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Repeal New Mexico's tax on Social Security benefits

Your Turn

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 Guest columnists

It is time to repeal New Mexico's counterproductive tax on Social Security benefits.

For more than half a century after Social Security was enacted in 1935, Social Security benefits were not taxed in New Mexico.

In 1990, the New Mexico legislature passed a long and complex bill changing the way that state and federal pensions were taxed (and raising more than \$13 million for state government). Buried on the second to last page of that bill was a single line that imposed the state's income tax on Social Security benefits. This provision received no public scrutiny.

Today, New Mexico is one of only 13 states that tax Social Security benefits, and of those states, New Mexico has the second harshest tax, costing the average Social Security recipient in New Mexico nearly \$700 a year.

Taxing Social Security benefits undermines the purpose of the Social Security Act, which was designed to lift seniors out of poverty – not to fund state government. New Mexico currently ranks third highest in the nation for the percentage of seniors living in poverty.

Social Security is the sole source of income for one in three New Mexico seniors, yet the average benefit is only about \$13,900 a year. Meanwhile, the average annual cost of food, housing, and health care for older Americans is nearly twice as high: about \$28,000, according to the U.S. Department of Labor.

New Mexico's Social Security tax also has a negative impact on our economy. If seniors were able to keep the money that they now pay in taxes on their Social Security benefits, much of it would be spent immediately and those dollars would go right back into New Mexico's economy. State government would still receive significant revenues through the gross receipts taxes that would be generated by that economic activity.

One reason why most states do not tax Social Security benefits is to attract and retain retired people as an economic development tool. Taxing Social Security tax hurts New Mexico in "best states to retire" lists. Last year, for example, Kiplinger's magazine profiled the 13 states that still tax Social Security benefits, and

listed New Mexico among the least tax-friendly states for seniors.

The state's tax on Social Security benefits is a form of double taxation. When New Mexicans receive their paychecks, the money that is taken out for Social Security is already subject to state income taxes. So New Mexicans pay income tax on the money they put into Social Security, and then they are taxed again on the benefits they receive.

Legislators and Governor Lujan Grisham could simply repeal New Mexico's tax on Social Security benefits without any offsetting revenues, since taxes were already raised last year on automobiles and internet sales, among other things. This would decrease state tax revenues by about \$73 million a year, according to an analysis by the state's Legislative Finance Committee.

Another option would be to follow the model of the laws enacted by West Virginia and North Dakota earlier this year. Both of those states targeted their tax exemptions to lower and middle income residents by repealing their taxes on Social Security benefits for married taxpayers with incomes of less than \$100,000 and for all other taxpayers with incomes of less than \$50,000.

Enacting a similar reform in New Mexico would reduce state tax revenues by \$21–\$29 million. That represents about one third of one percent of New Mexico's \$7 billion state government budget.

Think New Mexico is not alone in supporting this reform. Legislators from both sides of the aisle have introduced bills in recent years to repeal or significantly reduce New Mexico's tax on Social Security benefits, including Representatives Gail Armstrong (R-Socorro), Daymon Ely (D-Albuquerque), and Patricia Roybal Caballero (D-Albuquerque).

We hope you will join this effort to repeal New Mexico's Social Security tax by contacting your legislators and Governor Lujan Grisham and urging them to support legislation repealing the tax on Social Security. You can learn more and email your legislators and the governor from Think New Mexico's website at: www.thinknewmexico.org.

Fred Nathan is Executive Director and Kristina G. Fisher is Associate Director of Think New Mexico, an independent, nonpartisan, results-oriented think tank that recently released a report on achieving retirement security for all New Mexicans.