

Increasing the Working Families Tax Credit Is Good for New Mexico!

A Proven Policy

- New Mexico's **Working Families Tax Credit (WFTC)** is good for the economy—refunds are spent quickly and locally
- The WFTC increases the incentive to work—WFTC families work more and earn more
- The WFTC helps families pay for transportation and for healthier food
- Kids in WFTC families are healthier, do better and go further in school, and have higher college enrollment rates

New Mexico's WFTC works in tandem with the federal Earned Income Tax Credit (EITC), which is the nation's most successful anti-poverty program for children and families. The EITC and WFTC have always enjoyed bipartisan support.

The EITC and WFTC can only be claimed by people who earn income through work and pay taxes. The credits are mostly temporary supports, and three out of five recipients claim the credit for only one or two years.

The WFTC is a good way to help families experiencing temporary job loss, reduced work hours, or cuts in pay. Research shows that recipients use the credits to buy healthier food and to make big car repairs that help them remain reliable workers.

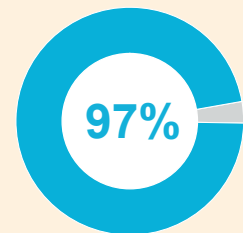
Persistent Poverty

In 2012, the federal EITC returned nearly \$500 million and the WFTC returned nearly \$50 million to New Mexico's working families, benefiting 300,000 of our children! Even so, New Mexico has the second highest rate of poverty and child poverty in the nation. Our working families need more help!

Proposed legislation would increase the value of the WFTC from 10% of the federal EITC to 15% over two years.

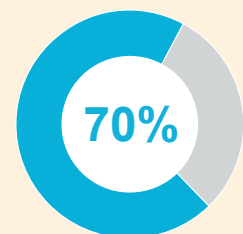
Who benefits from the WFTC?

97% of the value of the credit goes to working families with children



3 out of every 5 New Mexico children benefit from the WFTC

70% of claimants are racial/ethnic minorities



Businesses benefit as the refunds are spent quickly and locally

Please Support Legislation to Increase the Working Families Tax Credit to 15% of the EITC

The Working Families Tax Credit benefits families in every legislative district

NM House Districts

NM House District	NM State Representative	Percent of Tax Returns with EITC/WFTC	Amount Returned to NM Families from the EITC	Amount Returned to NM Families from the WFTC	Total Value of EITC & WFTC to NM Families	Additional Value if WFTC is Increased to 15% of the EITC	Combined Value of EITC & WFTC with Increase
1	Rodney Montoya	19%	\$4,443,272	\$444,327	\$4,887,599	\$222,164	\$5,109,763
2	James Strickler	42%	\$20,916,146	\$2,091,615	\$23,007,761	\$1,045,807	\$24,053,568
3	Paul Bandy	20%	\$4,003,131	\$400,313	\$4,403,444	\$200,157	\$4,603,601
4	Sharon Clahchischilliage	24%	\$3,991,868	\$399,187	\$4,391,055	\$199,593	\$4,590,648
5	Doreen Johnson	34%	\$5,338,678	\$533,868	\$5,872,546	\$266,934	\$6,139,480
6	Eliseo Lee Alcon	38%	\$7,226,956	\$722,696	\$7,949,652	\$361,348	\$8,310,999
7	Kelly Fajardo	27%	\$6,820,509	\$682,051	\$7,502,560	\$341,025	\$7,843,585
8	Alonzo Baldonado	27%	\$6,582,130	\$658,213	\$7,240,343	\$329,107	\$7,569,450
9	Patricia Lundstrom	52%	\$27,289,270	\$2,728,927	\$30,018,197	\$1,364,464	\$31,382,661
10	Andres Romero	31%	\$7,586,378	\$758,638	\$8,345,016	\$379,319	\$8,724,335
11	Javier Martinez	25%	\$7,095,823	\$709,582	\$7,805,405	\$354,791	\$8,160,196
12	Patricio Ruiloba	36%	\$9,536,850	\$953,685	\$10,490,535	\$476,843	\$10,967,378
13	Patricia Roybal Caballero	37%	\$10,212,001	\$1,021,200	\$11,233,201	\$510,600	\$11,743,801
14	Miguel P. Garcia	35%	\$10,227,215	\$1,022,722	\$11,249,937	\$511,361	\$11,761,297
15	Sarah Maestas Barnes	17%	\$4,811,855	\$481,186	\$5,293,041	\$240,593	\$5,533,633
16	Antonio "Moe" Maestas	22%	\$6,415,314	\$641,531	\$7,056,845	\$320,766	\$7,377,611
17	Deborah Armstrong	20%	\$5,310,736	\$531,074	\$5,841,810	\$265,537	\$6,107,346
18	Gail Chasey	22%	\$4,997,322	\$499,732	\$5,497,054	\$249,866	\$5,746,920
19	Sheryl Williams Stapleton	28%	\$7,600,795	\$760,080	\$8,360,875	\$380,040	\$8,740,914
20	James Mitchell Dines	23%	\$6,744,240	\$674,424	\$7,418,664	\$337,212	\$7,755,876
21	Stephanie Maez	26%	\$6,355,294	\$635,529	\$6,990,823	\$317,765	\$7,308,588
22	James Smith	15%	\$3,924,688	\$392,469	\$4,317,157	\$196,234	\$4,513,391
23	Paul Pacheco	16%	\$4,542,257	\$454,226	\$4,996,483	\$227,113	\$5,223,596
24	James Conrad	17%	\$4,842,943	\$484,294	\$5,327,237	\$242,147	\$5,569,384
25	Christine Trujillo	18%	\$4,657,971	\$465,797	\$5,123,768	\$232,899	\$5,356,667
26	Georgene Louis	29%	\$7,814,125	\$781,413	\$8,595,538	\$390,706	\$8,986,244
27	Larry Larrañaga	15%	\$4,079,797	\$407,980	\$4,487,777	\$203,990	\$4,691,767
28	Jimmie Hall	16%	\$4,278,013	\$427,801	\$4,705,814	\$213,901	\$4,919,715
29	David Adkins	17%	\$3,990,896	\$399,090	\$4,389,986	\$199,545	\$4,589,530
30	Nate Gentry	16%	\$4,041,856	\$404,186	\$4,446,042	\$202,093	\$4,648,134
31	Bill Rehm	8%	\$1,555,265	\$155,527	\$1,710,792	\$77,763	\$1,788,555
32	Dona Irwin	39%	\$11,500,481	\$1,150,048	\$12,650,529	\$575,024	\$13,225,553
33	Bill McCamley	31%	\$8,898,867	\$889,887	\$9,788,754	\$444,943	\$10,233,697
34	Bealquin Gomez	45%	\$16,023,831	\$1,602,383	\$17,626,214	\$801,192	\$18,427,406

NM House Districts

NM House District	NM State Representative	Percent of Tax Returns with EITC/WFTC	Amount Returned to NM Families from the EITC	Amount Returned to NM Families from the WFTC	Total Value of EITC & WFTC to NM Families	Additional Value if WFTC is Increased to 15% of the EITC	Combined Value of EITC & WFTC with Increase
35	Jeff Steinborn	31%	\$9,081,395	\$908,140	\$9,989,535	\$454,070	\$10,443,604
36	Andy Nunez	31%	\$7,840,282	\$784,028	\$8,624,310	\$392,014	\$9,016,324
37	Terry McMillan	21%	\$6,074,507	\$607,451	\$6,681,958	\$303,725	\$6,985,683
38	Dianne Miller Hamilton	24%	\$5,408,146	\$540,815	\$5,948,961	\$270,407	\$6,219,368
39	John Zimmerman	27%	\$7,983,371	\$798,337	\$8,781,708	\$399,169	\$9,180,877
40	Nick Salazar	27%	\$5,835,839	\$583,584	\$6,419,423	\$291,792	\$6,711,215
41	Debbie Rodella	27%	\$6,532,768	\$653,277	\$7,186,045	\$326,638	\$7,512,683
42	Roberto Gonzales	29%	\$7,002,590	\$700,259	\$7,702,849	\$350,130	\$8,052,979
43	Stephanie Garcia Richard	12%	\$2,946,375	\$294,638	\$3,241,013	\$147,319	\$3,388,331
44	Jane Powdrell-Culbert	18%	\$5,145,751	\$514,575	\$5,660,326	\$257,288	\$5,917,614
45	Jim Trujillo	22%	\$5,893,029	\$589,303	\$6,482,332	\$294,651	\$6,776,983
46	Carl Trujillo	20%	\$5,696,845	\$569,685	\$6,266,530	\$284,842	\$6,551,372
47	Brian F. Egolf Jr.	15%	\$3,754,393	\$375,439	\$4,129,832	\$187,720	\$4,317,552
48	Luciano "Lucky" Varela	19%	\$5,163,215	\$516,322	\$5,679,537	\$258,161	\$5,937,697
49	Don Tripp	29%	\$7,849,103	\$784,910	\$8,634,013	\$392,455	\$9,026,468
50	Matthew McQueen	21%	\$5,596,606	\$559,661	\$6,156,267	\$279,830	\$6,436,097
51	Yvette Herrell	24%	\$6,832,738	\$683,274	\$7,516,012	\$341,637	\$7,857,649
52	Doreen Gallegos	38%	\$10,295,172	\$1,029,517	\$11,324,689	\$514,759	\$11,839,448
53	Rick Little	40%	\$12,962,243	\$1,296,224	\$14,258,467	\$648,112	\$14,906,579
54	James Townsend	20%	\$5,343,255	\$534,326	\$5,877,581	\$267,163	\$6,144,743
55	Cathrynn Brown	22%	\$6,205,885	\$620,589	\$6,826,474	\$310,294	\$7,136,768
56	Zachary Cook	30%	\$7,797,926	\$779,793	\$8,577,719	\$389,896	\$8,967,615
57	Jason Harper	18%	\$4,575,956	\$457,596	\$5,033,552	\$228,798	\$5,262,349
58	Candy Spence Ezzell	35%	\$8,397,065	\$839,707	\$9,236,772	\$419,853	\$9,656,625
59	Nora Espinoza	29%	\$7,533,888	\$753,389	\$8,287,277	\$376,694	\$8,663,971
60	Tim Lewis	19%	\$4,739,426	\$473,943	\$5,213,369	\$236,971	\$5,450,340
61	David Gallegos	23%	\$6,663,336	\$666,334	\$7,329,670	\$333,167	\$7,662,836
62	Larry Scott	23%	\$6,244,348	\$624,435	\$6,868,783	\$312,217	\$7,181,000
63	George Dodge Jr.	29%	\$7,992,432	\$799,243	\$8,791,675	\$399,622	\$9,191,297
64	Randal Crowder	28%	\$8,639,300	\$863,930	\$9,503,230	\$431,965	\$9,935,195
65	James Roger Madalena	35%	\$7,745,410	\$774,541	\$8,519,951	\$387,271	\$8,907,222
66	Bob Wooley	25%	\$7,031,179	\$703,118	\$7,734,297	\$351,559	\$8,085,856
67	Dennis Roch	28%	\$6,916,825	\$691,683	\$7,608,508	\$345,841	\$7,954,349
68	Monica Youngblood	17%	\$4,512,267	\$451,227	\$4,963,494	\$225,613	\$5,189,107
69	Ken Martinez	35%	\$8,315,838	\$831,584	\$9,147,422	\$415,792	\$9,563,214
70	Tomas Salazar	32%	\$7,684,685	\$768,469	\$8,453,154	\$384,234	\$8,837,388
Statewide Totals		26%	\$497,890,162	\$49,789,016	\$547,679,178	\$24,894,508	\$572,573,686

Source: NMVC analysis of tax year 2012 Internal Revenue Service data provided by the Brookings Institute
NEW MEXICO VOICES FOR CHILDREN

NM Senate Districts

NM Senate District	NM State Senator	Percent of Tax Returns with EITC/ WFTC	Amount Returned to NM Families from the EITC	Amount Returned to NM Families from the WFTC	Total Value of EITC & WFTC to NM Families	Additional Value if WFTC is Increased to 15% of the EITC	Combined Value of EITC & WFTC with Increase
1	Bill Sharer	37%	\$23,976,728	\$2,397,673	\$26,374,401	\$1,198,836	\$27,573,237
2	Steven Neville	20%	\$7,035,745	\$703,575	\$7,739,320	\$351,787	\$8,091,107
3	John Pinto	29%	\$6,683,199	\$668,320	\$7,351,519	\$334,160	\$7,685,679
4	George Munoz	49%	\$33,675,677	\$3,367,568	\$37,043,245	\$1,683,784	\$38,727,029
5	Richard Martinez	20%	\$8,584,785	\$858,479	\$9,443,264	\$429,239	\$9,872,503
6	Carlos Cisneros	24%	\$10,698,920	\$1,069,892	\$11,768,812	\$534,946	\$12,303,758
7	Pat Woods	28%	\$13,663,886	\$1,366,389	\$15,030,275	\$683,194	\$15,713,469
8	Pete Campos	30%	\$12,007,437	\$1,200,744	\$13,208,181	\$600,372	\$13,808,553
9	John M. Sapien	18%	\$8,970,116	\$897,012	\$9,867,128	\$448,506	\$10,315,633
10	John C. Ryan	17%	\$7,961,893	\$796,189	\$8,758,082	\$398,095	\$9,156,177
11	Linda M. Lopez	37%	\$16,751,421	\$1,675,142	\$18,426,563	\$837,571	\$19,264,134
12	Gerald Ortiz y Pino	28%	\$12,230,234	\$1,223,023	\$13,453,257	\$611,512	\$14,064,769
13	Bill B. O'Neill	20%	\$8,831,501	\$883,150	\$9,714,651	\$441,575	\$10,156,226
14	Michael Padilla	36%	\$15,071,532	\$1,507,153	\$16,578,685	\$753,577	\$17,332,262
15	Daniel A. Ivey-Soto	18%	\$7,921,847	\$792,185	\$8,714,032	\$396,092	\$9,110,124
16	Cisco McSorley	22%	\$10,036,322	\$1,003,632	\$11,039,954	\$501,816	\$11,541,770
17	Mimi Stewart	27%	\$10,711,390	\$1,071,139	\$11,782,529	\$535,570	\$12,318,099
18	Lisa A. Torracco	13%	\$5,714,266	\$571,427	\$6,285,693	\$285,713	\$6,571,406
19	Sue Wilson Beffort	19%	\$7,989,629	\$798,963	\$8,788,592	\$399,481	\$9,188,073
20	William H. Payne	18%	\$8,036,960	\$803,696	\$8,840,656	\$401,848	\$9,242,504
21	Mark Moores	13%	\$5,360,392	\$536,039	\$5,896,431	\$268,020	\$6,164,451
22	Benny Shendo	33%	\$11,131,128	\$1,113,113	\$12,244,241	\$556,556	\$12,800,797
23	Sander Rue	17%	\$6,900,061	\$690,006	\$7,590,067	\$345,003	\$7,935,070
24	Nancy Rodriguez	21%	\$9,632,770	\$963,277	\$10,596,047	\$481,639	\$11,077,686
25	Peter Wirth	16%	\$7,101,674	\$710,167	\$7,811,841	\$355,084	\$8,166,925
26	Jacob R. Candelaria	26%	\$12,294,013	\$1,229,401	\$13,523,414	\$614,701	\$14,138,115
27	Stuart Ingle	28%	\$11,898,495	\$1,189,850	\$13,088,345	\$594,925	\$13,683,269
28	Howie C. Morales	26%	\$11,351,635	\$1,135,164	\$12,486,799	\$567,582	\$13,054,380
29	Michael S. Sanchez	28%	\$12,056,467	\$1,205,647	\$13,262,114	\$602,823	\$13,864,937
30	Clemente Sanchez	31%	\$12,164,481	\$1,216,448	\$13,380,929	\$608,224	\$13,989,153
31	Joseph Cervantes	44%	\$23,310,666	\$2,331,067	\$25,641,733	\$1,165,533	\$26,807,266
32	Cliff R. Pirtle	33%	\$14,996,129	\$1,499,613	\$16,495,742	\$749,806	\$17,245,548
33	William F. Burt	27%	\$12,466,682	\$1,246,668	\$13,713,350	\$623,334	\$14,336,684
34	Ron Griggs	29%	\$14,512,303	\$1,451,230	\$15,963,533	\$725,615	\$16,689,148
35	John Arthur Smith	34%	\$16,782,662	\$1,678,266	\$18,460,928	\$839,133	\$19,300,061
36	Lee S. Cotter	31%	\$15,474,885	\$1,547,489	\$17,022,374	\$773,744	\$17,796,118
37	William P. Soules	23%	\$11,273,495	\$1,127,350	\$12,400,845	\$563,675	\$12,964,519
38	Mary Kay Papen	33%	\$15,095,918	\$1,509,592	\$16,605,510	\$754,796	\$17,360,306
39	Phil A. Griego	23%	\$8,269,711	\$826,971	\$9,096,682	\$413,486	\$9,510,168
40	Craig W. Brandt	19%	\$8,126,589	\$812,659	\$8,939,248	\$406,329	\$9,345,577
41	Carroll H. Leavell	23%	\$10,877,815	\$1,087,782	\$11,965,597	\$543,891	\$12,509,487
42	Gay G. Kernan	22%	\$10,258,688	\$1,025,869	\$11,284,557	\$512,934	\$11,797,491
Statewide Totals		26%	\$497,890,147	\$49,789,015	\$547,679,162	\$24,894,507	\$572,573,669

Expanding New Mexico's Working Families Tax Credit Would Generate Economic Activity and Help Hard-Working Families

by Amber Wallin, MPA

Our economy is strong when people have money to spend. When people work full time and still don't earn enough money to cover the basics, our economy is not at its healthiest. Tax credits for low- and moderate-income families are one way to generate economic activity, particularly when wages are low. In New Mexico, the Working Families Tax Credit encourages work, helps to raise hard-working families out of poverty, and benefits almost 300,000 children, while also pumping millions of dollars into local communities.

While the rest of the nation is recovering from the recession, New Mexico is still struggling to attract jobs and grow the economy. Expanding this credit so it does more for New Mexico's hard-working low-wage families would pull more children and families out of poverty and benefit local businesses and communities.

The Working Families Tax Credit (WFTC) is the state equivalent of the federal Earned Income Tax Credit (EITC). A refundable tax credit available to low-income workers, the EITC passed with bipartisan support under President Gerald Ford in 1975. In 1986, the EITC was indexed to rise with inflation under President Ronald Reagan who called the program "the best anti-poverty, the best pro-family, the best job creation measure to come out of Congress."¹ Since then, it has been strongly supported by lawmakers on the national level and in several states. New Mexico enacted the WFTC in 2007. It is worth 10 percent of the value of the federal EITC and provides additional benefits for New Mexico's working families and communities.

How the Credits Work and Who Claims Them

Eligibility for the credits depend on a filer's earned income, marital status, and the number of dependent children. For tax year 2014, working parents who have

incomes of up to \$38,500 (for a single parent with one child) and \$52,400 (for a married couple with three or more children) can receive the credits. Workers with no children must earn no more than \$14,600 (or \$20,000, if married and filing jointly) to qualify for credits. The value of the refunds range between about \$500 and \$6,100 for the EITC and \$50 to \$600 for the WFTC. The refund amounts rise as earned income increases until they reach a maximum level, at which point they plateau and then phase out as income increases.

In the 2012 tax year, the most recent year for which the data are available, more than 212,000 New Mexico individuals and families (or 26 percent of the tax returns filed in the state) claimed the EITC and WFTC.

That year, New Mexico's working families received nearly \$500 million from federal returns and nearly \$50 million from the state. The average credit amount for each New Mexican tax return was about \$2,600 when the two refunds are combined.²

The majority of the more than 212,000 working New Mexicans who claim the EITC and WFTC every year are racial or ethnic minorities; 55 percent are Hispanic, nearly 15 percent are Native American, and 28 percent are non-Hispanic White (see Figure 1). These filers have a median income of \$13,638.³ The credits help most of these workers through tough but temporary economic

troubles, such as a job loss or the birth of a child. In fact, three out of five workers claim the credits for only one or two years⁴ (See Figure II).

The vast majority of those who claim the EITC and WFTC are working, low-income parents who support the almost 300,000 kids living in the households that benefit from the credits. This is especially important, because according to the National KIDS COUNT program, New Mexico ranks 49th among the states in economic well-being, and 49th in overall child well-being.⁵ More than 97 percent of the EITC and WFTC money returned to taxpayers goes to working families. The income boost from the credits helps the families afford necessities like food, housing, and transportation. It also provides support for more than 14,000 New Mexico families headed by military veterans who are making their way back into the workforce.⁶

As a group, those who claim the EITC and WFTC pay a large percentage of their incomes in taxes. In fact, in addition to the federal payroll taxes they pay, New

Mexico’s lowest-income households pay a greater share of their income in state and local taxes than do the highest-income households. Those making less than \$17,000 a year pay more than 10 percent of their incomes in state and local taxes. Meanwhile, New Mexicans who make more than \$300,000 pay less than 5 percent of their incomes in those same taxes⁷ (see Figure III). This huge disparity exists even after the current value of the EITC and WFTC are taken into account.

Many types of industries and occupations are represented among EITC/WFTC-eligible tax claimants (see Figure IV). The health care, retail trade, accommodation and food service, and construction sectors have the highest shares of workers who can claim the credits. The occupations that have the highest shares of EITC/WFTC filers are sales, office and administrative work, and construction and extraction (see Figure V).

Half of filers have a high school diploma or less, but half have at least some college, with 12 percent of the filers having a bachelor’s degree or higher (see Figure VI).

FIGURE I
In New Mexico, racial/ethnic minorities benefit most from the credits

EITC/WFTC filers by race/ethnicity (2012)

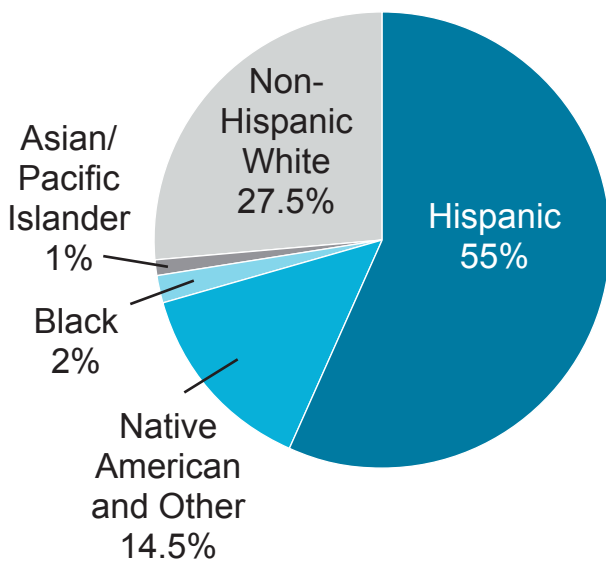
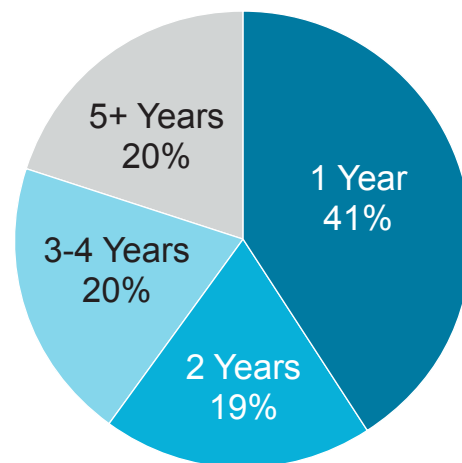


FIGURE II
Most filers claim the credits for just one or two years

EITC/WFTC filers by length of time credit is claimed (2012)

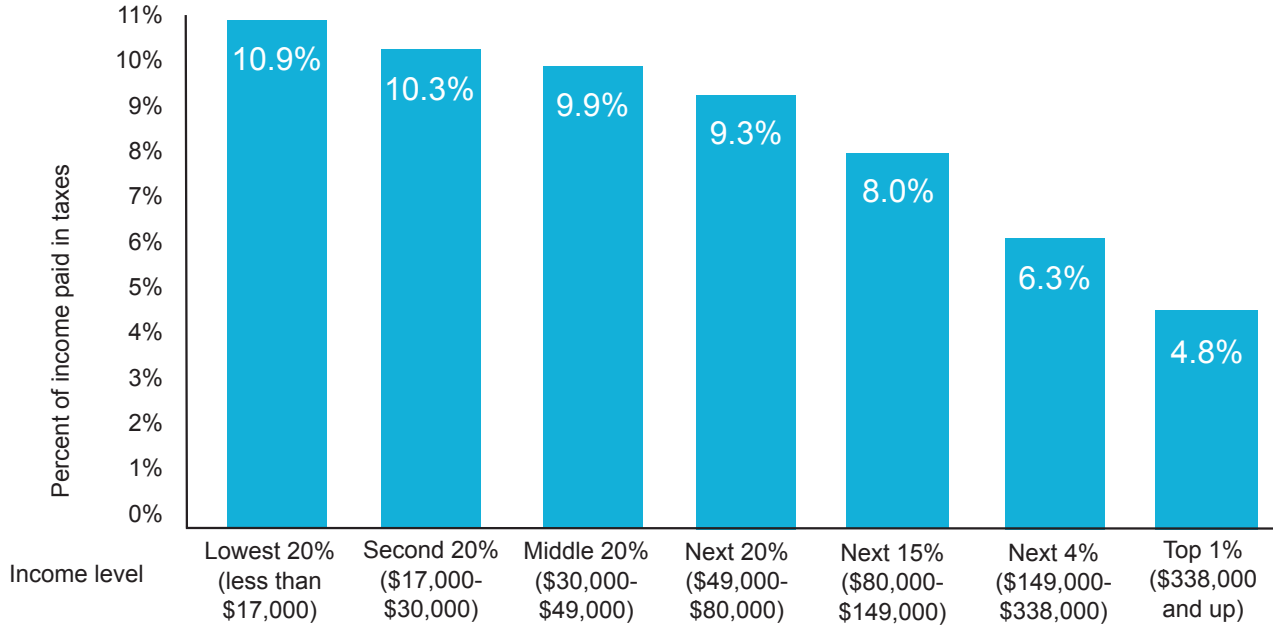


Source: NM Voices for Children analysis of 2012 Internal Revenue Service income tax data provided by the Brookings Institute
 NEW MEXICO VOICES FOR CHILDREN

FIGURE III

New Mexicans with the lowest incomes pay the highest rates in state and local taxes

The majority of New Mexicans (those earning less than \$80,000) pay more than 9 percent of their incomes in state and local taxes, while a tiny minority (making more than \$338,000) pay less than 5 percent.



Source: Who Pays?, The Institute on Taxation and Economic Policy, 2015
 Note: Table shows permanent law in New Mexico enacted through December 31, 2014 at 2012 income levels
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FIGURE IV

The credits go to those working in low-wage industries

The top five Industries for EITC/WFTC filers (2012)

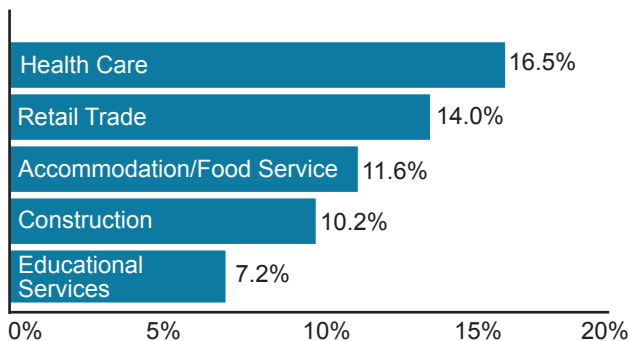
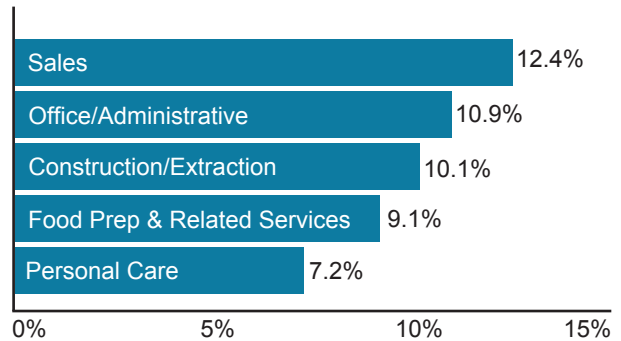


FIGURE V

The credits go to those in low-wage jobs

The top five occupations of EITC/WFTC filers (2012)



Source: NM Voices for Children analysis of 2012 Internal Revenue Service income tax data provided by the Brookings Institute
 NEW MEXICO VOICES FOR CHILDREN

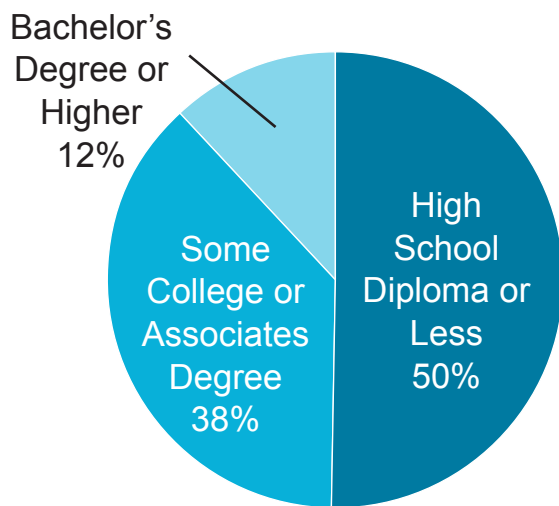
Putting the Credits to Work for the State

New Mexico's high rate of poverty would be even worse without these tax credits. Our overall poverty rate (22 percent) is among the highest in the nation and only one state has a higher rate of children in poverty (31 percent).⁸ New Mexico is one of just three states that saw an increase in poverty from 2012 to 2013.

New Mexico also has the highest percentage (44 percent) of working families that are low-income.⁹ Last year, the EITC and WFTC lifted more than 40,000 New Mexico families—including 20,000 children—out of poverty. New Mexico also has one of the highest rates of income inequality—meaning the gap between what the lowest-income New Mexicans earn and what the highest-income New Mexicans earn is among the largest in the nation. Income inequality puts our economy out of balance because too much income is concentrated into too few hands where it is less likely to be spent.

FIGURE VI The tax credits help those with lower levels of education

EITC/WFTC Filers by Educational Level (2012)



Source: NM Voices for Children analysis of 2012 Internal Revenue Service income tax data provided by the Brookings Institute
NEW MEXICO VOICES FOR CHILDREN

The WFTC is a relatively small investment on the part of the state that can make a big difference in the lives of working families. The extra income helps families to meet their kids' basic needs, which in turn—research has shown—contributes to improved health outcomes,¹⁰ helps children perform better and go farther in school, and gives them a better chance to thrive and succeed as adults.¹¹ And the effect is long-lasting. Because higher incomes from refundable tax credits are associated with better health, more education, and higher skills, children in EITC/WFTC families are more likely to work and earn more as adults.¹²

“Research shows that EITC households spend their credits quickly and locally, so the credits have a strong multiplier effect.”

The EITC and WFTC also help low-income families participate in the workforce because they help pay for necessities like child care, transportation, and education or job training programs. This is good for businesses because workers who can pay for these basic needs are more reliable employees. Families with very low wages see higher refunds as their incomes rise, which encourages them to work more hours. Research shows that the EITC increases employment and reduces the need for public assistance.

The EITC and WFTC are also good for businesses because they are good for the state's economy. Last year alone, New Mexico's low-wage workers received nearly \$550 million from the EITC and WFTC—the majority of which was pumped right back into the economy through rent payments, purchases of groceries and other household necessities, and to pay for child care. Research shows that EITC households spend their credits quickly and locally, so the credits have a strong multiplier effect. In fact, it is estimated that for every \$1.00 claimed from the EITC, \$1.50 to \$2.00 is generated in local economic activity.¹³ That means the EITC alone is responsible for somewhere between \$740 million and nearly \$1 billion in economic activity in New Mexico each year.

Policy Recommendations

Evidence that New Mexico's Working Families Tax Credit reduces poverty and spurs the economy is abundant. However, the credit could do even more with some small changes.

• Increase the value of the WFTC

Lawmakers should increase the credit from 10 percent to at least 15 percent of the federal Earned Income Tax Credit. Efforts to do so in the 2014 session were very well supported. Raising the credit to 15 percent of the EITC would mean investing \$25 million in our economy and our hard-working low-income families—a modest investment that will make a big difference for New Mexico families struggling to get by on low wages. At 10 percent, New Mexico's WFTC is below the national average among other states that have a similar EITC-based tax credit.

• Expand outreach efforts and tax preparation assistance

One in five eligible workers in New Mexico miss out on the EITC and WFTC, either because they don't claim it when filing, or they don't file a return. Tax assistance programs—such as the United Way and CNM's Tax Help New Mexico program—that provide free (and bilingual) tax preparation for low-income New Mexicans are great models for tax preparation outreach. Lawmakers should expand outreach efforts like these and support free or low-cost tax preparation assistance in order to maximize the benefit of the credit.

• Limit refund anticipation loans and checks

Another good reason for increasing access to free or low-cost tax preparation for low-income New Mexicans is that it keeps them from being preyed upon by commercial preparers offering refund anticipation loans (RALs) and refund anticipation checks (RACs). RALs are no-risk, very short-term loans made to the tax filer so they can receive a refund the same day. RACs are essentially the same thing except that a taxpayer must open a temporary bank account. Fees for preparation of the return and the RAC account are then deducted from the taxpayer's refund before a check is issued to the taxpayer. Tax preparers who push RALs and RACs often

fail to tell their customers that they could receive their refund by electronic transfer in as little as two weeks at no cost. Both RALs and RACs disproportionately harm EITC/WFTC tax filers and can syphon off much of the credits intended to help low-wage workers. New Mexico should limit the rate that can be charged on these refund options, mandate and standardize disclosure and marketing practices, and more strictly enforce compliance among lenders.

Endnotes

- 1 Quoted by Lea Donosky in "Sweeping Tax Overhaul Now The Law," *The Chicago Tribune*, October 23, 1986
- 2 NM Voices for Children analysis of 2012 Internal Revenue Service (IRS) income tax data provided by the Brookings Institute
- 3 Ibid
- 4 *Income Mobility and the Earned Income Tax Credit: Short-Term Safety Net or Long-Term Income Support*, Tim Dowd and John B. Horowitz, 2011
- 5 *KIDS COUNT Data Book*, Annie E. Casey Foundation, 2014
- 6 Center on Budget and Policy Priorities analysis of 2009-2012 American Community Survey data
- 7 *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*, Institute on Taxation and Economic Policy, 2015
- 8 U.S. Census Bureau, American Community Survey data, 2013
- 9 *Low-Income Working Families: The Growing Economic Gap*, The Working Poor Families Project, analysis of U.S. Census American Community Survey 2011 data on families below 200% of the federal poverty level, 2013
- 10 *The EITC: Linking Income to Real Health Outcomes*, Hilary W. Hoynes, Douglas L. Miller, and David Simon, University of California Davis Center for Poverty Research, 2013
- 11 *Earned Income Tax Credit Promotes Work, Encourages Children's Success at School, Research Finds*, Center on Budget and Policy Priorities, revised in 2014
- 12 "Early-Childhood Poverty and Adult Attainment, Behavior, and Health," Greg J. Duncan, Kathleen M. Ziol-Guest, and Ariel Kalil, *Child Development*, January/February 2010, pp. 306-325
- 13 *Dollar Wise: The Best Practices on the Earned Income Tax Credit*, U.S. Conference of Mayors, 2008

This report was released in October 2014. The original can be found online at:

www.nmvoices.org/wp-content/uploads/2014/10/WFTC-report-10-2014-web.pdf

The Earned Income Tax Credit: The Truth About Overpayments and Errors

The debate around the issue of EITC errors is often misleading and ignores three important points:

1. Most EITC overpayments are due to errors, not fraud.

- IRS studies acknowledge the majority of errors are unintentional¹ and stem from the combination of the complexity of the EITC's rules and the complexity of many family arrangements.² Namely, very strict EITC rules over who can claim a child cause filing mistakes among separated or divorced couples and those couples who are married, but file as single or as head of household.
- Tax filers found to have wrongly claimed the EITC face monetary penalties and are generally barred from claiming the EITC in future years.
- The IRS estimates that most EITC errors occur on commercially prepared returns.³

2. The overpayment rate is overstated and based on older data.

- Many EITC claims counted as “overpayments” are, in fact, found to be valid upon further review. More than 40 percent of claims found erroneous in audits were determined to be correct on appeal, according to analyses by the National Taxpayer Advocate.⁴
- The overpayment rate does not fully account for corresponding underpayments. For example, if a father mistakenly claims an EITC for a child that lives with the mother, the full amount is counted as an overpayment but the amount unclaimed by the eligible mother is not taken into account.
- Overpayment estimates are based on 2009 data, and do not reflect the significant additional enforcement measures the IRS has implemented since then.

3. EITC errors cost significantly less than business tax noncompliance.

- A 2012 IRS study found that 56 percent of business income went unreported in 2006. This cost \$122 billion in uncollected revenues—*more than ten times the size of estimated EITC overpayments that year.*⁵
- EITC rate of noncompliance is substantially lower than the rate in a number of other parts of the tax code, and accounts for a very small share (less than 3 percent) of the estimated \$450 billion tax compliance gap.

IRS Actions Since 2009 to Reduce EITC Overpayments⁶

- 80 percent of EITC claims are now filed electronically, better enabling IRS to identify questionable EITC claims before paying them.
- A powerful IRS database identifies questionable EITC claims for children, targeting nearly 500,000 claims annually for examination.
- The value of EITC overpayments prevented or recovered rose from \$2.6 billion in fiscal year 2006 to \$3.8 billion in fiscal year 2011.
- 60 percent of EITC returns are filed by commercial tax preparers who until now have had neither to fulfill any IRS competency requirements nor even to register as tax preparers with the IRS. The IRS launched a new initiative in 2010 requiring preparers to register and pass a competency exam that promised to be a major step forward. Unfortunately, the DC Circuit Court recently upheld a challenge by a few preparers that IRS did not have the authority to implement the new regulations. Congress must now act promptly to provide IRS clear authority to enable this initiative to be fully applied.
- Despite the setback in the courts, the IRS continues to require preparers to register and obtain preparer tax identification numbers (PTINs). In 2013, the IRS also identified 7,000 preparers with high error rates in the EITC claims they filed. It carried out a range of “real time” interventions with these preparers before and during the 2013 filing season, including educational visits by IRS agents. Overall, this strategy averted an estimated \$590 million in erroneous claims, according to the IRS.
- Treasury has launched an EITC pilot project to examine whether matching EITC claims to databases of verified eligibility information for other low-income programs can identify inaccurate EITC claims before payment.

Endnotes

1 “Issues Affecting Low-Income Filers,” Janet Holtzblatt and Janet McCubbin, in *The Crisis in Tax Administration*, Henry Aaron and Joel Slemrod, Brookings Institution Press, November 2002; and “Noncompliance and the EITC: Taxpayer Error or Taxpayer Fraud,” Jeffrey Liebman, Harvard University, November 1995.

2 Department of the Treasury, Agency Financial Report (AFR), fiscal year 2013, p. 207. It is estimated 70 percent of issues relate to complex residency and relationship requirements and confusion on claiming eligible children. The remaining 30 percent of EITC improper payments stem from verification of wage and self-employment income. (EITC recipients are as likely to be self-employed as other taxpayers.) Income verification issues regarding self-employment are a concern in the tax code as a whole, not unique to the EITC.

3 Testimony of John A. Koskinen, IRS Commissioner, before U.S. House Ways and Means Subcommittee on Oversight, February 5, 2014.

4 Testimony of Nina Olson, IRS National Taxpayer Advocate, before U.S. House Appropriations Subcommittee on Financial Services and General Government, February 26, 2014, p. 32.

5 “Tax Gap for Tax Year 2006: Overview,” Internal Revenue Service, January 6, 2012. These figures, which are for 2006 tax returns, represent the estimated impact of business under-reporting in the personal income tax; they do not include under-reporting or other sources of error in the corporate income tax.

6 “Reducing Overpayments in the Earned Income Tax Credit,” by Robert Greenstein, John Wanchuck, and Chuck Marr, Center on Budget and Policy Priorities, April 7, 2014.



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