

# IMPROVING EQUITY THROUGH OUR TAX CODE



Changes to the personal income tax would help stabilize our revenue streams and promote equity for New Mexico's families.

Support HB 119



## THE ISSUE

- In order to support the foundations that healthy, thriving communities and businesses rely upon – like quality education, affordable health care, and modern infrastructure – New Mexico needs revenue sources that are **consistent, sustainable, adequate, and equitable**. Though we've made significant improvements in recent years, our current revenue stream fails to meet these four principles. Our tax system:
  - Is overly-reliant on the boom-and-bust oil and gas industry, which sets us on a revenue and budget roller coaster (**inconsistent** and **unsustainable**). Research suggests that the oil and gas industry is headed for a long-term decline.<sup>1</sup> The steady growth of renewables and changes in energy consumption patterns means the state cannot continue to rely on the industry as a recurring source of revenue;
  - Fails to reliably raise enough revenue to meet the educational needs of our children (**inadequate**). The inconsistent and unsustainable nature of oil and gas revenue harms our ability to budget consistently and creates a general uneasiness around *truly* investing in our schools and communities when we're unsure what our revenues will look like in a few years time; and,
  - Relies too much on those earning the lowest incomes, who are disproportionately families of color due to generations of systemic racism that placed barriers to success in their way (**inequitable**). The hundreds of tax breaks enacted over the decades have left us with an overall state and local tax system where those who earn the lowest incomes pay a larger share of their income in state and local taxes (see chart below) than do those with the highest incomes.

## NEW MEXICO'S STATE & LOCAL TAX SYSTEM IS STILL UPSIDE DOWN

Share of income New Mexicans pay in state and local taxes by type of tax and income group (2022)



Source: *Who Pays?*, The Institute on Taxation and Economic Policy, 2022  
 Note: Table shows permanent law in New Mexico enacted through August 2022  
 NEW MEXICO VOICES FOR CHILDREN

- In New Mexico, the personal income tax is an underutilized tool to raise consistent, sustainable revenue and advance racial equity, although improvements have been made.
  - In recent years, New Mexico lawmakers have made our tax system more adequate and fairer by passing worker- and family-focused credits and enacting a new top tax rate. Unfortunately, the new rate only applies to the top 3% of income earners. So families who have taxable income of \$25,000 per year are still paying the same top tax rate as families with \$250,000 per year even though their ability to pay is very different.

## THE SOLUTION:

- By increasing the income tax for just the highest-income earners – those who were relatively unharmed by the pandemic and are in the best position to afford it – we can take an important step in generating the stable revenue necessary to invest in the programs and services (like education, health care, and modern infrastructure) that promote shared prosperity and well-being for all New Mexicans.
- We can do this by introducing higher, more graduated tax rates for those at the top.

## THE BENEFITS:

- An income tax increase on high earners could generate millions of dollars in new revenue per year to invest in our communities and to lower tax rates for low- and middle-income families who have historically paid a much larger share of their income in state and local taxes than the wealthiest.
- With more consistent and stable revenue sources, New Mexico will be able to better fund our future and lessen our reliance on oil and gas revenues.
- A more progressive income tax structure would improve fairness because the personal income tax is the only major source of revenue that can be based on a taxpayer's ability to pay.

## HOW THIS IMPACTS RACIAL EQUITY

Increasing the personal income tax on the highest-income earners would advance racial equity in New Mexico. High-income earners are disproportionately white and benefit the most from our current tax system, while families earning lower incomes are disproportionately families of color. Like many tax policies, this is another brick in the wall of structural racism that has unfairly disadvantaged too many Americans and New Mexicans. This structural racism – whether intentional or not – has prevented many families of color from having the same wealth- and income-building opportunities that white families have had.



### Endnotes:

1. "New Mexico's Risky Reliance on Oil Revenue Must Change: Industry Fundamentals Point to Long-term Decline," Institute for Energy Economics and Financial Analysis (IEEFA), Oct. 2020 and "State of New Mexico Tax Structure: Key Issues and Alternatives," PFM, Dec. 2020

## SUPPORT HB 119!

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January 2023