Improving Child Well-Being Through Tax Policy

Presented to the Revenue Stabilization and Tax Policy Committee

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Why NMVC works on tax policy
Where are we now?
NM’s families and kids face big challenges

Ranked worst in child well-being
50th

24% of NM kids are food insecure

118,000 NM kids don’t have enough healthy food to eat

42% of working families are low-income

Some of the highest poverty rates in US among:
- Children (49th)
- people who work full-time, year-round (50th)
- people with bachelor’s degree or higher (50th)

Sources: Annie E. Casey Foundation; U.S. Dept. of Education; U.S. Census American Community Survey data; Feeding America; U.S. Dept. of Agriculture
nmvoices.org
15 years of NM’s tax policy history

We’ve tried to tax-cut our way to prosperity

Major Actions: 2003-2018

• PIT: Over-zealous personal income tax cut in 2003
• CIT: Ineffective corporate income tax cut in 2013
• GRT: Gross receipts tax carve-outs

Major Results

• Inability to fund education & other services
• Increased reliance on less stable revenue sources
• Unbalanced & regressive system
Our tax system is regressive

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

The majority of New Mexicans (those earning less than $49,500) pay more than 10 percent of their incomes in state and local taxes, while a tiny minority (making more than $376,500) pay just 6 percent.

Source: *Who Pays?,* The Institute on Taxation and Economic Policy, 2018

Note: Table shows permanent law in New Mexico enacted through September 10, 2018 at 2015 income levels

NEW MEXICO VOICES FOR CHILDREN

nmvoices.org
The 2019 legislative session
Budget items that will benefit kids

- $450 million in K-12 education
- New funding of $3.5 million to support Census 2020 outreach
- Medicaid fully funded; Medicaid buy-in study included
- Housing trust fund increased by $2.2 million
- College Affordability Fund deposit of $25 million
- NM Pre-K funding increased by $24.5 million
- Child care assistance funding increased by $9.5 million
- Home visiting funding increased by $1.7 million
- DD waiver funding increased by $7.5 million
- Individual Development Accounts funded for $150,000
Tax reform enacted
More revenue from sustainable sources

Raising reliable, recurring revenue

• A new, contingent top PIT bracket for TY21
  • Highest 3% of earners
• Capital gains deduction reduced
• Increased taxes on cigs and taxes e-cigs
  • Linked to youth health improvements
• Motor vehicle excise tax increased from 3% to 4%
  • Increases go to road funds
• Hospital tax reform
  • Leverages federal funds to address provider shortages
Tax reform enacted

*Fairer system for small businesses*

Leveling the playing field for NM businesses

- Combined reporting for multi-state corporations
- Taxes internet sales
  - Restoring revenues for local governments
Tax reform enacted
Improvements for kids and families

Giving working families a break

• Increase in the Working Families Tax Credit
  • Increased from 10% to 17% of EITC
  • +$37 million into the hands of working families

• Deduction to address harm to families from federal tax changes
  • Allows a deduction of $4,000 for each dependent beyond the first, saving families an estimated $27 million they would have paid in state income taxes due to federal tax changes
Personal income tax changes and NM families

Impact on all New Mexico families with children

- 70% of taxpayers with children will see income tax cut
- $64 million will be returned to families with children

Impact on all New Mexicans

- 250,000 (29% of all taxpayers) will see income tax cut

Impact on the wealthiest New Mexicans

- Just 5% of taxpayers may see an increase in income taxes, paid overwhelmingly by the highest earners

nmvoices.org
Other tax changes make for a net tax cut

General Fund Revenue Increase (or decrease) from 2019 Tax Legislation

<table>
<thead>
<tr>
<th>Description</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
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<td>Tax Changes: HB 6</td>
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<td>$(2,750,000)</td>
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<td><strong>OVERALL IMPACT ON GENERAL FUND REVENUES</strong></td>
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<td>$(3,825,000)</td>
<td>$(85,705,000)</td>
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Tax policy recommendations
Working Families Tax Credit

- Claimed by 1 out of 4 filers
- 14,000 NM veterans claim it
- 97% of the value goes to working families with kids
- Proven to reward work & improve outcomes for kids
- Good for business, the economy, & 210,000 NM families
- Best measure for reducing poverty
Improving the WFTC

Increase

• Rate increase to 20% of EITC ($15m)
• Increase for parents of young children under 6 yrs
  • 20% of EITC just for families with young children ($7m)
  • 30% of EITC just for families with young children ($29m)

End exclusions

• ITIN filers ($5m-$9m)
• Young workers 18-24 ($3m)

Ensure trustworthy tax prep for all who qualify

• Tax Help NM saves WFTC filers $5 million/year
• $200,000 will help expand programs like this
Child Tax Credit

- New tax credit of $25 to $175 per child
- Linked to improvements in health, education, & economic outcomes
- 75% would go to families of color
- Would directly address child poverty

Total: $67 million
Outstanding needs

We have some looming financial responsibilities

- Massive infrastructure needs
- Educational lawsuit responsibilities
- Agency vacancy & retention rates
- Outstanding tax refund claims
- Public employees retirement system needs
- Film subsidies
Stable, sustainable, diversified revenue helps build a stronger future

- Infrastructure & program needs
- 75% of revenue surplus is potentially volatile
- Economic downturn on the horizon
- Good tax policy
Personal income tax revenues

Issues

• 2003 personal income tax cuts
  • More than $500 million
  • Capital gains deduction unproven & costly
  • Made our system more regressive
• E&Y study: PIT is underutilized

Revenue options

• Fully repeal the capital gains deduction
• Restructure brackets & raise rates at high ends
Corporate income tax revenues

Issues

• Corporations should be responsible for paying their fair share for use of NM’s land, water, roads, & services
• Lower rate than national average
• 2013 cut significantly reduced revenues
• Important source of revenue for Film Tax Credit

Revenue options

• Raise rates for larger corporations
The GRT

Issues
- Regressive & complicated
- Rates have increased, especially in some localities
- E&Y study: taxpayers are treated differently; big business benefits the most

Recommendations
- Broaden the base by repealing ineffective breaks
- Lower state rate
- Don’t tax food
- Update LICTR
The Low-Income Comprehensive Tax Rebate

- Targeted to very low-income taxpayers (under $22,000)
- Benefits families & individuals of all ages
- Was designed to offset regressivity, but returns only $17 million of the $2 billion GRT to the lowest income families & seniors
- Hasn’t been updated in 21 years

Indexing LICTR to inflation from 1998: $36 million
Conclusion