

# Improving Child Well-Being Through Tax & Budget Policy: *Progress and Possibilities*

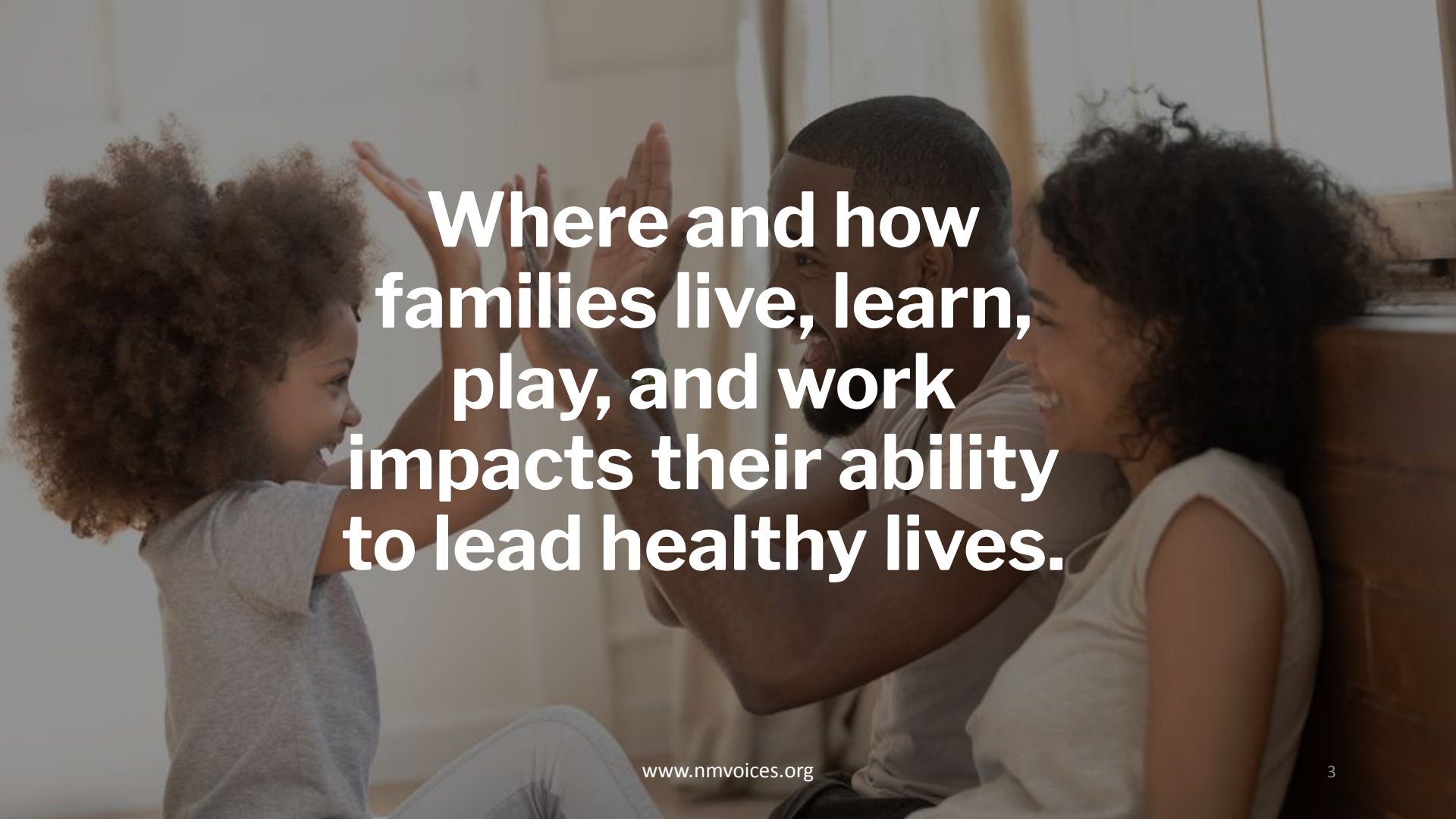
League of Women Voters  
January 25, 2024

**New Mexico Voices for Children**  
Paige Knight, MPP, Deputy Policy Director

[www.nmvoices.org](http://www.nmvoices.org)

A group of diverse children are playing outdoors in a park-like setting. They are smiling and blowing bubbles. The background is a soft-focus green landscape with trees. The text is overlaid in white, bold font.

**Our mission is to  
champion public  
policies that improve  
the well-being of  
New Mexico's  
children, families,  
and communities.**

A photograph of a family of three sitting on the floor. A young girl with curly hair is on the left, a man is in the center, and a woman is on the right. They are all smiling and high-fiving each other. The text is overlaid in the center of the image.

**Where and how families live, learn, play, and work impacts their ability to lead healthy lives.**



# Why NMVC works on tax and budget policy

Tax policy is a powerful tool that can help advance equity because it determines **who pays their fair share of taxes, who doesn't, and who benefits most** from the way the system is structured.




# Agenda

- Importance of tax and budget policy
- Brief history of past policy decisions
- Policy progress
- Recommendations
- Questions



# Our State Budget

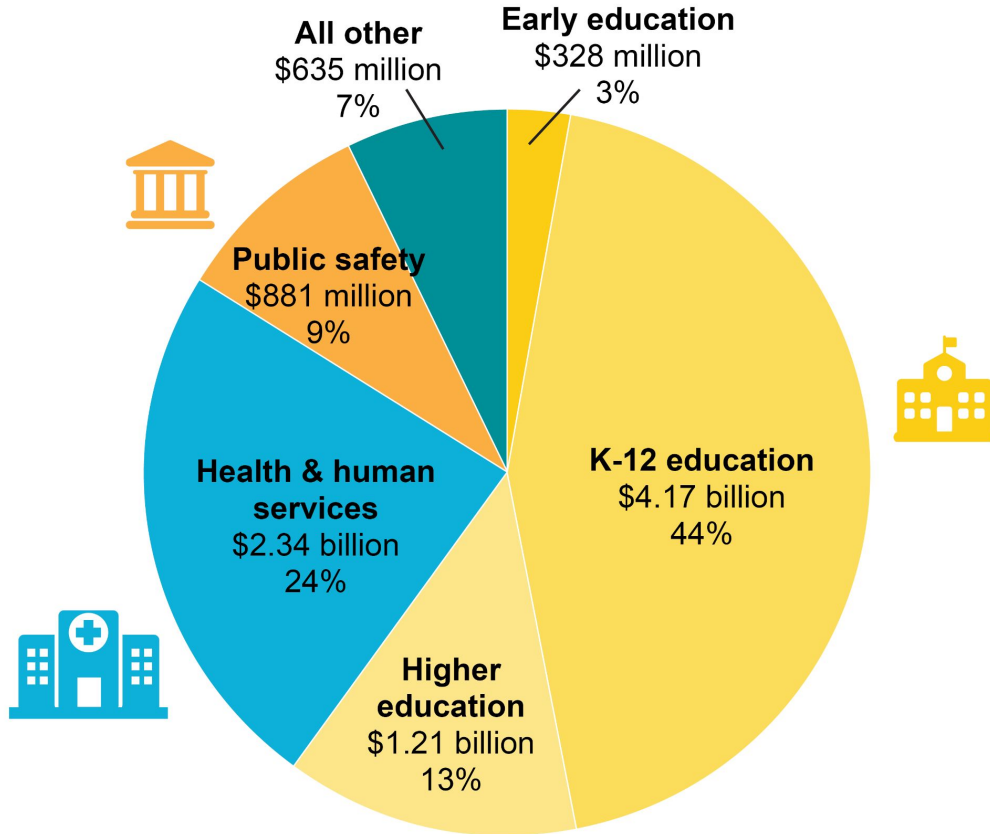
A silhouette of a woman lifting a child into the air against a sunset sky. The woman is on the right, and the child is on the left, both in profile. The sky is a mix of blue, orange, and purple, with some clouds. The overall mood is warm and hopeful.

**Our state budget is a reflection of what we value most and an illustration of the kind of communities we wish to create.**



# How New Mexico funds state government

FY2024 General Fund Operating Budget (\$9.57B)



The state budget helps drive our economy because the money flows right into our communities.

The state budget helps our economy by:



paying wages and salaries for teachers, first responders, judges, and others;



purchasing goods like computers, office supplies, squad cars, building materials, and more; and



purchasing services like IT, health care, upkeep of state buildings, and more.

A group of children are running happily in a park with autumn foliage. The children are wearing colorful winter jackets. The text is overlaid on the image in white, bold font.

**We made significant  
improvements to our budget  
these past few years!**

**But these investments  
require adequate revenue.**

The background of the slide is the New Mexico state flag, which features a yellow field with a red and white Zia sun symbol in the center. The flag is shown in a close-up, slightly draped manner, with the sun symbol partially visible behind the text.

# **Our State Tax Code**

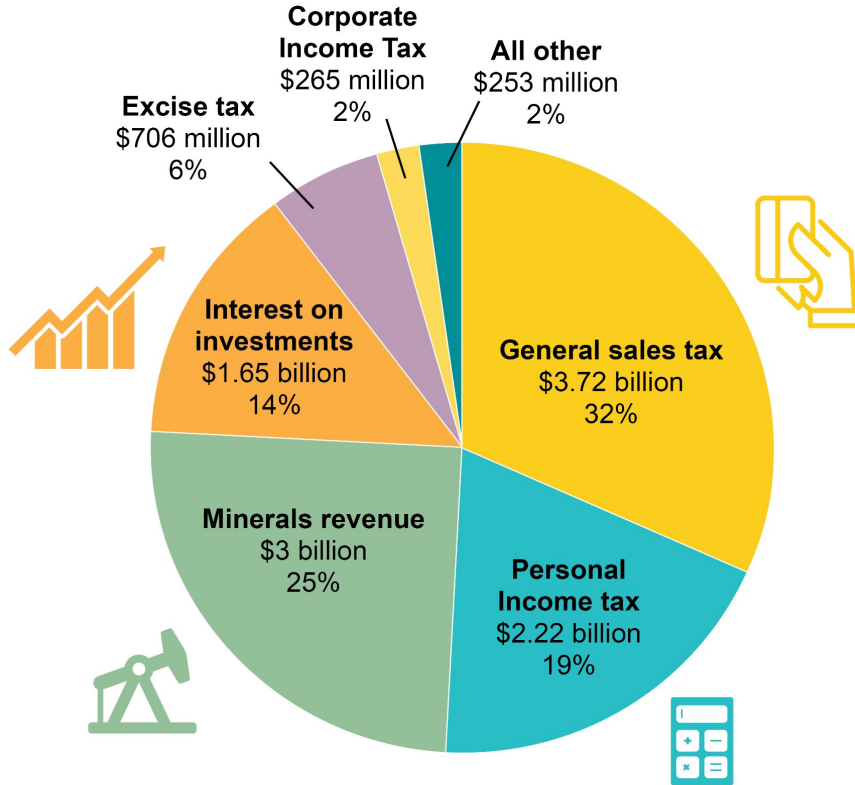
**Adequacy and equity in NM's tax code**

A silhouette of a woman holding a young child against a sunset sky. The woman is on the right, and the child is on the left, both facing each other. The sky is a mix of blue, orange, and purple, with some clouds. The overall mood is warm and intimate.

**Our state tax revenue is what allows us to accomplish things that benefit us collectively.**

# Where New Mexico gets its revenue

FY2024 estimated general fund revenues



Source: General Fund Consensus Revenue Estimates, December 2022

**General sales taxes** include gross receipts taxes (GRT) and compensating taxes. GRT is levied on most goods and services and is often passed along to the consumer.

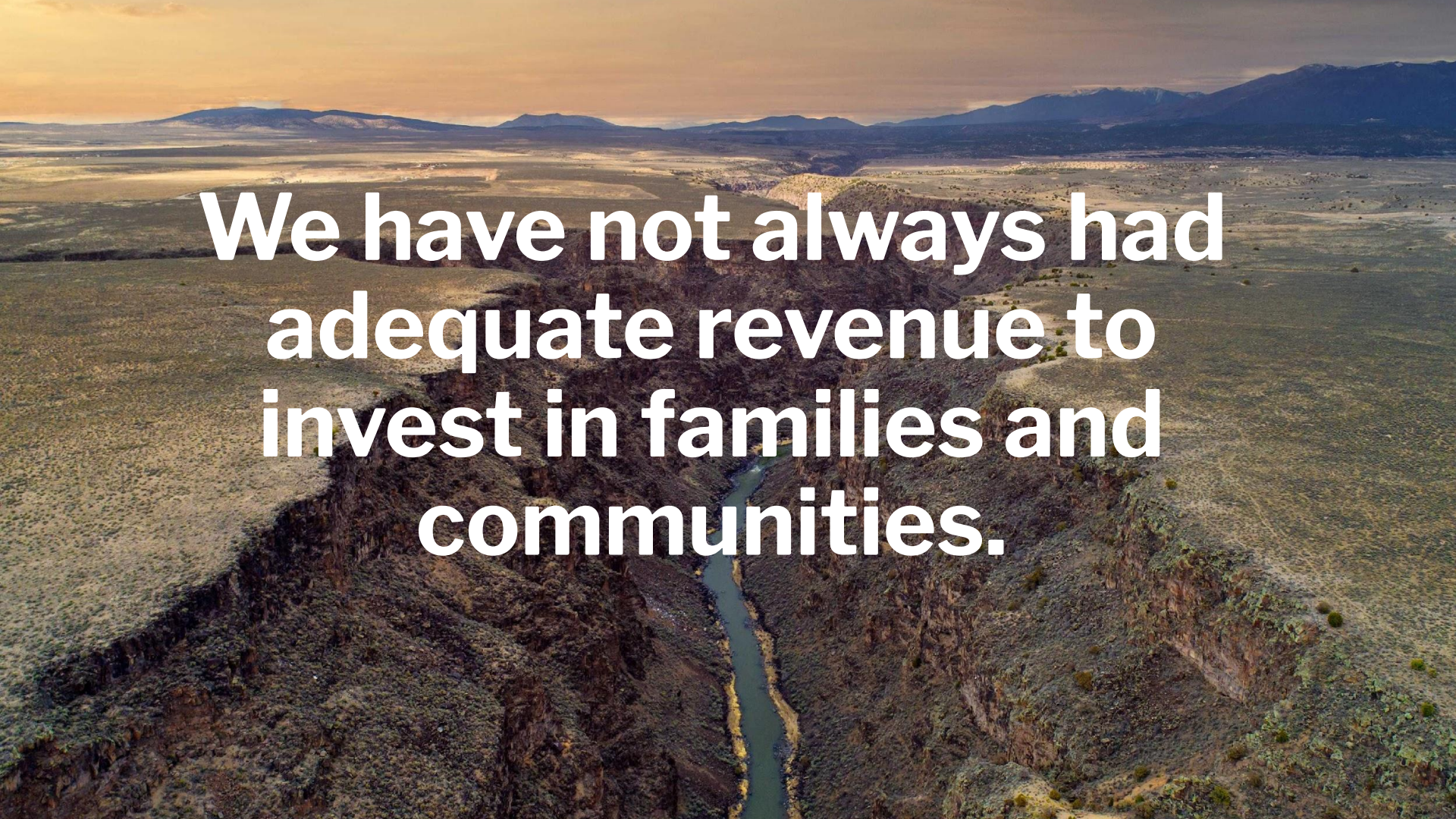
**Excise taxes** are also sales taxes, but they are reserved for things like tobacco, liquor, motor vehicles, and telecommunications services.

**Income taxes** include personal income taxes (PIT) and corporate income taxes (CIT). Corporate income taxes are levied on a corporation's net profits.

**Mineral revenues** are collected on crude oil, natural gas, coal, copper, and other hard minerals that are extracted from the ground, as well as rents and royalties from the sale or lease of mineral-producing land.

**Interest on investments** is primarily income derived from investing permanent fund revenue in the stock and bond markets.

**All other** includes gaming revenue from tribal casinos as well as the fees paid on things like registering your car or visiting a state park or museum.

An aerial photograph of a deep, rugged canyon with a river winding through its center. The canyon walls are dark and rocky, with sparse vegetation. The surrounding landscape is a vast, flat plain with scattered trees and shrubs, extending to distant mountains under a hazy, golden sky.

**We have not always had  
adequate revenue to  
invest in families and  
communities.**

# We tried - and failed - to cut our way to prosperity

## Major actions pre-2019:

- Personal income taxes: big personal income tax cuts in 1981 and 2003 mostly for the very wealthy
- Wealth taxes: elimination of estate tax in 2001 + major opposition to wealth taxes
- Corporate income taxes: tax cuts mostly for big businesses in 2013
- Gross receipts taxes: tax breaks for different groups, services, and products

# Attempts to drive growth by cutting taxes harmed adequacy and equity

1. Inability to fund crucial programs
2. Over-reliance on oil and gas industry's volatile revenues
3. Inequitable and unbalanced tax system



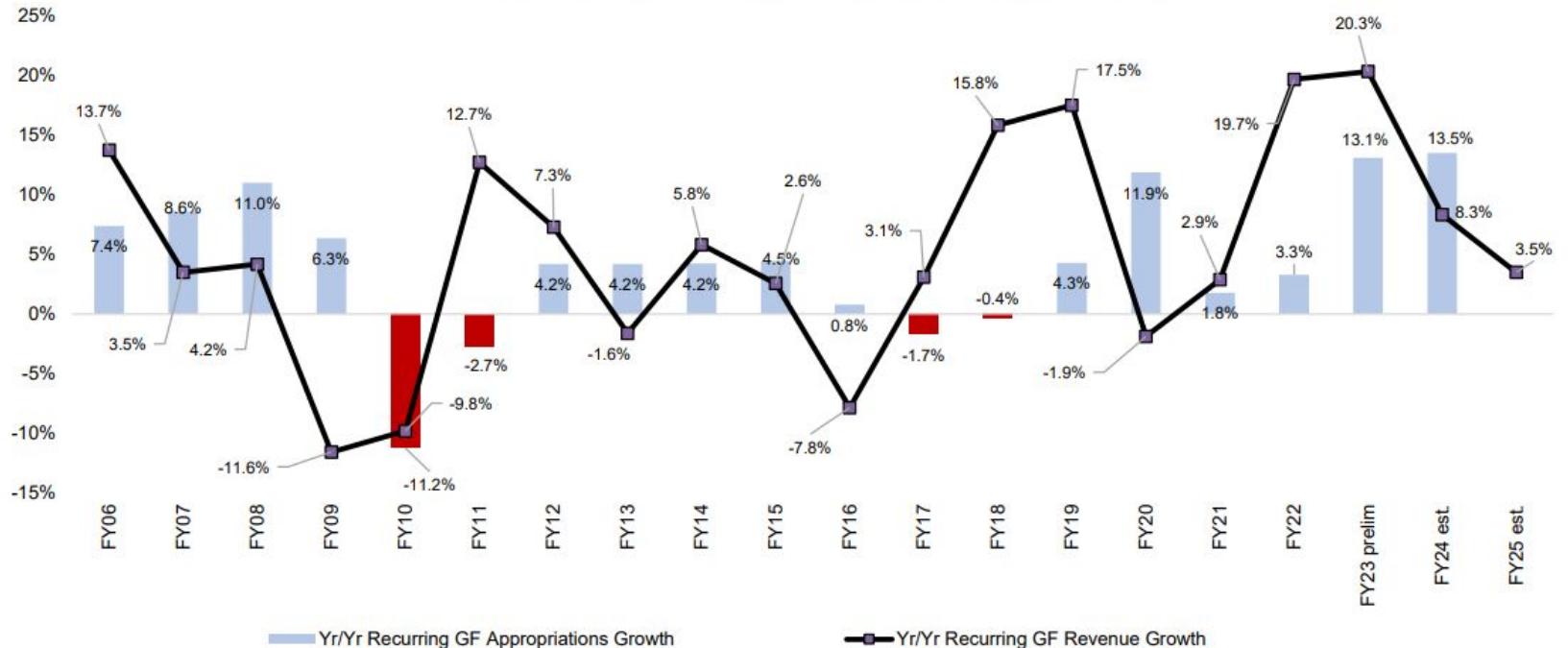
# 1. Lack of revenue meant inability to fund key programs for families

## Revenue shortfalls prior to 2019 resulted in:

- 14% cut in per-pupil K-12 spending between 2008 and 2018
- 33% cut in per-pupil higher education spending
- Child care assistance enrollment dropped 20% between 2010 and 2018
- Funding for WIC down by 9% between 2014-2018
- Cut U.I. benefits for unemployed workers with kids
- Over a billion dollars drained from various targeted funds
- Near the bottom in educator pay
- Major agency vacancy rates

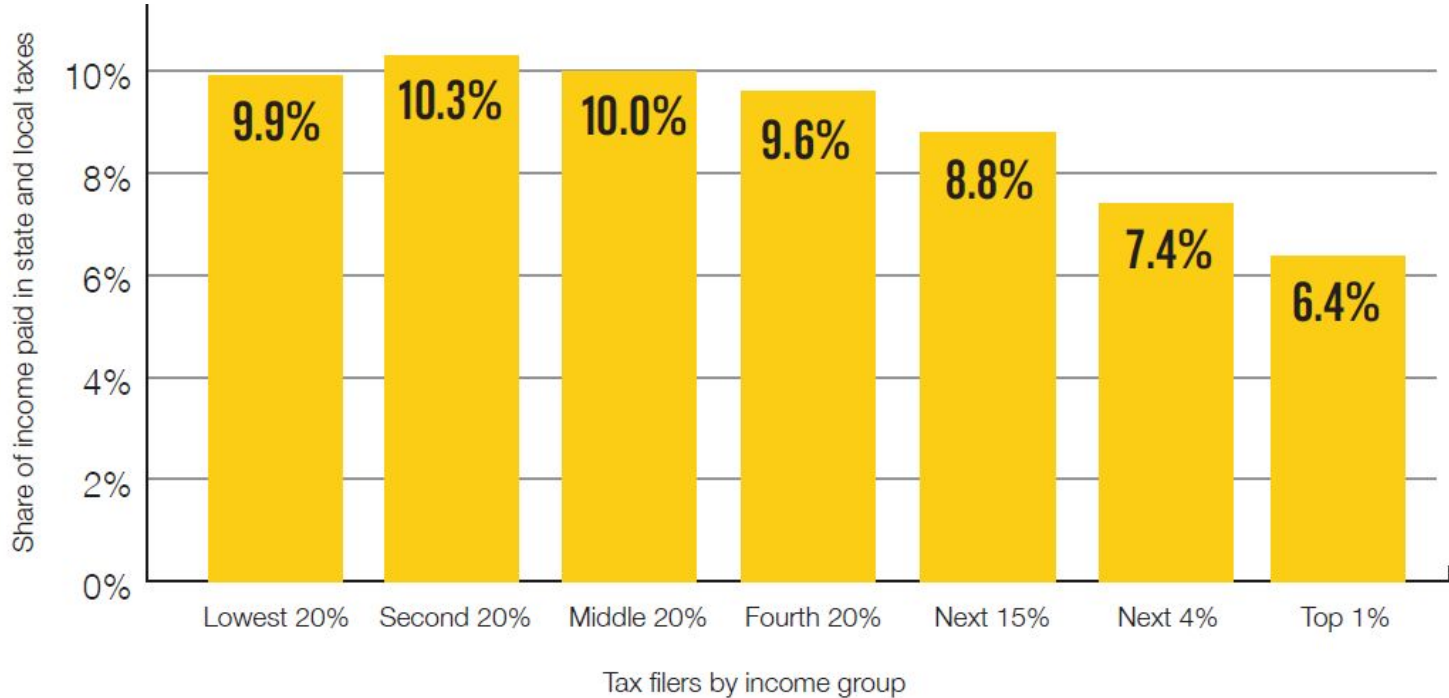
# 2. Over-reliance on volatile revenues makes it hard to budget sustainably

Recurring Revenue and Appropriation Annual Growth (FY 06-FY25)



### 3. New Mexico's tax system has long been upside-down

New Mexicans with the lowest incomes have long paid a larger share of their income in state & local taxes



**Fortunately,  
we've made  
incredible  
progress these  
past few years.**



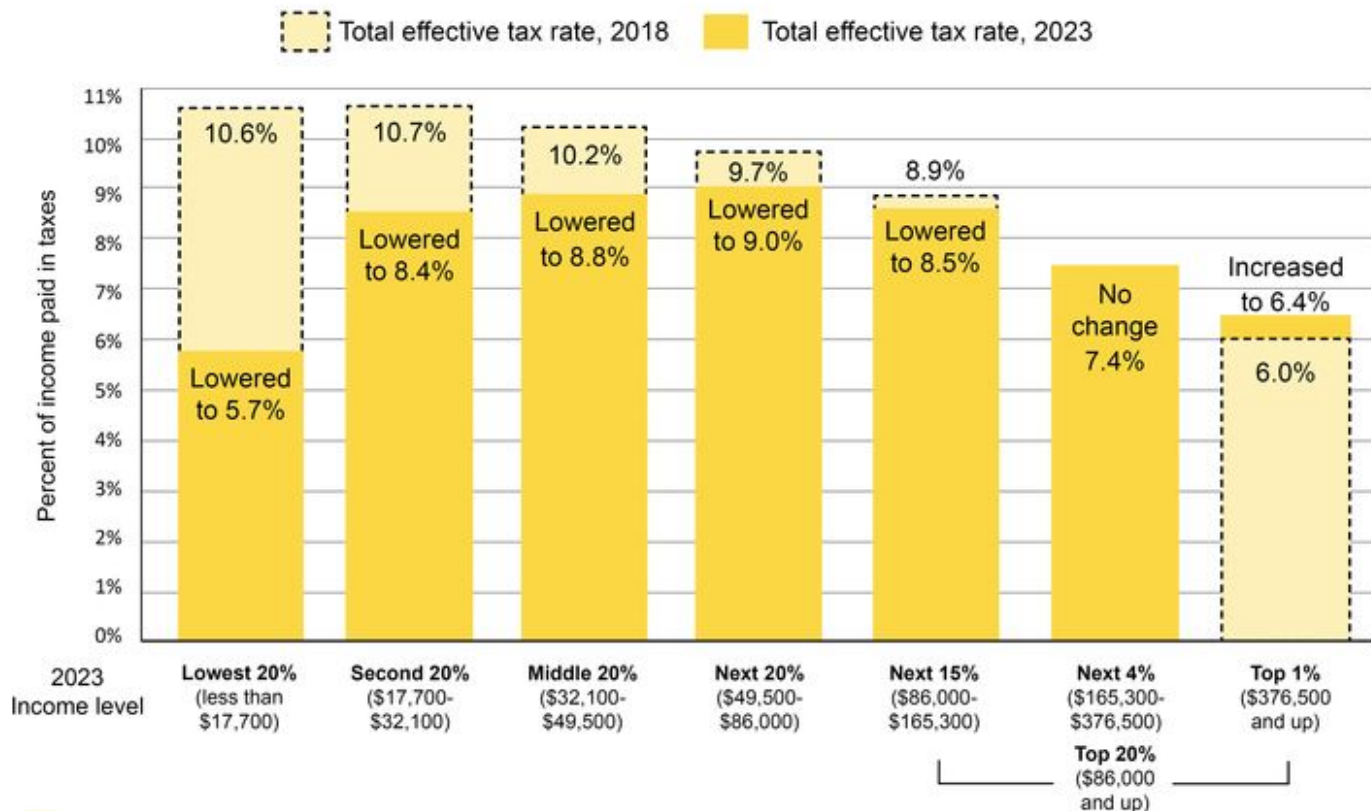


# Since 2019, NM tax policy has progressed in important ways

- More racially and ethnically equitable
- Better for families
- More diversified revenue streams
- More progressive

# NEW MEXICO'S STATE & LOCAL TAX SYSTEM: THEN AND NOW

Share of family income paid in state and local taxes by income group (2018, 2023)



# CHANGES TO THE TAX CODE IMPROVE EQUITY, STABILITY

| Legislative Tax Changes (by Year) |   | Additional Annual Benefit to Families (in Millions) |
|-----------------------------------|---|---|
| 2019                              | Working Families Tax Credit increased (HB 6)                        | \$41  |
|                                   | Dependent deduction created (HB 6)                                  | \$28  |
| 2021                              | Low-income Comprehensive Tax Rebate increased and expanded (HB 291) | \$51  |
|                                   | Working Families Tax Credit increased and expanded (HB 291)         | \$49  |
|                                   | Income tax rebate enacted* (SB 1)                                   | \$109   |
| 2022                              | Child Tax Credit created (HB 163)                                   | \$74  |
|                                   | Income tax rebate enacted* (HB 163)                                 | \$312   |
|                                   | Second income tax rebate enacted* (HB 2; 2022 special session)      | \$678   |
| 2023                              | Child Tax Credit increased (HB 547)                                 | \$105   |
|                                   | Income tax rebate enacted* (HB 547)                                 | \$667   |
|                                   | Totals  | \$2,114   |

\*Non-recurring rebate

Source: New Mexico Legislative Finance Committee, 2022 and 2023

A photograph of four children running happily in a park with autumn foliage. The children are wearing colorful winter jackets. The text is overlaid in the center of the image.

# Where do we go from here? Tax policy recommendations



# Recommendations to improve tax fairness and family economic security

A silhouette of a person holding a child against a sunset sky. The person is on the right, and the child is on the left, both facing left. The sky is a mix of orange, yellow, and blue, with some clouds. The overall mood is warm and hopeful.

- Reform personal income tax code to benefit lower- and middle-income earners (and raise taxes on highest earners)
- Increase the CTC's positive impact by doubling it for our youngest children
- Lower the state gross receipts tax (GRT/sales tax) rate

# Recommendations for raising fair, sustainable, and adequate revenue our state can rely upon

- **Reform personal income tax code**
  - **Cut taxes for low- and middle-income earners, raise taxes on the wealthiest**
- **Eliminate the capital gains tax break for the wealthy**
- **Increase corporate income taxes**
- **Broaden the gross receipts tax (GRT) base**
- **Oppose poorly targeted tax breaks that worsen inequity and reduce revenue**

# Despite the current revenue surplus, New Mexico needs to focus on diversifying our revenue streams now more than ever

1. We are dangerously dependent on the boom-and-bust cycle of the oil and gas industry
2. A number of indicators show the oil and gas industry is in a long-term decline
3. For the health and well-being of our children, New Mexico needs to transition away from fossil fuels
4. The state has many unmet revenue needs, and they're only expected to grow
5. Raising adequate and sustainable revenue can help promote equity in our communities

# Personal income tax revenues

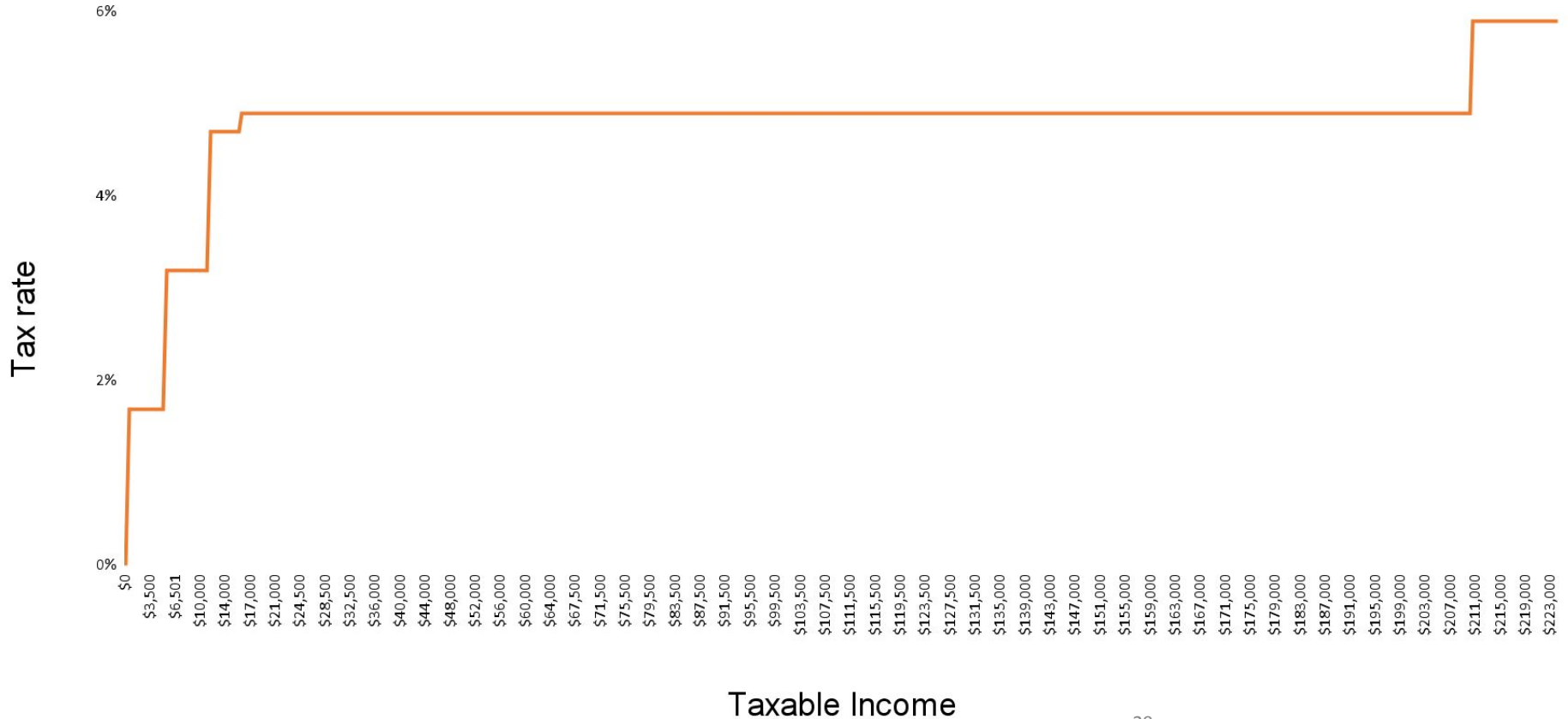
## Issues

- 2003 personal income tax cuts of more than \$500 M
- Capital gains deduction unproven, costly, inequitable
- NM's PIT is significantly underutilized as compared to other states
- Best option for restoring progressivity

## Revenue options

- Raise rates for those with higher incomes

# New Mexico's current PIT rates (single filers)



# The capital gains deduction

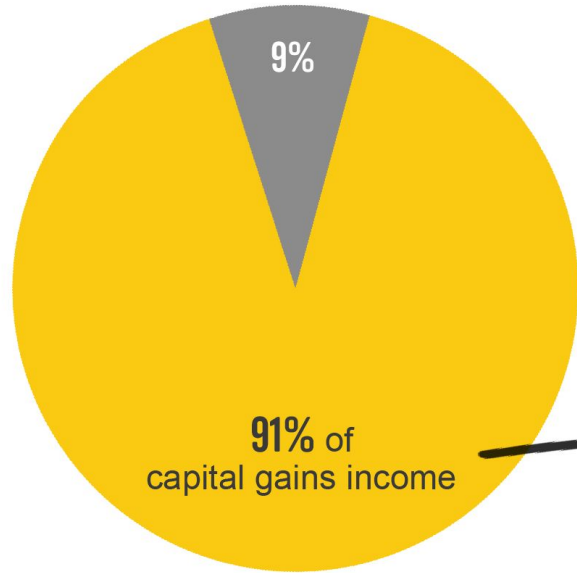
## Issues

- Income that an investor gets when selling an asset at a profit - like stocks, bonds, or artwork - at a profit
- No requirement that the investment or asset is NM-based
- One of only 9 states that allows this type of deduction
- An unproven and costly tax giveaway

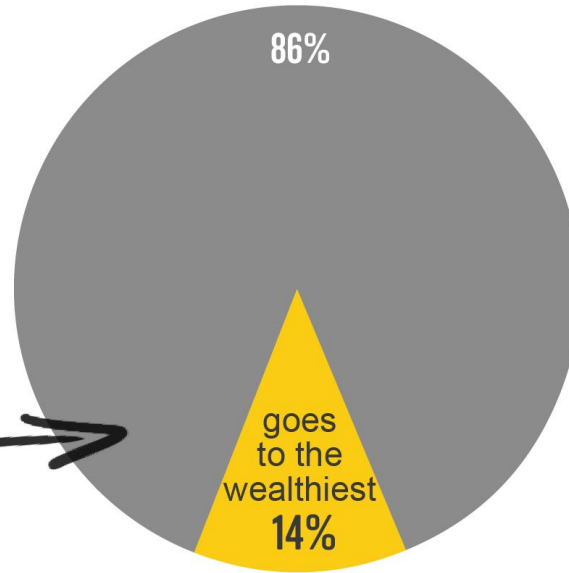
## Revenue Options

- Tax capital gains income at the same rate as income from work - repeal the 40% capital gains deduction (\$70m +)

# Vast majority of capital gains income goes to NM's earning more than \$100K

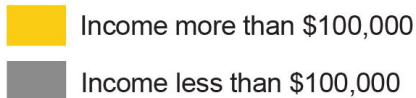


Capital gains income in New Mexico by income group



New Mexico tax filers by income group

*Even more alarming, over half (54%) of the value goes to the tiny share of New Mexicans (0.1%) who make more than \$1 million.*



# Corporate income tax revenues

## Issues

- Corporations should be responsible for paying their fair share for use of NM's land, water, roads, and services
- NM has a lower rate than national average
- Major cuts at state level in 2013 and federal level in 2017

## Revenue options

- Raise rates for more profitable corporations



# Other revenue options

- Wealth taxes
- Real Estate Transfer Tax
- Alcohol and tobacco taxes
- Re-examine sales tax/GRT expenditures
- Oppose poorly targeted tax breaks that worsen inequity and reduce revenue
- Property tax



# Thank you!

[www.nmvoices.org](http://www.nmvoices.org)

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