

**NM LEGISLATURE 2022 – LOCAL VOICES****Middle class wins with Social Security tax deal**

*Teachers, nurses, police officers would benefit from change*

**BY FRED NATHAN**  
EXECUTIVE DIRECTOR, THINK  
NEW MEXICO

The compromise reached by Gov. Michelle Lujan Grisham and Senate Democrats to remove the tax on Social Security income for all lower- and middle-income seniors — with incomes up to \$100,000 for individuals and \$150,000 for couples — represents a reasonable compromise among proponents and opponents of a full repeal.

The state's tax on Social Security has been in effect since 1990, when the Legislature passed a complex tax bill that buried the provision on a single line on the second-to-last page. Beginning at least as early as 1997, legislators from both parties have been introducing legislation to repeal the tax on Social Security.

In 2019, Think New Mexico advocated for a full repeal in our report, "Solving the Hidden Crisis: Achieving Retirement Security for all New Mexicans," which was prompted by a 2018 UNM study that

found two out of every three private sector workers in New Mexico have no money saved for retirement.

There are many good arguments for a full repeal, beginning with the fact it is not good tax policy to tax anyone twice on what is essentially the same income — when New Mexicans are working, the state taxes the money that is taken out of their paychecks for Social Security; then they are taxed again on the benefits they receive.

The fact New Mexico heavily taxes Social Security benefits is a major reason why Kiplinger's, Money, Yahoo Finance and Wallet Hub, among others, consistently rank our state as one of the worst to retire in. Fully repealing the tax would help get us off those lists. Given all the amenities of the Land of Enchantment, repealing this tax would likely move us to the lists of best states to retire.

Finally, tax experts have urged policymakers to make N.M.'s tax code look more like that of other states. Fully repealing the tax would be a step in that direction because we would be joining the growing list of 38 states that do not tax

Social Security income.

Critics of a full repeal argue, however, that repealing the entire tax would also benefit wealthier New Mexicans who may not need the help. They also argue that, despite having more than \$1 billion of new money in this fiscal year, state government would not be able to afford the cost of a full repeal when the next economic downturn hits.

The Senate compromise would reduce the price tag of this reform from \$118.1 million to \$84.1 million, or about 1% of the state general fund. That is about a 30% reduction from the cost of a full repeal.

Perhaps most importantly, this compromise represents targeted tax relief for the middle class. These folks are the retired teachers, nurses, police officers and first responders who we need to attract and retain in New Mexico, as well as the 55,000 grandparents who are the primary guardians for their grandchildren. This compromise will put about \$700 back into their pockets annually in their retirement.

As Taxation and Revenue Secretary

Stephanie Schardin Clarke stated, the compromise "will benefit tens of thousands of middle-class and lower-income seniors in New Mexico." Currently, New Mexico begins taxing Social Security for individual seniors with incomes over \$28,500.

The compromise, which passed the Senate Tax Committee 9-1, disappoints those on both sides of the debate. Some may want to lower the income levels at which the tax exemption applies and keep the tax on more middle-class seniors.

But if the compromise is renegotiated, those on the other side might push for their own changes, like a full repeal; or the addition of an inflation adjuster on the income levels like the one the Legislature passed last year for the Low Income Comprehensive Tax Rebate; or the inclusion of a \$30 million tax cut for military retirees who also wrongly pay a punishing tax on their pensions

Those wishing to support the compromise should visit Think New Mexico's website at [www.thinknewmexico.org](http://www.thinknewmexico.org) and urge their legislators to pass it and send it to the governor.