



## Why New Mexico Needs Meaningful Tax Reform & How HB 291 Delivers it

Over the past 17 years, state lawmakers have chosen to reduce taxes paid by wealthy New Mexicans and corporations, resulting in our state having one of the most regressive tax systems in the U.S. and depriving the state of hundreds of millions of dollars in annual revenue. In 2021, a series of bills will be introduced to address our state's regressive tax structure and expand our sources of revenue to create less dependence on unreliable gas and oil revenues.

What HB 291 will do & how other Retake bills extend the improvements from HB 291.

HB 291 includes:

Section 1 - [Increase in PIT rates for high earners](#): this portion of the bill adds three new higher-income brackets and increases the overall top PIT rate for high earners; this is a really important part of the bill because it raises and diversifies revenue, improves equity and progressivity, and takes back some of the money lost in the 2003 PIT cuts.

Section 2 - [Low-Income Comprehensive Tax Rebate \(LICTR\) increase](#): this portion of the bill increases it to what it would have been if it had increased every year with the cost of living since 1998 (when it was last adjusted); this will raise the income level at which people can qualify (from \$22K to \$36K), increase maximum rebate amounts, and benefit more than 125,000 more residents.

Section 3 - [Working Families Tax Credit \(WFTC\) increase and ending of exclusions](#) for ITIN filers and young workers: this piece expands the tax credit to immigrant workers and Dreamers who file taxes using an ITIN number and to all young workers under 25yrs; it also increases the overall amount of the credit.

Section 4 – partial repeal of the [capital gains](#) deduction: the capital gains deduction overwhelmingly benefits high earners, and it has done nothing to generate economic activity; this partial repeal of it will help raise and diversify revenue and improve progressivity and equity in the tax code.

Section 5 of the bill, an element with which we had significant problems, has been struck.

While HB 291 is the most important of all the tax bills we support, **we are also supporting five other tax bills that fit under the umbrella of transformational tax reform.** They are listed below.

- [HB 42. Low-Income Comprehensive Tax Rebate Changes](#), sponsored by Rep. Christine Chandler (D-Los Alamos), would update the 20-year-old LICTR rebate to adjust

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for inflation by changing the income threshold for qualified tax filers and increasing the amount of the rebate by 50%. Longstanding research shows the most effective ways to provide relief to families impacted by the pandemic, reduce poverty and recirculate money in local economies. Is through more equitable tax policy such as HB 42.

- [SB 89 Amend Personal Income Tax Brackets](#) (Sen. Tallman) and
- [SB 56 New Personal Income Tax Bracket](#) (Sen. O'Neill). While both bills take different approaches to reforming the personal income tax, both lead to improvements and so we support both these bills as does NM Voices for Children.
- [HB 122. Health Insurance Premium Surtax](#). This tax would not actually increase insurance costs for consumers, as the tax is merely replacing an expiring federal tax in the same amount.
- [HB 167. Increase Cigarette and Tobacco Product Taxes](#). We are still reviewing this bill, but while a regressive tax, raising tobacco taxes has proven to reduce initiation of use.

## History

In 2003, Governor Bill Richardson pushed enactment of a measure to cut personal income taxes (PIT) for the wealthiest New Mexicans. The justification was that state coffers were flush with oil and gas revenues and that lower taxes would induce wealthy people and businesses to relocate to New Mexico, increasing jobs and improving the state's economy. The top marginal rate was reduced from 8.2% to 4.9%. Everyone with taxable income over \$16,000 now paid the same marginal rate as millionaires and billionaires. At the same time, capital gains subject to taxation was cut by 50%.

In 2013, the top corporate income tax (CIT) was reduced from 7.6% to 5.9%. Meanwhile gross receipt taxes (GRT) increased substantially. For example, in Albuquerque, the GRT increased from 5% in the early 1990s to almost 8%. In 2019, the top PIT marginal rates were increased to 5.9%, but only on condition that gross revenues did not increase by at least 5% in a given year.

As a result of these changes, New Mexico now finds itself as having one of the least equitable tax structures in the nation, with low-income residents paying twice the proportion of their income as the richest New Mexicans. That is simply not fair.

Moreover, because the state has become dangerously more reliant on oil and gas revenues, it has faced unnecessarily severe revenue shortfalls due to the fluctuation in oil and gas prices and sales, and this problem has become still worse during the pandemic.

## How Can We Talk About This Problem?

- In a fair tax structure, the highest income earners pay a much higher marginal rate than lower-income earners because the higher income earners can afford to pay more taxes. When all taxes are taken into account, lower income earners currently pay a much higher percentage of their income in taxes than higher income earners. (The lowest 20% of earners pay 10.6% of their income in taxes, while the top 1% pay only 6%.)
- There is no evidence that the state's 2003 and 2013 tax cuts resulted in more jobs and a stronger economy, two of the biggest arguments in favor of those cuts.
- The tax cuts deprived New Mexico of badly needed reliable revenue.

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- In some years, the state had sufficient revenue because of high oil and gas profits, which are subject to severance taxes and royalties. In other years there were little to no profits in the oil and gas industries. State revenue has fluctuated accordingly, and unpredictably.
- Reliable revenue is needed for education, roads, bridges, broadband, healthcare, public safety, and a basic safety net for our many impoverished residents, including children. We must not keep saying that we can't afford these services because we lack sufficient revenue when meaningful tax reform can produce the revenue we need.
- We need to eliminate wasteful tax loopholes and tax credits that benefit the rich and business, especially big business and out-of-state business.
- To free ourselves of dependence on unreliable oil and gas revenue we must diversify by increasing other revenue sources.
- To address the Yazzie-Martinez Supreme Court ruling and to offer a robust safety net for our working families we need to increase our revenues.

#### **How Can We Fix It? (over \$1 billion in potential revenue sources from NM Voices for Children)**

- Roll back the personal income tax cuts of 2003 for filers with incomes more than \$150,000 (the wealthiest 5 percent): \$246 million
- Increase the personal income tax for filers with incomes more than \$75,000, \$100,000 and \$150,000 per year (depending on filing status): \$65 million
- Require out-of-state corporations Require all corporations to pay taxes on the profits they make in New Mexico even if those profits are moved to an off-shore tax haven.
- Increase the gross receipts tax (New Mexico's sales tax on goods and services) by one-quarter of a percent: \$127 million
- Add a dime-a-drink tax on alcoholic beverages: \$43 million
- Increase the payout of the state's Land Grant Permanent Fund by 1 percent: \$180 – \$200 million
- Borrow against the state's Land Grant Permanent Fund: estimates range from \$180 – \$240 million plus interest
- Increase property taxes statewide by one mill (which equals \$1 for each \$1,000 of a property's assessed value): \$46 million
- Repeal the capital gains tax break (\$60M)
- The current motor vehicle excise tax is at 4% now, that should be increased to 6% (\$100M)
- Cut the deduction for capital gains income in half (from 50 percent to 25 percent), most of which goes to New Mexicans earning more than \$200,000: \$37 million
- Increase the excise tax on the sale of motor vehicles from 3 percent to 6 percent: \$154 million
- Repeal a coal surtax exemption: \$22 million

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