



Why Increasing the Working Families Tax Credit Is Good for New Mexico

Summary: If this year's proposed legislation is similar to the bill introduced by Rep. Javier Martinez in the 2020 Session (HB 148, which died in Senate Finance), it would increase the Working Families Tax Credit from 17% to 30% of the federal earned income tax credit (EITC) for families claiming a dependent under age 6, and from 17% to 20% for all others. It would extend the credit to people currently excluded, including 18 to 24-year-olds without children, and those who file their taxes with an ITIN instead of a Social Security number. It would also reduce the capital gains tax deduction, limiting it to \$1,000. The purpose of the credit is to help offset more regressive taxes, reduce poverty, and incentivize employment for low-income workers, an even more essential goal this year after the economic hardships caused by the COVID-19 pandemic.

History: The Working Families Tax Credit (WFTC) is the state's equivalent to the federal Earned Income Tax Credit (EITC). The WFTC eligibility levels and amounts are based directly on the EITC, which was first passed under Gerald Ford in 1975 and indexed to rise with inflation under Ronald Reagan in 1986. Since its passage, the EITC has been strongly supported by both Republican and Democratic lawmakers on a national and state level. Twenty-six states have modeled state credits after the EITC. New Mexico enacted the WFTC in 2007 at 8% of the EITC, raised it to 10% in 2008, and to 17% in 2019. Because this credit has such positive impacts on child and family outcomes, there is an effort to raise the credit further. A bill introduced by Rep. Javier Martinez in the 2020 Session (see Summary above) passed the House 45:23 but died in Senate Finance without a hearing.

Why This Legislation Is Good for NM

- Our state is ranked worst in the nation for poverty among the employed and among people working full-time year-round. We have the highest percentage (17%) of families who are working but still live below the poverty line and the highest percentage (42%) of working families who are low-income (below 200% of the poverty level).
- The above figures are pre-COVID. The impact of the COVID pandemic has pushed even more workers and working families in New Mexico below the poverty line or into the low-income level.
- Top beneficiaries of this increase would include essential workers and people of color, who have been disproportionately harmed by COVID-19.
- 97% of the money returned from the credits goes to families with children, benefitting nearly 225,000 children across the state.
- An estimated \$35 to \$40 million will go back into the pockets of working families and young adult workers across New Mexico.
- Families and low-wage workers will increase their purchasing power, which benefits businesses because the refunds are spent quickly and locally.
- The reduction in capital gains deductions, which primarily benefit middle to upper class taxpayers, will save the state million of dollars and pay for the increase in WFTC, putting money into the hands of New Mexicans who need it the most.
- The average maximum EITC-based credit for 26 states plus the District of Columbia is 20%.
- The credit benefits working families in every county, House district, and Senate district.
- EITC-based credits are supported by both Democrats and Republicans. Ronald Reagan said that the EITC was the best anti-poverty and best pro-family measure to come out of Congress.

Supporting Organizations: New Mexico Voices for Children

Building grassroots power to successfully advocate for social, racial, environmental, and economic justice.

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