

# IT'S TIME TO REPEAL THIS UNFAIR TAX GIVEAWAY

THE CAPITAL GAINS DEDUCTION LIMITS  
NEW MEXICO'S ABILITY TO PLAN FOR ITS FUTURE



New Mexico should structure its tax code to help hard-working families, especially when the pandemic has disproportionately devastated families earning low incomes.

## THE PROBLEM

- New Mexico is one of only nine states that gives a big, unnecessary tax break to those with capital gains income, which is the income an investor gets when selling an asset – such as shares of stock, real estate, or artwork – at a profit.
- This tax break allows people to deduct 40% of their capital gains income from their state taxes, meaning this unearned income is taxed at a lower rate than the hard-earned wages and tips of ordinary New Mexicans.
- This deduction overwhelmingly goes to the highest-income earners – the people who are already paying the smallest share of their income in state and local taxes.
- This tax giveaway costs the state about \$30 million every year – money that could go to schools or health care, or to provide economic relief to the families most impacted by the COVID-19 pandemic.
- There is no evidence that the capital gains deduction promotes economic growth or fosters investment. It is an ineffective tax give-away and should be repealed.



## WHY NOW?

- While so many New Mexicans have lost income during the pandemic and are struggling to afford basic necessities, the stock market has largely protected the financial assets of wealthy families, allowing many to unfairly profit from the pandemic. They are not the New Mexicans in need of a tax break, especially now.
- As a state that consistently has one of the highest rates of poverty, New Mexico should structure its tax code to help hard-working families, especially when the pandemic has disproportionately devastated families earning low incomes.
- This deduction is one of the tax breaks that has made New Mexico too reliant on revenue from the oil and gas industry, which keeps us in a boom-or-bust cycle. It's impossible to plan for future needs when our revenue outlook is so uncertain.
- Repealing the capital gains tax deduction will create a fairer tax system while generating sustainable revenue that can be invested in proven job creators such as a cradle-to-career education system that produces a highly qualified workforce.

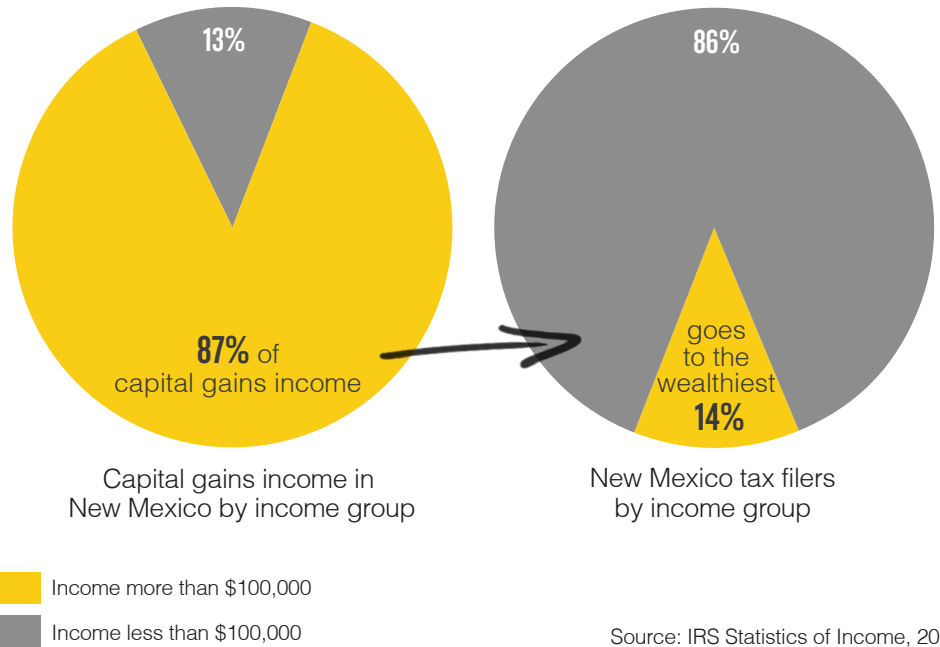


## WHO GETS THIS TAX BREAK?

- 87% of the value of the capital gains deduction goes to just 14% of New Mexicans – those who earn more than \$100,000.
  - Even more alarming, almost half (42%) of the value goes to the tiny share of New Mexicans (0.1%) who make more than \$1 million.
- Capital gains income is generated by wealth, and because 87% of the wealth in this nation is held by white households, this deduction is part of the system that furthers income and wealth disparities along racial and ethnic lines.

## INCOME INEQUALITY

Most capital gains income goes to New Mexicans earning \$100,000+



Source: IRS Statistics of Income, 2018

## THE BOTTOM LINE

The hard-earned wages of everyday working New Mexicans should not be taxed at a higher rate than the profits that the state's wealthiest few make from selling stocks, bonds, and other assets.

## HOW THIS IMPACTS RACIAL EQUITY

Eliminating the capital gains deduction would advance racial equity in New Mexico because capital gains income is generated by wealth – the vast majority of which is held by white households. By disproportionately benefiting white households, this tax policy is a 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.<sup>1</sup>



## GET INVOLVED

To sign up to receive action alerts, visit [StrongerNewMexico.org](https://StrongerNewMexico.org)

For more information on Capital Gains, visit [www.nmvoices.org](https://www.nmvoices.org)

#StrongerNM

ROADMAP TO A  
**STRONGER**  
NEW MEXICO

NEW MEXICO  
**VOICES**  
FOR CHILDREN