

# EXEMPTING SOCIAL SECURITY INCOME FROM TAXATION:

NOT TARGETED, NOT NECESSARY, NOT CHEAP



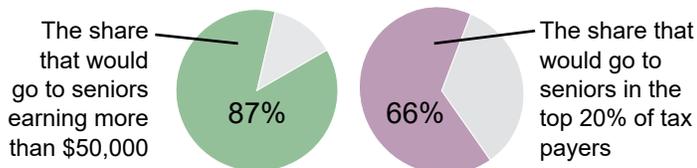
The proposals to exempt Social Security income from state income tax would not benefit those New Mexicans who need relief the most, are extremely costly, and are solutions in search of a problem.

## NOT TARGETED

Half of all seniors – those with low incomes\* – already **pay no income taxes** on their Social Security benefits. And the rest pay taxes on only a portion.<sup>1</sup>

### A COMPLETE STATE EXEMPTION WOULD ALMOST ENTIRELY BENEFIT HIGHER-INCOME SENIORS

- 87% of the value would go to those making more than \$50,000.
  - That's higher than the state's median household income.
- 66% of the value would go to those making more than \$75,000.<sup>2</sup>
  - That's the top 20% of taxpayers.



\*Individuals earning up to \$25,000 or couples earning up to \$32,000.

## NOT NECESSARY

### WE HAVE TAX BREAKS TARGETED TO LOW-INCOME SENIORS

- A state tax exemption specifically for seniors with retirement income is worth up to \$8,000.
- Low-income seniors can take another exemption worth \$2,500.

### SENIORS ALREADY GOT A BIG TAX BREAK DURING THE 2021 LEGISLATIVE SESSION:

- In 2021, lawmakers expanded eligibility for the Low-Income Comprehensive Tax Rebate (LICTR) and tripled the amount of the rebate. Those changes benefit 56,000 current and newly eligible seniors throughout our state.
- LICTR will also be indexed to inflation moving forward – meaning it won't lose its value over time like it had since it was last updated more than 20 years ago.
- LICTR is a much more effective way to help low-income seniors, because it already gives special preference to seniors by allowing them to claim two extra exemptions, which means they get a much bigger rebate.

# NOT NECESSARY

## NEW MEXICO TAXES ONLY ABOUT ONE-THIRD OF ALL SOCIAL SECURITY INCOME<sup>3</sup>

- No taxes are paid on any Social Security income by low-income seniors.
- Income taxes are only paid on 50% of Social Security income for many seniors (individuals earning \$25,000-\$34,000 or couples earning \$32,000-\$44,000).\*
- Income taxes are paid on 85% of Social Security income *only* by higher-income seniors.
- The remaining 15% is exempt from federal and state taxation because that is the only portion beneficiaries have already paid taxes on.
- Supplemental Security Income (SSI) is already *never taxable*.

\*That only a portion of Social Security income is taxed is an important point. For filers in this income category, this provision means that a married couple with income only from Social Security pays no tax unless those benefits exceed \$64,000. A couple with \$10,000 in other income pays no tax on Social Security unless their benefits exceed \$44,000. For a single filer, the stated threshold for taxation of Social Security is \$25,000, but since only one-half of the Social Security income is counted, a taxpayer with only Social Security income pays no tax unless the benefits exceed \$50,000.

# NOT CHEAP

Exempting all Social Security income from taxes would be very expensive – costing as much as \$100 million:

What could we do with that \$100 million?

- \$45 million could provide 890 teachers for K-12 schools; plus
- \$24 million could provide 320 registered nurses; plus
- \$12 million could provide 6,000 College Affordability Fund scholarships; plus
- \$11 million could provide 160 police officers; plus
- \$6 million could provide child care assistance for 830 children.

Tax cuts like this narrow our revenue streams and make us even more reliant on revenue from the boom-or-bust oil and gas industry.

# THERE'S NO NEED TO LURE SENIORS HERE – OUR SENIOR POPULATION IS ALREADY BOOMING

- Seniors are, by far, the fastest-growing age group in New Mexico:
  - The growth of our over-65 population has outpaced the rest of the nation, and we're projected to have the third highest share of seniors of any state.
  - Our senior population grew by nearly **40%** over the last decade.<sup>4</sup>
  - Seniors are drawn here by the great weather and low cost of living.

## New Mexico's Population Change by Age Group (2010-2019)



# MEANWHILE, YOUNGER NEW MEXICANS ARE LEAVING FOR BETTER JOB OPPORTUNITIES

- We'd be better off investing that money in the kinds of services that will grow the well-paying jobs that will allow our younger residents to stay.

# NEW MEXICO'S SENIORS ARE BETTER OFF FINANCIALLY THAN MUCH OF THE POPULATION

- While **14%** of seniors live in poverty:
  - **18%** of the total population lives in poverty
  - **25%** of all children live in poverty
  - **29%** of young children live in poverty<sup>5</sup>

# WE ARE NOT ALONE

- Like most states, New Mexico's income tax law follows federal income tax law except, in this case, we exempt a much larger share of Social Security income from taxes.
- 12 other states tax Social Security income: Colorado, Connecticut, Kansas, Minnesota, Missouri, Montana, Nebraska, North Dakota, Rhode Island, Vermont, Utah, and West Virginia.

1. "Effect of Taxing Social Security Benefits by income Class Estimated for Tax Year 2014," Congressional Budget Office

2. IRS 2018 Statistics of Income

3. NMVC analysis of IRS 2017 Statistics of Income and Social Security Administration, Master Beneficiary Record, 100 percent data; and U.S. Postal Service geographic data; and December 2019 testimony of Jim O'Neill, former Tax Policy Director, NM Taxation and Revenue Department

4. LFC analysis of U.S. Census Bureau data

5. 2019 American Community Survey, pre-COVID estimates