

# **New Mexico Taxes Hit Poor & Middle Class Far Harder than the Wealthy**

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Low- and middle-income families in New Mexico pay a considerably higher share of their income in state and local taxes than do the richest New Mexicans, according to a new study by the Institute on Taxation & Economic Policy.

“State and local governments are being called upon to take on more and more responsibilities,” said Robert S. McIntyre, ITEP’s tax policy director and lead author of the study, titled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. “Unfortunately, when it comes to paying for services, New Mexico has a very unfair tax system.”

## **New Mexico’s Tax Code: Tax the Poor & Middle Class Far More Than the Rich**

When all New Mexico taxes are totaled up, the study found that:

- The richest New Mexico taxpayers—with average incomes of \$610,900—pay 8.7% of their income in New Mexico state and local taxes before accounting for the tax savings from federal itemized deductions. After the federal offset, they pay only 6.3%.
- Middle-income taxpayers in New Mexico—those earning between \$23,000 and \$36,000—pay 10.4% of their income in New Mexico state and local taxes—or one and a half times the share the rich pay.
- New Mexico families earning less than \$13,000—the poorest fifth of New Mexico non-elderly taxpayers—pay 12.1% of their income in New Mexico state and local taxes which is almost twice the rate the richest New Mexicans pay.

“New Mexico’s income tax fails to offset the regressivity of its sales and excise taxes, giving the state an unfair, regressive tax system,” McIntyre said. “Taxes ought to be based on people’s ability to pay them, which means that the share of income paid in taxes should rise as income grows, not fall as is the case in New Mexico.”

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## Tax Regressivity Has Grown Since 1989

The study also examined the impact of changes in the regressivity of New Mexico taxes since 1989, when the last cycle of state government shortfalls began. The study's findings include:

- New Mexico's taxes on the poorest families fell somewhat, while taxes on other groups grew.
- New Mexico increased the gross receipts tax which includes groceries.

"As lawmakers consider budget-balancing strategies in 2003," McIntyre said, "they should remember that the current New Mexico tax system places much higher burdens on middle- and low-income taxpayers than it does on the best-off New Mexicans."

### **Two pages of tables detailing the New Mexico findings of the study follow**

The Institute on Taxation and Economic Policy is a nonpartisan Washington-based research group. The full *Who Pays?* report is available in PDF format at [www.itepnet.org](http://www.itepnet.org). Printed copies can be ordered by calling ITEP at 202-737-4315.

*Who Pays?* examines the tax systems of all 50 states and the District of Columbia, using the Institute on Taxation & Economic Policy Microsimulation Tax Model. The ITEP Model is similar in methodology and data sources to the elaborate computer models used by the U.S. Treasury and the congressional Joint Committee on Taxation, except that the ITEP Model adds state-by-state estimating capabilities.

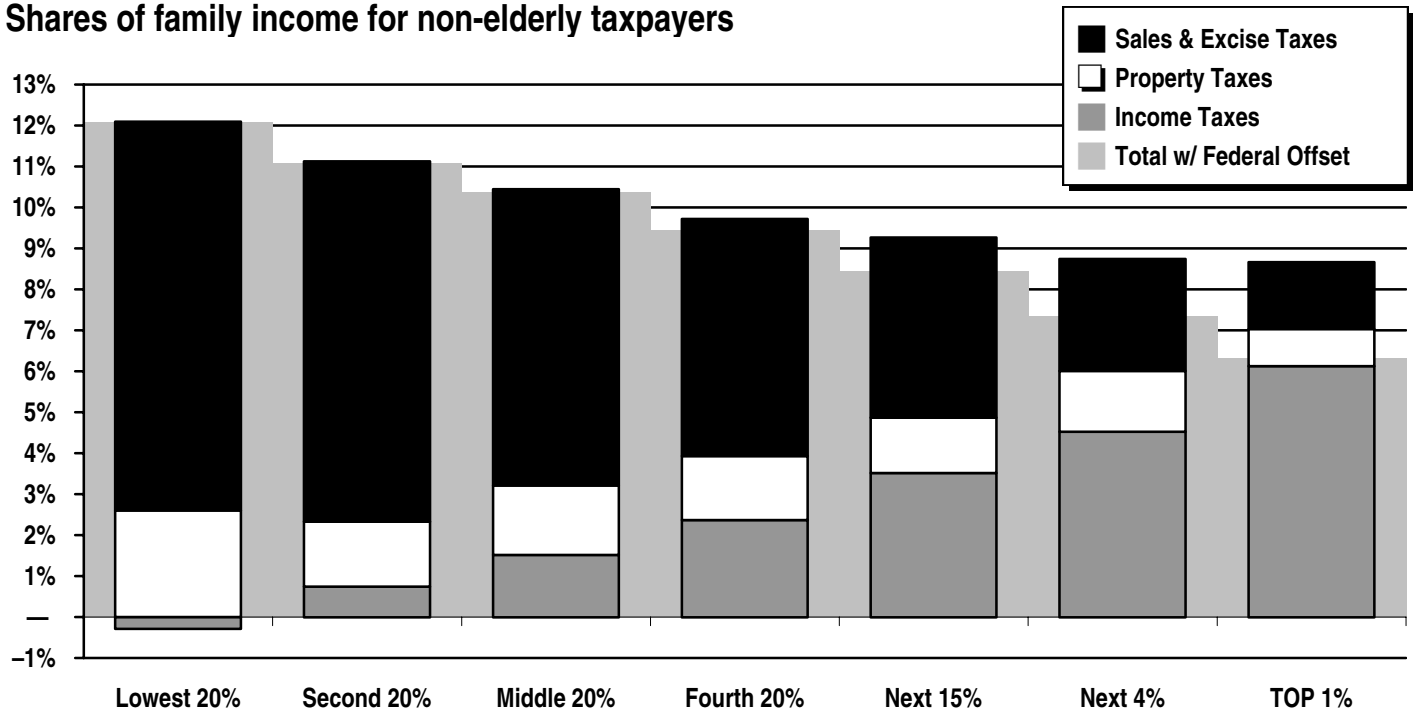
The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

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# New Mexico

## State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$13,000	\$13,000 – \$23,000	\$23,000 – \$36,000	\$36,000 – \$60,000	\$60,000 – \$112,000	\$112,000 – \$243,000	\$243,000 or more
Average Income in Group	\$7,800	\$18,300	\$28,700	\$46,000	\$79,100	\$149,000	\$611,000
<b>Sales &amp; Excise Taxes</b>	<b>9.7%</b>	<b>8.8%</b>	<b>7.2%</b>	<b>5.8%</b>	<b>4.4%</b>	<b>2.7%</b>	<b>1.6%</b>
General Sales—Individuals	6.3%	5.7%	4.8%	3.9%	3.0%	1.9%	1.2%
Other Sales & Excise—Ind.	1.3%	1.2%	1.0%	0.7%	0.6%	0.3%	0.1%
Sales & Excise on Business	2.1%	1.9%	1.5%	1.2%	0.9%	0.5%	0.3%
<b>Property Taxes</b>	<b>2.7%</b>	<b>1.6%</b>	<b>1.7%</b>	<b>1.6%</b>	<b>1.4%</b>	<b>1.5%</b>	<b>0.9%</b>
Property Taxes on Families	2.6%	1.5%	1.6%	1.5%	1.2%	1.2%	0.5%
Other Property Taxes	0.0%	0.1%	0.1%	0.1%	0.1%	0.3%	0.4%
<b>Income Taxes</b>	<b>-0.3%</b>	<b>0.7%</b>	<b>1.5%</b>	<b>2.4%</b>	<b>3.5%</b>	<b>4.5%</b>	<b>6.1%</b>
Personal Income Tax	-0.3%	0.7%	1.5%	2.3%	3.5%	4.4%	5.9%
Corporate Income Tax	0.0%	0.1%	0.0%	0.0%	0.1%	0.1%	0.2%
<b>TOTAL TAXES</b>	<b>12.1%</b>	<b>11.1%</b>	<b>10.4%</b>	<b>9.7%</b>	<b>9.3%</b>	<b>8.7%</b>	<b>8.7%</b>
Federal Deduction Offset	-0.0%	-0.0%	-0.1%	-0.3%	-0.8%	-1.4%	-2.4%
<b>TOTAL AFTER OFFSET</b>	<b>12.1%</b>	<b>11.1%</b>	<b>10.4%</b>	<b>9.5%</b>	<b>8.5%</b>	<b>7.3%</b>	<b>6.3%</b>

Note: Table shows 2002 tax law at 2000 income levels.

# New Mexico Tax Trends

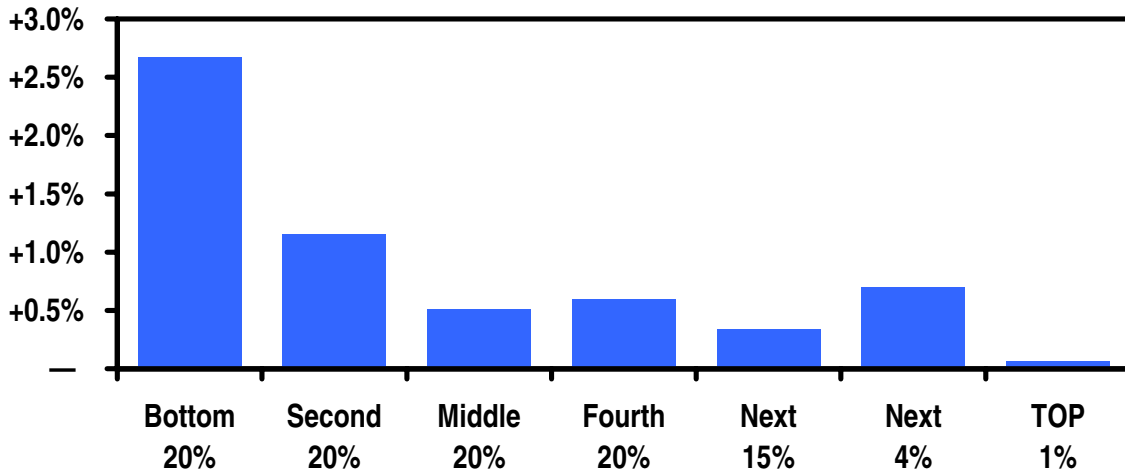
## Progressive Features

- ✓ Refundable low income credit
- ✓ Graduated income tax rates
- ✓ Small head of household exemption for property tax

## Regressive Features

- ✗ Groceries subject to sales tax
- ✗ High reliance on sales tax
- ✗ Deduction for state income taxes

### Changes in Taxes as Shares of Income, 1989 – 2002

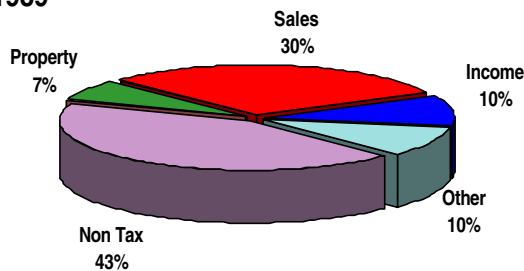


	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Sales & Excise	+0.0%	+0.0%	+0.0%	+0.0%	+0.0%	+0.0%	-0.0%
Property	+0.3%	+0.4%	+0.4%	+0.4%	+0.0%	+0.2%	-0.0%
Income	+2.4%	+0.8%	+0.0%	+0.2%	+0.5%	+0.7%	+0.8%
Federal Offset	-0.0%	-0.0%	-0.0%	-0.1%	-0.2%	-0.2%	-0.7%
<b>Overall Change</b>	<b>+2.7%</b>	<b>+1.2%</b>	<b>+0.5%</b>	<b>+0.6%</b>	<b>+0.3%</b>	<b>+0.7%</b>	<b>+0.1%</b>

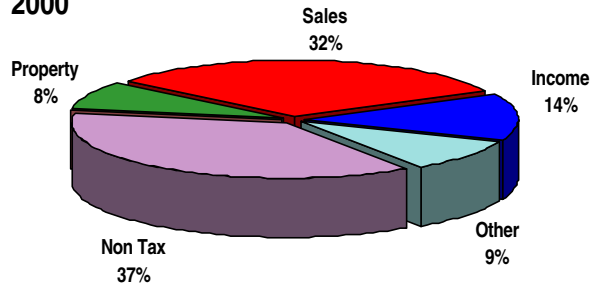
The elimination of a generous food tax credit in 1993 was not matched by the expansion of the Low Income Comprehensive credit, raising the burden on the lowest-income New Mexicans. The gross receipts tax increased a quarter percent.

## Composition of Revenues

1989



2000



Source: Government Finances, US Department of Census