

# Repeal the food tax exemption to broaden the tax base and...

## Help the state's poor.

More than 450,000 New Mexicans (the 1 in 4 people who rely on food stamps) don't pay tax on food because SNAP benefits aren't taxable. Due to multiple increases of GRT on everything other than food, a Las Cruces family of 4 on SNAP now spends \$150 MORE per year in GRT alone.

## Get rid of Hold-Harmless.

If food were taxed at only the local rate, the state could end hold-harmless payments to counties and municipalities.

## Stabilize local governments.

Tax on food expenditures is a predictable and stable revenue source for counties and municipalities.

## Reduce state GRT.

The food tax exemption unleashed a series of increases in state and local GRT rates. If food were put back into the tax base, state GRT could be reduced, creating a tax system that's more equitable for all.

● Repealing the food tax exemption, ending hold-harmless, lowering the state GRT rate and protecting the disadvantaged in more formidable ways would help balance state and municipal budgets. ●

 **9%**  
GRT IN SOME MUNICIPALITIES

 **453,146**  
PEOPLE ON FOOD STAMPS IN 2015 (TAX EXEMPT)

 **\$20 million/year**  
MORE PAID BY NM'S POOR

 **\$200 million**  
LOST REVENUE

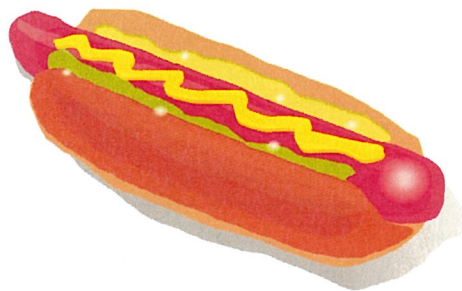
 **2x the benefit**  
HIGHER INCOME = MORE SPENT ON FOOD

## Who benefits most from the food tax exemption?

**\$7.59**  
TAX EXEMPTION ON  
2 LBS OF FRESH FISH



**\$0.45**  
TAX EXEMPTION ON  
2 LB-PACKET OF HOT DOGS



Middle- and upper-income people benefit more when they purchase higher priced - and twice the amount of - food than the disadvantaged.

(Annual food spend \$5,337 for high earners vs. \$2,733 for disadvantaged.)

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Albuquerque Journal Guest Column

## GRT reform would help state's poor

By Brian McDonald / Economic Consultant, Albuquerque and  
Chuck Wellborn / Retired Lawyer, Albuquerque  
Friday, February 24th, 2017 at 12:02am

A pending bill in the Legislature, HB 412, seeks to bring badly needed reform to the state's gross receipts tax by removing ill-considered deductions and exemptions, thereby expanding the GRT tax base and enabling the GRT tax rate to be reduced. The latter is a well-recognized principle of state taxation – tax a broad base of economic activity at a low tax rate.

One aspect of this bill that should be widely embraced is in fact one of its most controversial provisions. That is reimposing GRT on food – though at a reduced rate.

There are more reasons to support the tax on food than many know:

- It's not at all clear that exempting food from GRT actually benefits the poor,
- The benefits of the food tax exemption flow almost entirely to the non-poor,
- The food tax break is a primary contributor to our current fiscal woes, reducing tax revenues by more than \$200 million each year,
- These lost revenues are desperately needed for public education, early childhood development and Medicaid, which do benefit the poor, and
- Lost GRT tax revenue on food sales has forced cities and counties to increase their GRT rates on non-food items such as utilities and clothing, further burdening the poor.

Opponents of reinstating the food tax say that even though the poor get federal SNAP (food stamp) assistance, SNAP assistance only provides a portion of their food needs. Co-author Brian McDonald, a Ph.D. economist who headed UNM's Bureau of Business and Economic Research until his retirement, points to data that raises serious questions about this premise.

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In fiscal 2015, SNAP assistance totaling \$685.2 million went to 205,540 New Mexico households, with each household receiving \$3,333 per year on average. By federal law, SNAP benefits

have never been subject to GRT. The 2004 legislation eliminating food from the GRT tax base therefore provided little tax relief to the poor in New Mexico. New Mexico SNAP recipients today receive GRT tax benefits totaling \$47.96 million – assum-

ing a 7 percent GRT tax rate – by virtue of this federal exemption, not the 2004 New Mexico legislation exempting food.

How does the \$3,333 in SNAP assistance each household received compare to the annual food purchases of similar households?

U.S. Bureau of Labor Statistics Consumer Expenditure Survey data for that year show that the lowest 10 percent of households in the United States by income spent \$2,566 on “food at home” – the closest data concept to the New Mexico GRT tax base on food. The second lowest 10 percent of households by income spent \$2,432 on food at home.

Extrapolating this data to New Mexico's poor, the lowest 20 percent of households are receiving SNAP benefits, which typically cover most or all of their expenditures on food and which are not subject to GRT taxation by federal law. Under HB 412, these \$685.2 million in food purchases by the poor will still be exempt from GRT.

The lower GRT tax rate proposed by HB 412 will give the poor in New Mexico real tax relief on their non-food purchases such as utilities, clothing, food consumed at restaurants and school supplies. Arguably, the poor in New Mexico will pay more GRT if HB 214 excludes food from the tax base because the GRT tax rate will have to be increased in order to generate the same level of tax collections with a smaller tax base.

**“The lower GRT tax rate proposed by HB 412 will give the poor in New Mexico real tax relief on their non-food purchases.”**

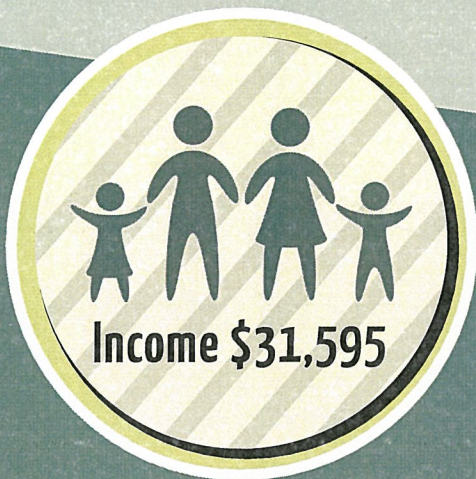
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## New Mexico exempted food & raised GRT on everything else... on the backs of the state's most disadvantaged

Family on SNAP (never paid tax on food) spends 38% on non-food taxable items that are now taxed at a higher rate



Now spending  
**+\$150**  
per year more  
in GRT

=

**\$20 million**  
per year, for all NM  
households on SNAP

=

**\$157 million**  
more GRT paid by  
the state's poor  
since 2005

\$157 million is the amount SNAP recipients would have paid since 2005 if all cities and counties had enacted the .375% tax increase authorized by legislation. For example, a family in Las Cruces was hit by 3 tax increases directly related to the food tax exemption; Now paying 1.25% higher GRT on everything besides food. Extrapolated to show the harm done to 127,832 New Mexico SNAP households. More info at [www.foodtaxfacts.org](http://www.foodtaxfacts.org).

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**NEW MEXICO  
TAX RESEARCH  
INSTITUTE**

White paper published February 2003  
predicted today's dire results

## TAX POLICY FACT SHEET

### EXEMPTING FOOD FROM THE GROSS RECEIPTS TAX

*In recent years, proposals have been made to exempt groceries from the New Mexico gross receipts tax. Proponents argue that taxing such necessities places an unfair tax burden on the poor. This fact sheet addresses the tax policy implications of repealing the gross receipts tax on food for home consumption and provides estimates of the revenue impact on state and local governments in New Mexico.*

#### Revenue Impact

Gross receipts taxes are a significant revenue source for the state general fund, which finances public education, higher education, Medicaid, public safety and public assistance programs. Gross receipts taxes contributed \$1.3 billion in FY 2002 to the state general fund, representing one-third of total recurring revenue.

gross receipts tax on food would be approximately 56% of the total, or \$68 million. Retail food store sales constitute 7.1% of municipal taxable gross receipts. That means exempting food from the gross receipts tax would cost municipalities about \$47 million. Exempting food from the gross receipts tax would cost county governments about \$7 million.

**“New Mexico’s broad gross receipts tax base allows the state to keep the gross receipts tax rate low compared to surrounding states.”**

#### Impact on Economy

Minimizing the impact taxes can have on the state economy should be an important goal of state tax policy. Taxes have the least impact on business and consumer decisions when the tax rate is kept low.

Counties, too, rely upon gross receipts taxes for county operations, indigent health care, public hospitals, jails, fire protection, and environmental projects.

Raising adequate tax revenue to fund state government, and at the same time keeping tax rates low, requires a broad tax base. New Mexico’s gross receipts tax has a broader base than most state sales taxes, including food, some healthcare services, and other services.

If legislation were adopted repealing the gross receipts tax on food purchases for home consumption, there would be a significant revenue loss to state, city, and county governments. For the fiscal year 2003-2004 combined, the revenue loss is estimated to be \$122 million.

**“Exempting food from gross receipts tax will narrow this tax base and may lead to higher gross receipts tax rates on other goods and services in the future in order to adequately fund state government.”**

The cost to the state’s general fund is estimated to be \$68 million.

#### Fiscal Impact of Food Exemption on New Mexico’s 10 Largest Cities

	Grocery stores share of taxable gross receipts	2003-2004 Revenue Impact
Albuquerque	5.9%	\$18,800,000
Las Cruces	6.8%	\$3,100,000
Santa Fe	8.7%	\$6,300,000

#### Tax Burden

Food purchased with food stamps is already exempt from the gross receipts tax. Roughly 179,000 New Mexicans now receive \$140 million in food stamps annually, representing an existing \$8.4 million

HOUSEHOLD FOOD TAX BURDEN

23%



# 9% GRT IN SOME MUNICIPALITIES

Graphic created in 2015 -- these were missed opportunities

## Do nothing...

## Fix the problem...

### Hold Harmless

- GRT increases to more than 9 percent in some locations
- Many municipalities are left with a deficit even after increasing local GRT
- County residents bear the burden of tax increases that generate 4 times the amount of hold-harmless payments

- The state is relieved of payments to cities and counties
- Payment cessation is revenue-neutral but payment administrative costs are eliminated

### GRT Rates

- Businesses lose competitiveness as higher GRT increases their costs
- Low-income New Mexicans pay more for non-food necessities such as childcare and diapers

- State rate decreases from 5.125 percent to 5 percent to restore GRT – and the economy – to pre-recession levels
- Local increases allowed under 2013 legislation are repealed, lowering overall GRT and halting the revenue grab that has pit county against municipality

### Local Tax on Food

- Local governments are forced to cut budgets – and essential services
- Tax system becomes more confusing as municipalities lobby for band aid approaches to avoid hold-harmless phase-out

- Food subject to only the local rate of about 2 to 4 percent
- Almost 25 percent of New Mexicans continue to be exempt because they receive SNAP benefits

### Tax Credits

- Working Family Tax Credit remains at 10 percent of federal Earned Income Tax Credit

- Working Family Tax Credit increases to 14 percent, delivering an additional \$22 million to low-income residents

**When the New Mexico Municipal League backed efforts in 2010 and 2015 to restore local tax rates on the sale of food, the state's economy was far different from what it is today in 2018. The graphic above was created in 2015 to demonstrate the potential consequences of ignoring the problems unleashed by the food tax exemption and subsequent "Hold Harmless" provisions. Unfortunately, all of the "Do Nothing" events have occurred since the graphic was created, and New Mexico now has more people receiving food stamp benefits (SNAP) than ever before. This is the result of a decade of compounded problems:**

Troubles began with 2004 legislation that removed food and medicine from GRT, increased state GRT by .5 percent and initiated "hold-harmless" payments to protect cities and counties from lost revenue.

The food tax deduction did not help low-income families because food purchased with Supplemental Nutrition Assistance Program (SNAP) benefits is already tax exempt. Middle and upper income families receive greater benefit because they typically purchase food that is more expensive than what low-income families can afford.

The deduction became a drain on the state general fund because hold-harmless reimbursements, which were estimated in 2004 to be \$110 million a year, turned out to be about 4 times that amount. Problems compounded when state GRT increased from 5 percent to 5.125 percent in 2010 in response to the Great Recession's decreased deposits into the state general fund.

2013 legislation unleashed additional tax increases when cities and counties were allowed to raise local-option taxes to compensate for hold-harmless phase-outs.

Everyone, including low-income families, now pays higher GRT on all goods other than food (essential household items such as cleaning products, toiletries and clothing). GRT in some municipalities is now over 9 percent.

Many counties enacted the local tax increase option because the revenue it provides is far greater than the hold-harmless payments it replaced. Many cities have not enacted the local tax increase option because revenue from the tax increase would be less than the hold-harmless payments they received before phase out began.

Española, one of the few municipalities that enacted a local increase, lost \$630,000 by raising GRT 3/8 percent. Española went from \$1.5 million in annual hold-harmless payments to \$896,000 in new tax revenue in 2015.

In 2015, the New Mexico Municipal League proposed a revenue-neutral solution to the compounded problems initiated by the 2004 law that removed food from gross receipts tax. That solution is no longer viable in 2018.