

# New Mexico Personal Income Tax

A Brief History and Review of Selected Provisions

Mark Chaiken

Tax Policy Director

New Mexico Taxation and Revenue Department

# Introduction

Topics to be covered:

- Personal Income Tax: Overview and Structure
- History of PIT rates
- History and Purpose of PIT Rebates
- Tax Expenditures and PIT

# Structure of the Personal Income Tax

- Start with Federal Adjusted Gross Income (AGI)
  - Gross income minus adjustments
- “Base income” is this amount
- Base income is adjusted to arrive at “net income”
  - Standard federal deduction or adjusted itemized deduction
  - No “double dipping” of state tax refunds or deductions
  - Other amounts are excluded
  - Other credits, deductions, and exemptions taken to arrive at taxable income

# Tax Policy: Progressivity

- Four categories of taxpayer
- Progressive income tax brackets
  - Higher earners get taxed more
  - Higher rates only apply to income above the threshold
  - Top rate is currently 5.9%, and only above a high threshold
- Progressive tax policy
  - Allows lower income people to spend more money on necessities
  - Imposes larger burden on those able to pay, and who benefit most
  - Allows governments to raise sufficient revenue

# History of PIT Rates

- First imposed in 1913, 7 brackets, 3.0% maximum rate
- Little change until 1970s
  - Change in 1933 to reduce brackets to 4, slightly raise maximum rate
  - Change in 1965 to raise rates
- Tax expansion, 1974-1983
  - Changes in 1974, 1978, 1981, and 1983, resulted in 19 brackets and a maximum rate of 7.8%
  - Rapidly fluctuating brackets and rates, increased tax complexity
  - Lack of stability is bad tax policy

# History of PIT Rates (continued)

- Tax Reform, 1986-1998
  - Consolidation of brackets from 19 to 7
  - Reduction of lower- and middle-income tax rates
  - Maximum tax rate is still 8.2%
- Further reform and consolidation
  - 2003: Number of brackets reduced to 4; maximum rate reduced to 4.9%, on incomes over \$24,000
  - 2019: New top bracket added; new tax rate of 5.9% on income over \$315,000 (married joint filers and heads of household), \$157,000 (married filing separately), and \$210,000 (single filers)

# Tax Policy: Credits, Deductions, and Exemptions

- Credits, Deductions and Exemptions (“Tax Expenditures”)
  - Used to make policy, and encourage or discourage certain behavior
  - To encourage New Mexico residency
  - To encourage certain types of investment
  - To support specific communities (retirees, the blind, veterans, etc.)
  - Required by federal law (taxation of Native Americans)
- New Mexico’s Tax Code has many Tax Expenditures
  - Tax Expenditure Report
  - Detrimental effects on tax policy
  - Determination of effectiveness

# Tax Expenditures

- Some Typical Tax Expenditures in the New Mexico Tax Code
  - Persons sixty-five and older and the blind (§ 7-2-5.2)
  - Low and middle income taxpayers (§ 7-2-5.8)
  - Armed forces salaries (§ 7-2-5.11)
  - Certain child care expenses (§ 7-2-18.1)
  - Working Families Tax Credit (§ 7-2-18.15)
  - Investment- and business-related tax credits
- Recent developments
  - Social Security Income Exemption
  - Limited Military Retirement Pay Exemption
  - Child Tax Credit



# Tax Rebates

- Similar to Tax Expenditures – target tax relief to specific communities
- Both one-time and recurring
  - Low Income Comprehensive Tax Rebate (§ 7-2-14)
  - Property tax rebates
  - Food and medical rebates
  - One-time rebates for economic relief
    - 2005 and 2007
    - Recent inflation-related rebates