

Tax Policy and Economic Well-Being

James Jimenez, Director of Policy, Research and
Advocacy Integration

Bill Jordan, Senior Policy Advisor/Governmental Relations

Presented to the
Revenue Stabilization and Tax Policy Committee

October 23, 2014



Our economy is strong when our families are strong

Our families are struggling

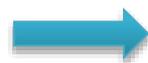
Wages are stagnant



Job growth is stagnant



Student loan debt is up



Income inequality is high



Our economy is struggling

Purchasing power is down

Labor force participation
is down

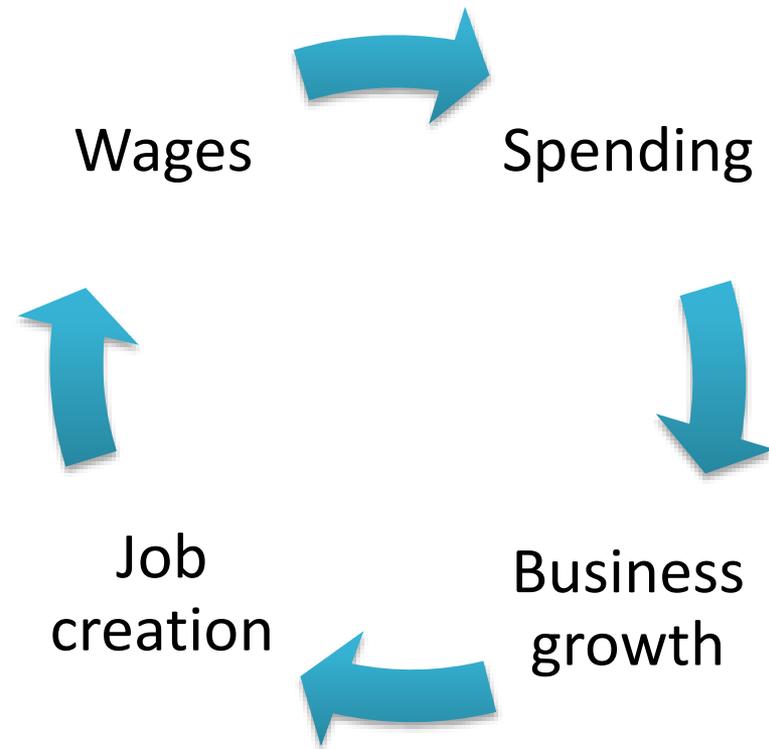
Household formation is down

Our economy is out of balance



The economy is healthiest when everyone participates

In a consumer-driven economy, the real “job creator” is consumer spending



There are practical, common-sense solutions

Quickest way to increase consumer spending

- Put more money into the hands of wage earners
- Those with the lowest incomes spend the largest percentage of their wages just to get by



The Earned Income Tax Credit

Proven to increase consumer spending

- EITC injects \$500 million into NM economy

Ronald Reagan called the Earned Income Tax Credit
“The best anti-poverty, the best pro-family, the best
job creation measure to come out of Congress.”



NM's Working Families Tax Credit

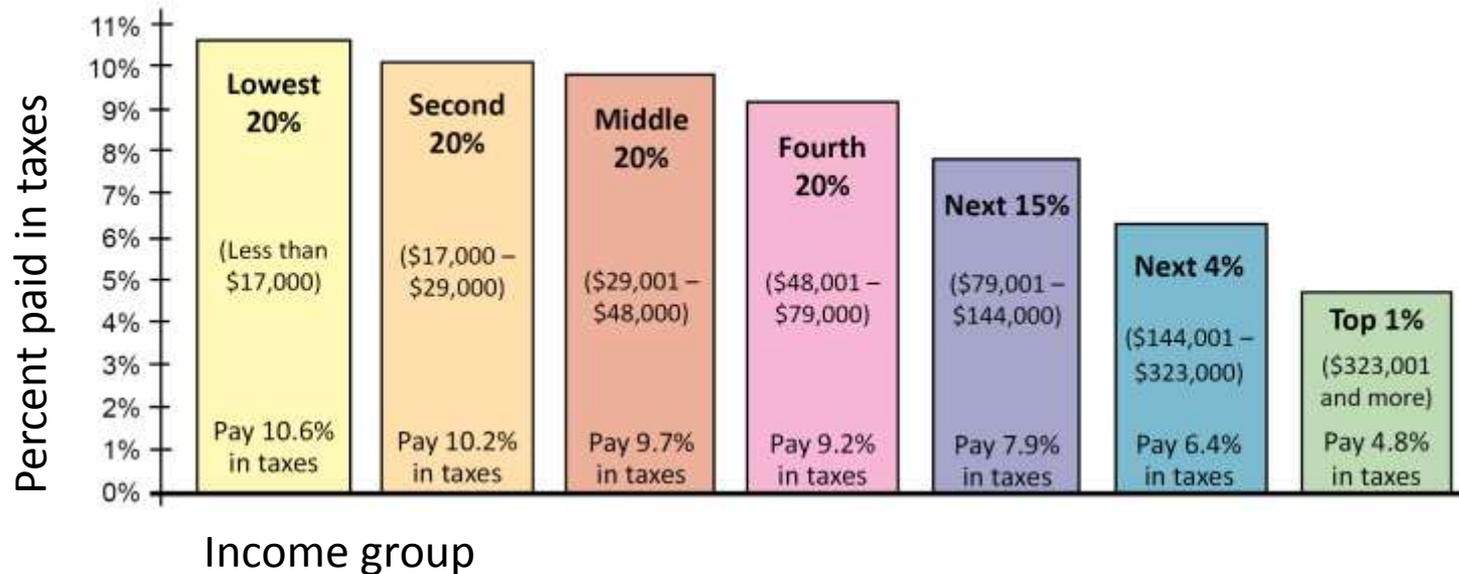
Increase the WFTC from 10% to 15% of the EITC

- Good for small businesses and their employees
- Money spent quickly and locally
- 97% goes to working families with kids
- Without them, 40,000 *more* NM families would be in poverty
- Families claiming the credits work more and earn more
- Effective at improving long-term educational & health outcomes
- Most only claim them for 1 or 2 years
- Cost to increase WFTC: \$25 million



Low- and middle- income workers pay a much larger portion of their income in state and local taxes

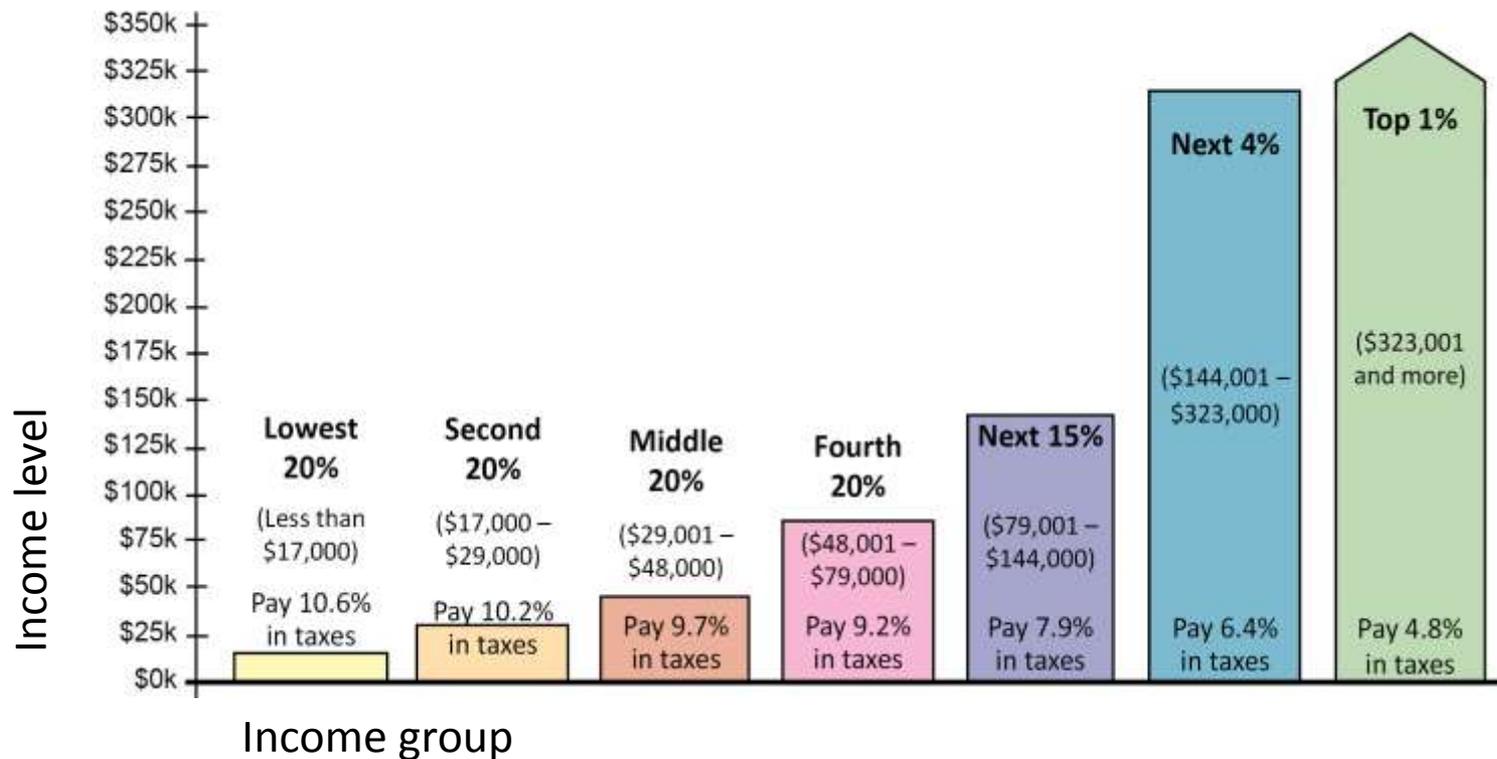
Tax rate for the lowest 60% is 2x rate for top 1%



Source: *Who Pays? A Distributional Analysis of the Tax Systems in all 50 States*, Institute on Taxation and Economic Policy, 2013

This is on top of enormous income inequality

The top 1% earns 20x what the lowest 20% earns



Source: *Who Pays? A Distributional Analysis of the Tax Systems in all 50 States*, Institute on Taxation and Economic Policy, 2013₈

Our tax policy has been one-sided

Focused on corporate tax cuts at the expense of working families

- Corporate tax revenue is shrinking
 - We will lose 2/3^{rds} of our CIT
- Corporations are paying much less
- Families are paying more
 - Local GRT rates are going up and are likely to continue to go up over the next 15 years



Prioritize the Working Families Tax Credit

Increase the WFTC from 10% to 15% of the EITC

- Make room for it in the General Fund budget

OR

- Balance the cost with new revenue



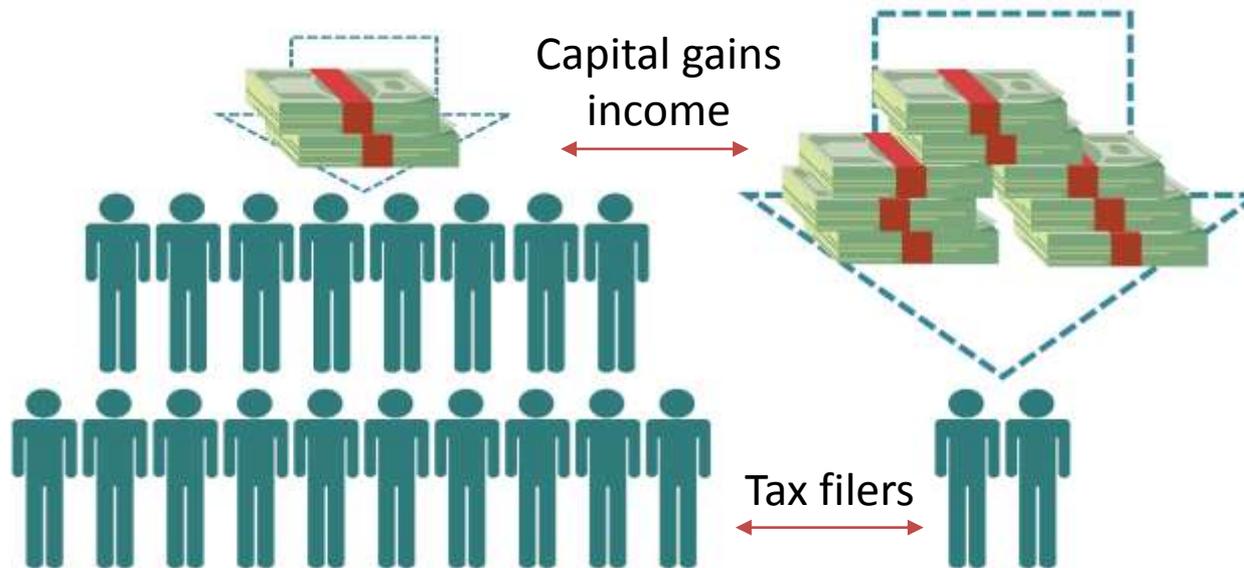
Possible sources of revenue

- Enact combined reporting for all CIT filers
 - Improve the competitiveness of New Mexico businesses by leveling the playing field
- Enact a new top PIT rate of 5.9%
 - Equalize the top PIT and CIT rates
 - Restore some fairness / make the tax system less regressive
- Tax internet sales
- Repeal the 50% capital gains deduction



Repeal 50% capital gains deduction

- No proven economic development value
- Has unfair and inequitable results
 - *Earned* income is taxed at a *higher* rate than *unearned* income
 - 90% of filers receive just 10% of the deductions
- Costs \$50 million



Our tax policy hasn't always followed LFC principles

Legislative Finance Committee Tax Policy Principles

- 1 Adequacy: Revenue should be adequate to fund needed government services**
- 2 Efficiency: Tax base should be as broad as possible and avoid excess reliance on one tax**
- 3 Equity: Different taxpayers should be treated fairly**
- 4 Simplicity: Collection should be simple and easily understood**
- 5 Accountability: Preferences should be easy to monitor and evaluate**



Accountability is essential

Enact a tax expenditure budget

- Allows for better evaluation of tax policies against accepted principles, including those adopted by the LFC
- Builds greater transparency and accountability into our tax system
- Tax breaks should sunset and be evaluated for performance before being renewed
- Tax breaks should be linked to job creation performance



It's time for a new kind of fiscal responsibility

First, do no harm

- No more failed tax giveaways
 - Cutting taxes to create jobs has not worked
- No more regressive tax increases
 - Raising the GRT rate will make it more difficult for families to buy goods and services
 - Allowing local governments to tax food and medical services will further depress spending

It's time for investments that work

Best economic development strategies

- Invest in the infrastructure that makes our economy possible
- Invest in the human capital that keeps our economy growing



“An economy has to work for everyone or eventually it will work for no one.”

—*Nick Hanauer, billionaire entrepreneur and venture capitalist*

“Just as the commandment ‘Thou shalt not kill’ sets a clear limit in order to safeguard the value of human life, today we also have to say ‘thou shalt not’ to an economy of exclusion and inequality. Such an economy kills.”

—*Pope Francis*



Thank you!

James Jimenez jjimenez@nmvoices.org

Bill Jordan bjordan@nmvoices.org

www.nmvoices.org



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