a rebate on sales tax regardless of employment status. A taxpayer would have to choose between the two credits, but about 60,000 new families will qualify for refunds under the Working Families Tax Credit, and some families currently receiving LICTR will qualify for larger refunds.

How would a "refundable" Working Families Tax Credit work in New Mexico?

The beauty of this credit is its simplicity. The Working Families Tax Credit would piggyback on the federal EITC, making it very simple to administer. Families who qualify for the federal EITC would also qualify for the Working Families Tax Credit. New Mexico would not have to worry about fraud as the federal government monitors EITC fraud.