

EXEMPTING SOCIAL SECURITY INCOME FROM TAXATION:

NOT TARGETED, NOT CHEAP, NOT NECESSARY



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 (up to \$25,000 for individuals or \$32,000 for couples) – **already pay no income taxes on their Social Security benefits.**¹

A complete state exemption would almost entirely benefit higher-income seniors.

- 86% of the value would go to those making more than \$50,000.
 - That's higher than the state's median household income.
- 64% of the value would go to those making more than \$75,000.²
 - That's the top 20% of taxpayers.

New Mexico already has 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.
- The existing Low-Income Comprehensive Tax Rebate (LICTR) is a much more effective way to help low-income seniors.
 - LICTR already gives special preference and bigger rebates to seniors because it allows people aged 65 and older to claim two extra exemptions.
 - But LICTR hasn't been updated in more than 20 years, so it's worth much less now than when it was enacted due to inflation.
 - Legislation has been introduced to increase the rebate, providing more targeted relief for low-income New Mexicans of all ages, and at a much more reasonable cost.



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.

NOT NECESSARY

New Mexico taxes only about one-third of Social Security income.³

- The federal government exempts 15% of Social Security income because that is the only portion you've already paid taxes on.
- Income taxes are only paid on the other 85% by higher-income seniors.

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 poverty⁴

THERE'S NO NEED TO LURE SENIORS TO NEW MEXICO – THEY'RE ALREADY COMING

New Mexico's 10-Year Population Change by Age Group (2010-2019)

| Age Group | Population Size | | Change | |
|-------------------|-----------------|-----------|---------|-----|
| | 2010 | 2019 | # | % |
| Under 18 years | 518,672 | 475,833 | -42,834 | -8% |
| 18 to 24 years | 203,539 | 195,875 | -7,664 | -4% |
| 25 to 44 years | 515,768 | 538,933 | 23,165 | 4% |
| 45 to 64 years | 548,945 | 508,577 | -40,368 | -7% |
| 65 years and over | 272,255 | 377,606 | 105,351 | 39% |
| Totals | 2,059,179 | 2,096,829 | 37,650 | 2% |

Source: LFC analysis of U.S. Census Bureau data

- Seniors are, by far, the fastest-growing age group in New Mexico.
 - Our senior population grew by nearly 40% over the last decade.
 - Seniors are drawn here by the great weather and low cost of living.
- Younger New Mexicans are leaving for better job opportunities.
 - We'd be better off investing that \$100 million in growing the kinds of jobs that will allow our younger residents to stay.

GOOD TO KNOW...

- Supplemental Security Income (SSI) is already **never taxable**.
- 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, Rhode Island, North Dakota, Vermont, Utah, and West Virginia.

We can help low-income seniors much more by updating LICTR and indexing it to rise with inflation.

1 "Effect of Taxing Social Security Benefits by income Class Estimated for Tax Year 2014," Congressional Budget Office
2 IRS 2017 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 2019 American Community Survey, pre-COVID estimates