

Who Pays New Mexico Taxes?

**Presented to the New Mexico Revenue Stabilization
and Tax Policy Committee**

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Carl Davis
Research Director, Institute on Taxation and Economic Policy
carl@itep.org

About ITEP

The Institute on Taxation and Economic Policy (ITEP)

- Non-profit, non-partisan research organization
- Federal, state, and local tax policy issues

Mission:

- Ensure elected officials, media, and general public have access to accurate, timely, and straightforward information that allows them to understand the effects of current and proposed tax policies with an emphasis on tax incidence analysis.

Tax Incidence Analysis

Provides answers to two vital policy questions:

- Cost (or yield) of proposed tax changes
- Impact of tax changes on families at different income levels

Also gives baseline estimates of how fair (or unfair) the current tax system is.

Basic good government. Don't make financial choices without assessing impact. Whatever vision of fairness you implement, it's better to do it on purpose than by accident.

Several states produce regular tax incidence analyses

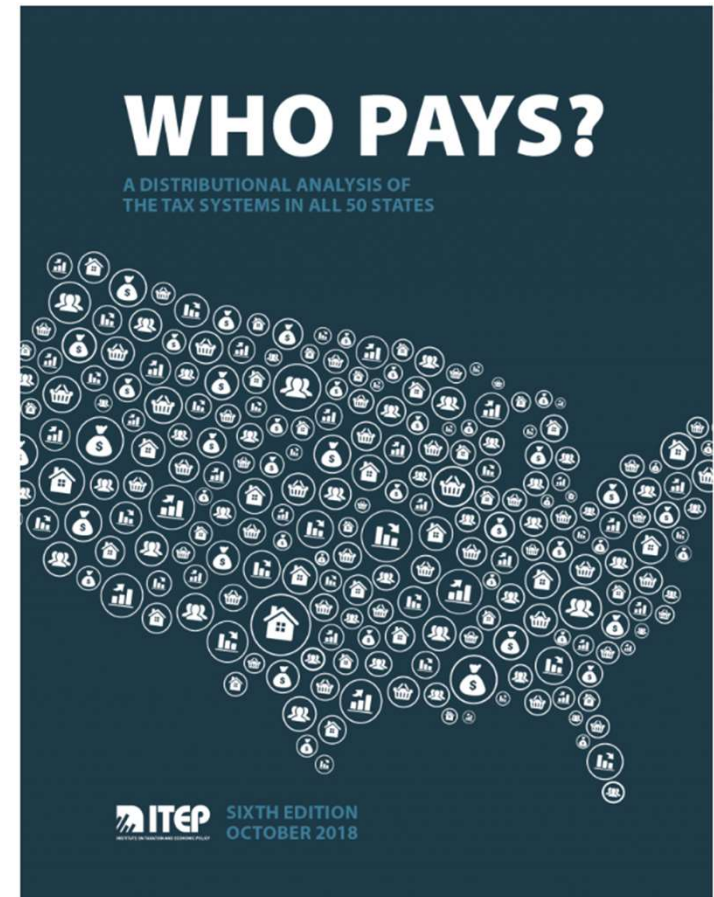
- **Colorado** Department of Revenue
- **Connecticut** Department of Revenue Services
- Comptroller of **Maryland**
- **Maine** Revenue Services
- **Minnesota** Department of Revenue
- **Texas** Comptroller of Public Accounts

ITEP Microsimulation Tax Model

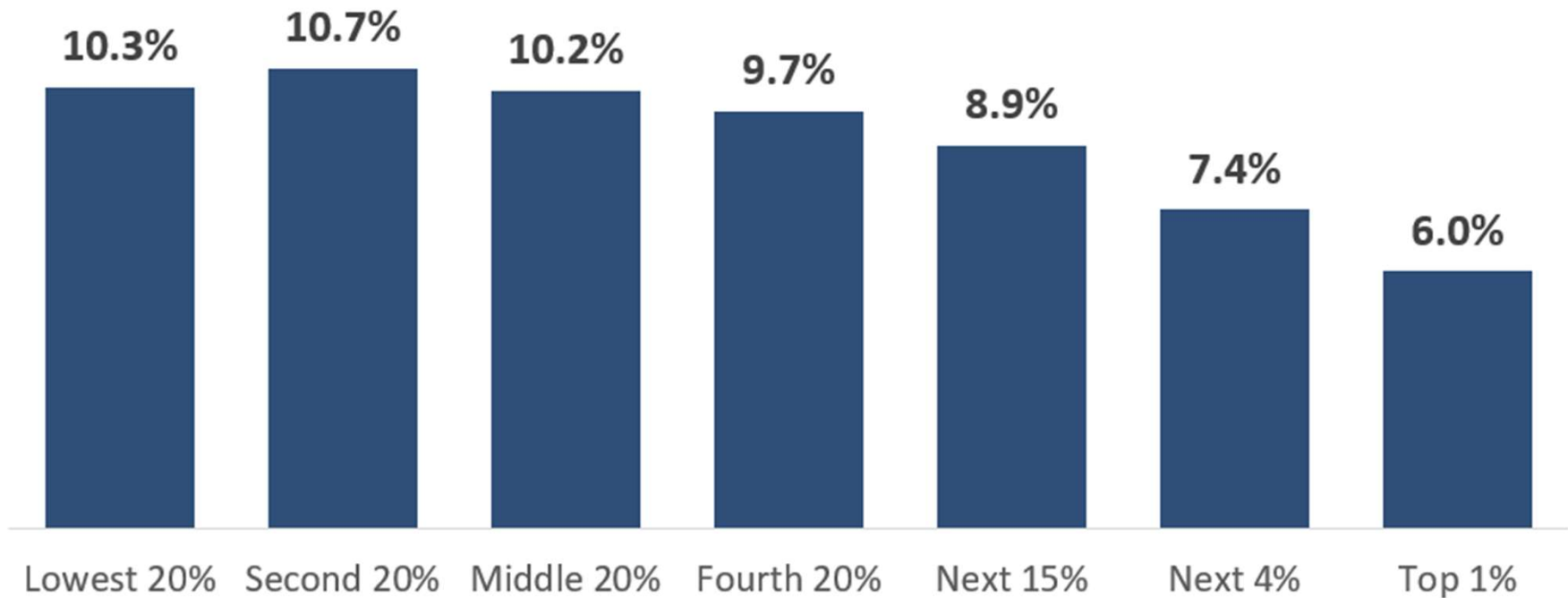
- Economic incidence model
- Similar to tools used by various federal and state agencies
- Includes data for all 50 states, plus DC
- Four modules: personal income tax, property tax, consumption tax, business tax
- Data from IRS, Census, BLS, state tax departments, CBO, JCT, etc.

ITEP's *Who Pays?* study

- First published in 1996 and updated most recently in 2018
- Produced using the ITEP Microsimulation Tax Model
- Results for 50 states + DC
- Includes major tax types (income, consumption, and property)
- Finds that state and local taxes are usually regressive

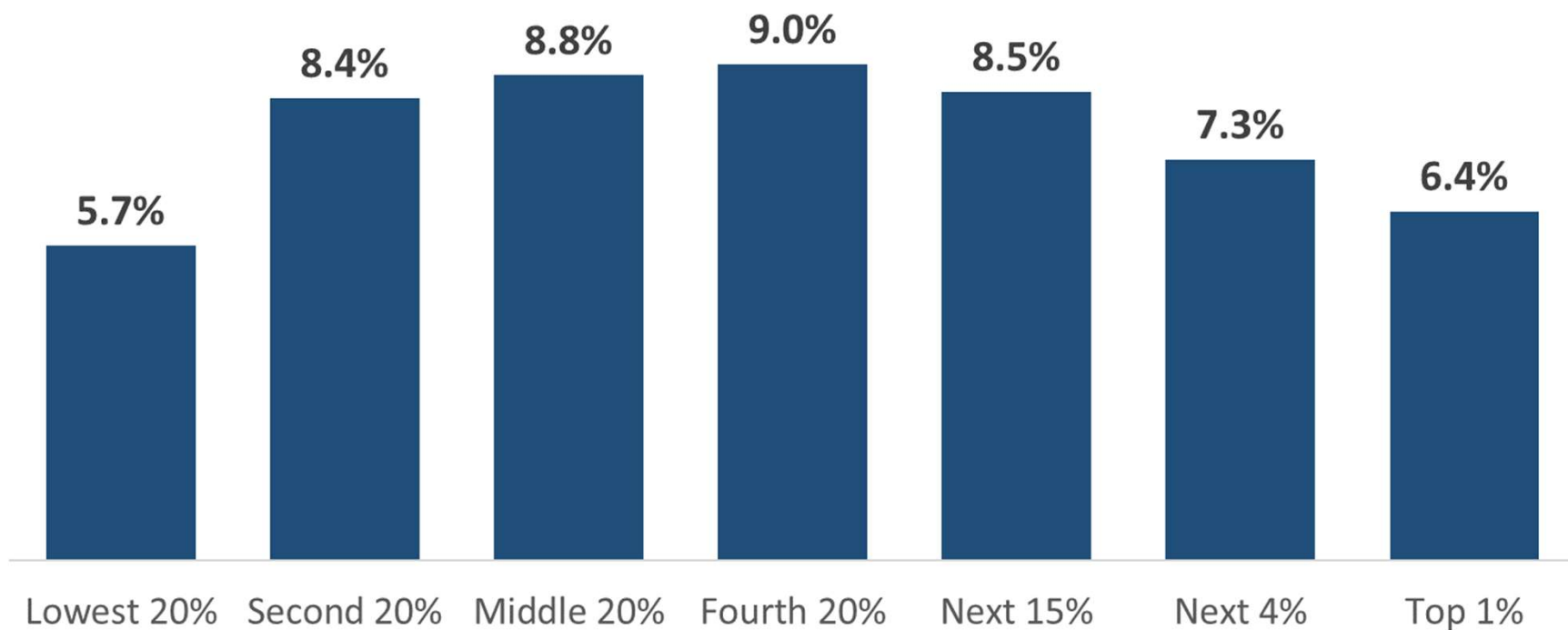


State and Local Taxes in New Mexico as a Share of Family Income Reflecting Laws Enacted through 2018



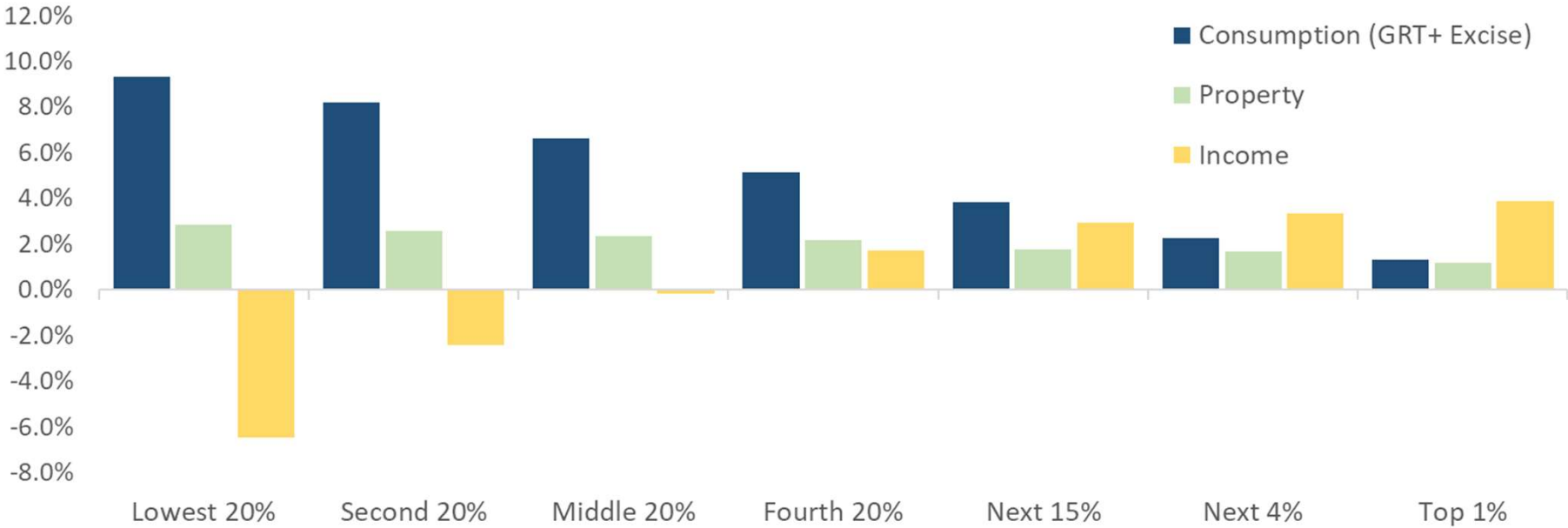
Source: Institute on Taxation and Economic Policy, August 2022 update to *Who Pays?*, 6th Edition

State and Local Taxes in New Mexico as a Share of Family Income Reflecting Laws Enacted through April 2023



Source: Institute on Taxation and Economic Policy, May 2023 update to *Who Pays?*, 6th Edition

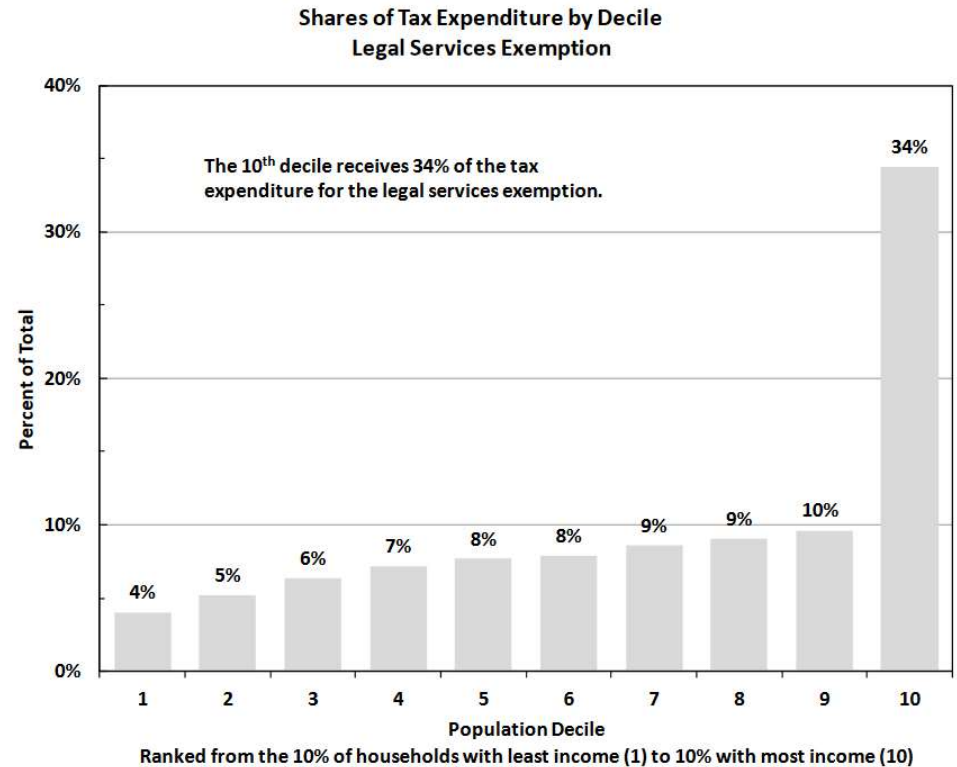
State and Local Taxes in New Mexico as a Share of Family Income, by Tax Category Reflecting Laws Enacted through April 2023



Source: Institute on Taxation and Economic Policy, May 2023 update to *Who Pays?*, 6th Edition

GRT Cascading and Tax Distribution

- Rising input costs usually mean higher prices for consumers
- Including on items where final sale is exempt
- But some of the tax comes out of firm profits (progressive)
- And taxes on certain inputs, like professional services, are among the less regressive components of consumption tax bases



Source: 2008 Tax Incidence Study database, based on detail from Consumer Expenditure Survey

Tax Research Division
MN Department of Revenue
November 28, 2012

Other Cascading Considerations

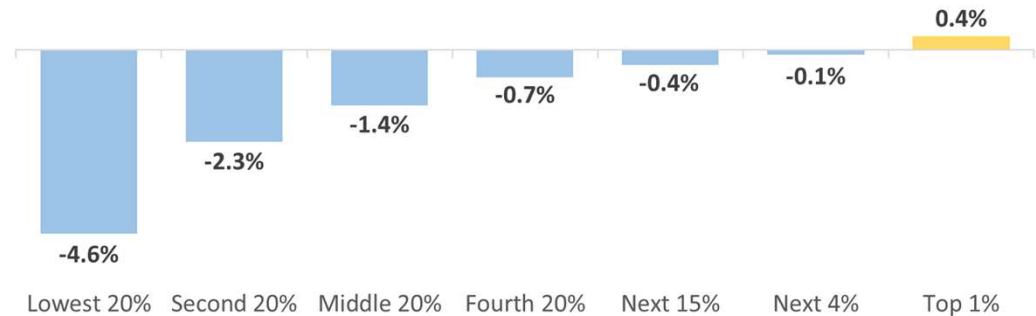
- Is cascading **actually occurring**?
 - Is the business purchase akin to final consumption?
 - If not, is the final consumption even taxed?
- New exemptions for business inputs can improve, or worsen, **neutrality**:
 - ✓ Vertically integrated vs. non-integrated businesses.
 - ✗ Firms that purchase exempt vs. taxed inputs.
 - ✗ Upward pressure on tax rate = *more* cascading on taxed items.
- **Volatility**: narrow base often = more volatile, especially if result is a larger share of overall revenue coming from energy sector
- **Exportability**: are customers, firm owners out of state?
- **Revenue adequacy**: highly uncertain state impact; local impact as well
- **Administrative** and **compliance** difficulties: potential for tax evasion
 - Is taxing the business purchase a justifiable side effect of taxing similar household purchases?

Upshot: Exemptions for business purchases can serve a purpose, but adding more exemptions does not automatically result in a “better” or more “pure” consumption tax.

What Changed? (2019-2023)

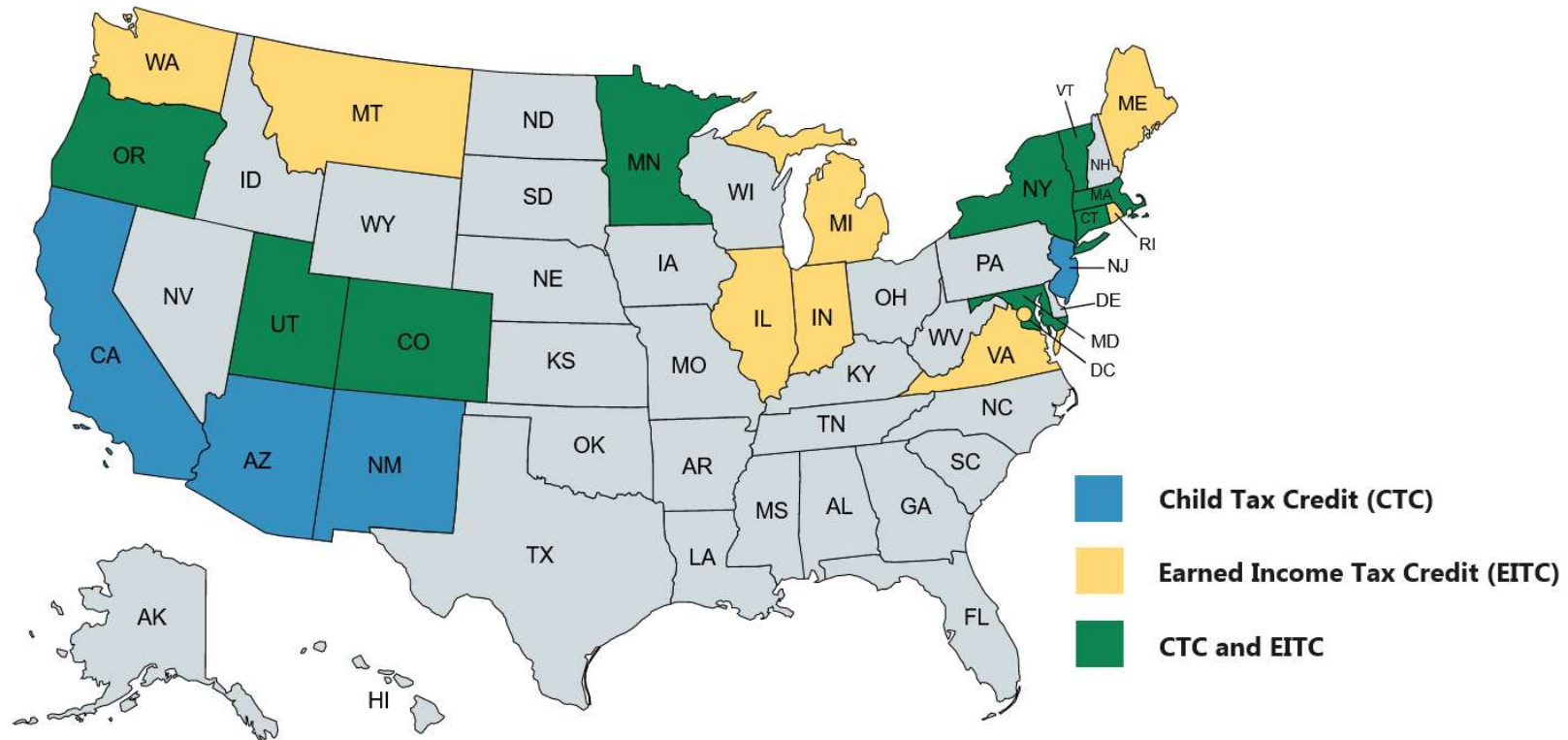
- Expanded WFTC
- Expanded LICTR
- Created CTC
- Created dependent deduction
- Reduced GRT
- Exempted some Social Security
- Increased tobacco taxes
- Increased top income tax rate
- Reduced capital gains deduction
- New cannabis tax (not shown)
- Nonrecurring tax rebates (not shown)

Impact of 2019-2023 Law Changes on New Mexico Taxes
Tax Change as a Share of Family Income



Source: Institute on Taxation and Economic Policy, May 2023

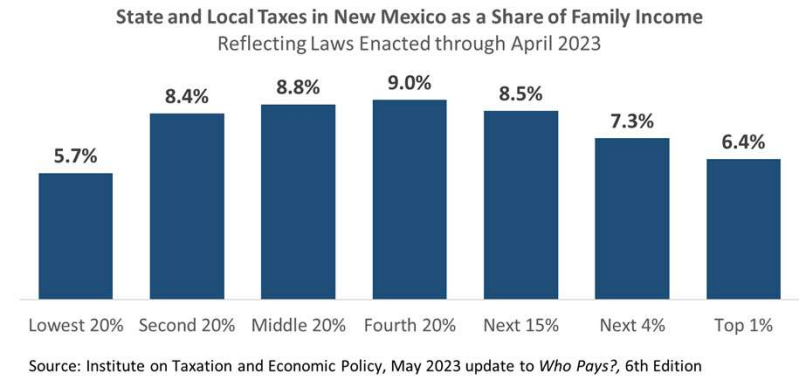
Enhancements to CTCs and EITCs in 2022-2023



Source: Institute on Taxation and Economic Policy (ITEP). Current as of October 16, 2023.

Some Options for Addressing Lingering Regressivity in Top Half of the Income Distribution

1. Income tax bracket reform
2. Reform capital gains taxation
3. Itemized deduction reform
4. Estate and inheritance taxation
5. Progressive property tax and transfer tax options
6. Corporate tax reform



2023 New Mexico Income Tax Brackets

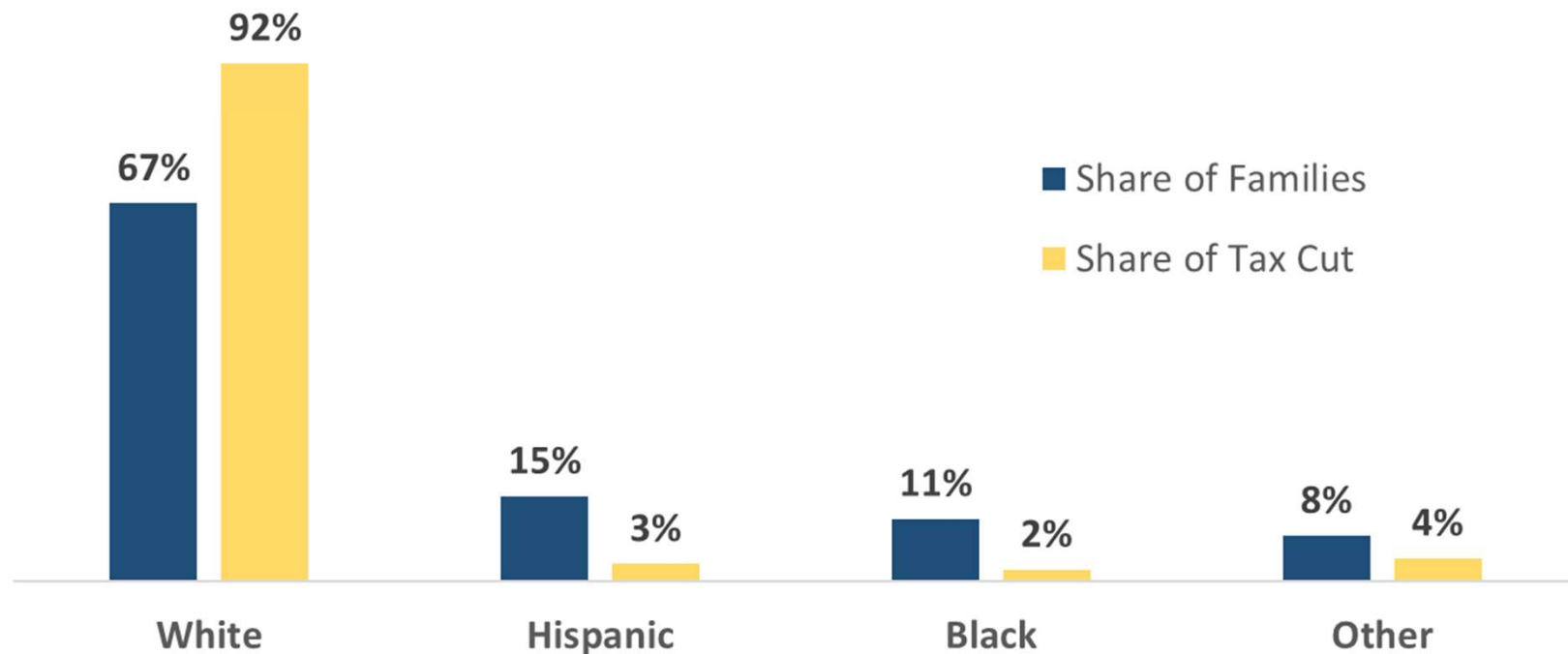
	Single	Married
1.7%	\$0 - \$5,500	\$0 - \$8,000
3.2%	\$5,500 - \$11,000	\$8,000 - \$16,000
4.7%	\$11,000 - \$16,000	\$16,000 - \$24,000
4.9%	\$16,000 - \$210,000	\$24,000 - \$315,000
5.9%	\$210,000+	\$315,000+

Tax Preferences Received on New Mexico Residents' Capital Gains Income

- Deferral (federal and state)
- Stepped-up basis (federal and state)
- Preferential tax rates (federal)
- 40% deduction (state)

Share of Tax Cuts from Federal Government's Preferential Rates for Capital Gains and Dividends Income

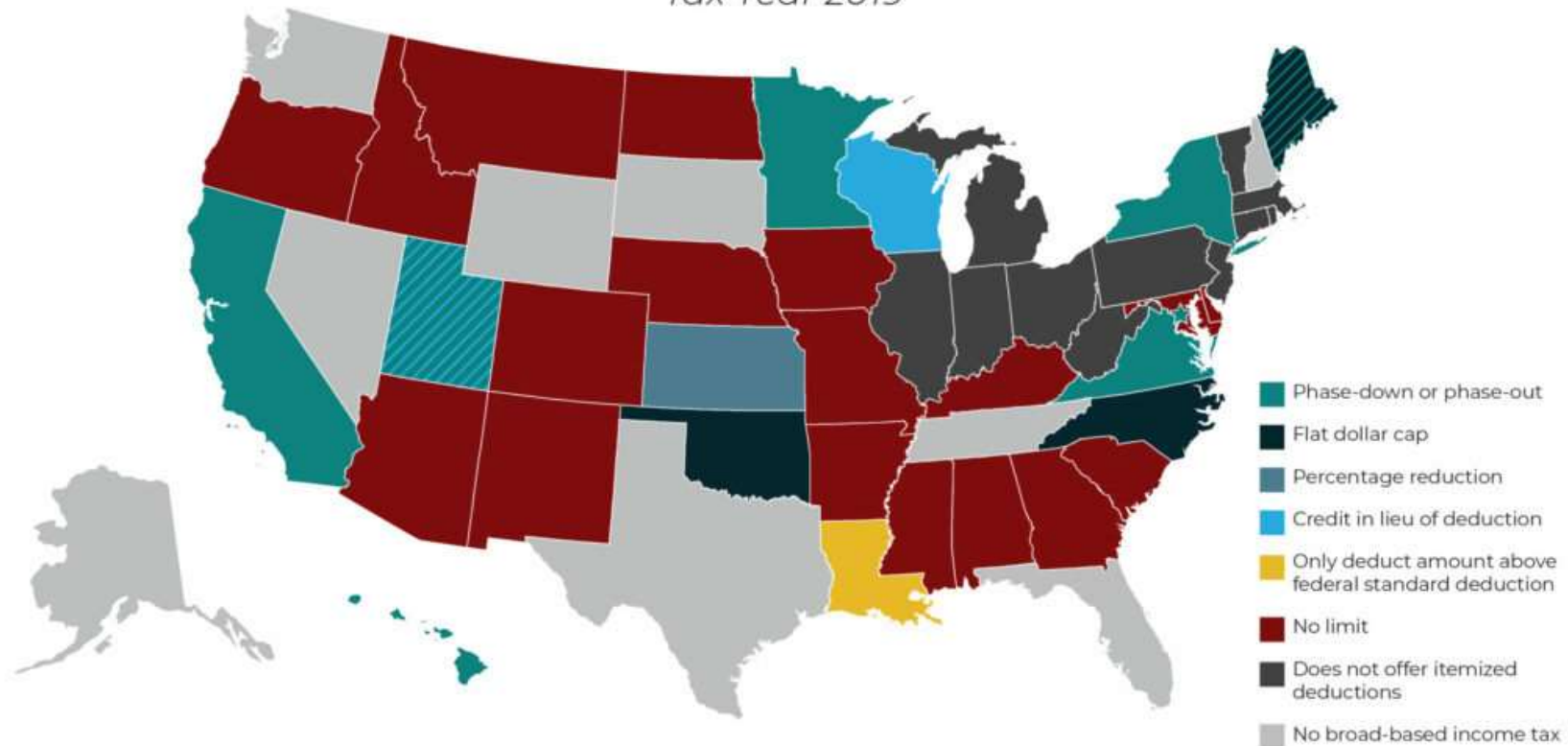
National Data, FY2023



Source: U.S. Department of the Treasury, Office of Tax Analysis, Working Paper 122, January 2023

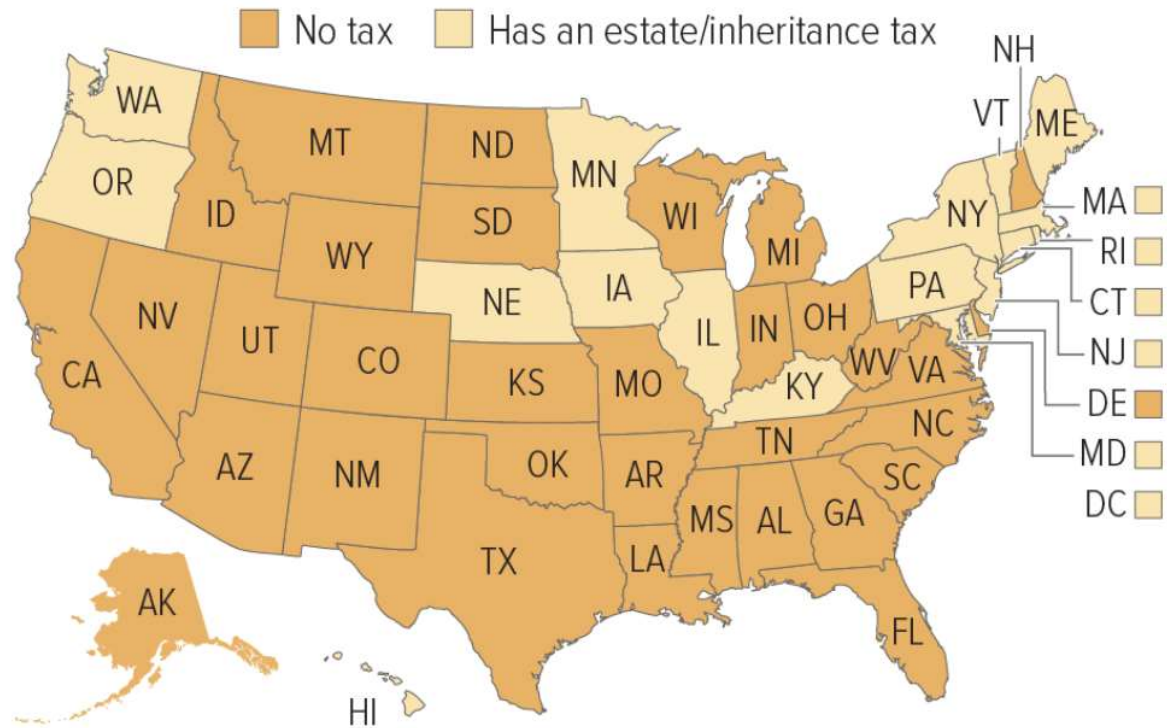
State Limitations on Itemized Deductions

Tax Year 2019



Source: Institute on Taxation and Economic Policy, February 2020

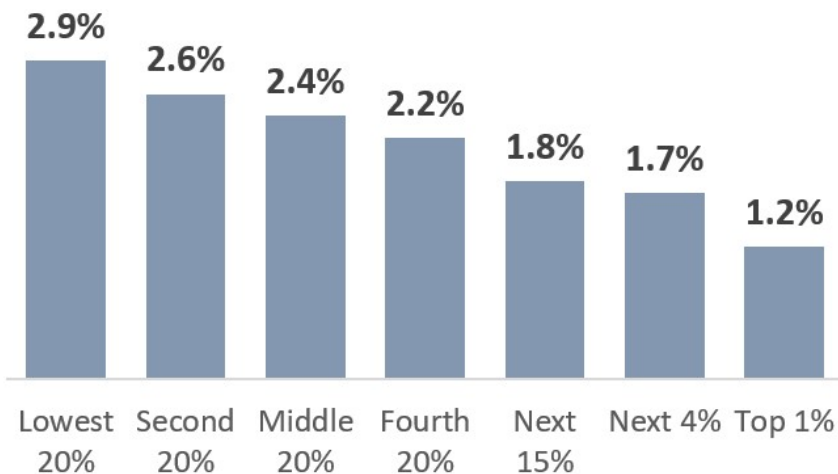
17 States Plus the District of Columbia Tax Inherited Wealth



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Addressing Property Tax Regressivity

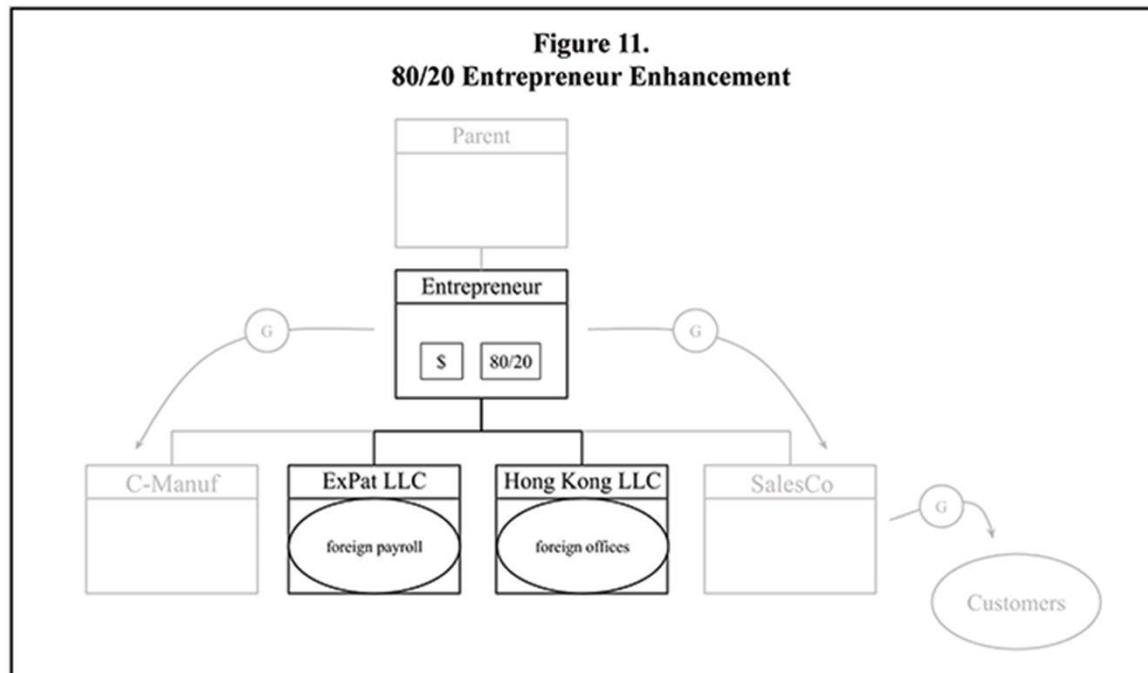
State and Local Property Taxes in New Mexico as a Share of Family Income



Source: Institute on Taxation and Economic Policy, August 2022 update to *Who Pays?*, 6th Edition

- Annual “mansion tax”
- Progressive brackets for real estate transfer tax
- Circuit breaker
- Renters’ credit

Profit Shifting and the Need for CIT Reform



Source: Don Griswold, “Innovation Principles for Multistate CIT Planning – Part 4.” *Tax Notes State*. July 4, 2022.

What Does the Best Available Evidence Tell Us About State Taxes and Growth?

- “The effects of taxes on state-level growth have been the subject of continuing controversy, with many conflicting and fragile results in the literature.”
 - William G. Gale, Aaron Krupkin, and Kim Reuben, in National Tax Journal
- “...Some studies by reputable economists that find that above-average state and local taxes have a measurable and consistently adverse impact on state economic performance. However, many equally reputable studies reach the opposite conclusion, and the results of many more are mixed, ambivalent, or show that any adverse impacts are small. There is simply no consensus...”
 - Michael Mazerov, Center on Budget and Policy Priorities

Only Three States Have Tax Systems More Volatile than New Mexico's (according to the Pew Charitable Trusts)

1. Alaska

2. North Dakota

3. Wyoming

Read more:

www.itep.org

Or let's talk about it:

carl@itep.org