

NM REVENUE STABILIZATION AND TAX POLICY COMMITTEE FISCAL AND EQUITY IMPACTS OF FOOD TAX EXEMPTION

- **2004 LEGISLATION WAS A TAX PACKAGE WHICH INCLUDED (1) REMOVAL OF “QUALIFYING FOOD SALES AT RETAIL FOOD STORES” FROM GR TAXBASE; (2) A 0.50% INCREASE IN THE GR TAX RATE IN MUNICIPALITIES; AND (3) HOLD HARMLESS PAYMENTS TO LOCAL GOVERNMENTS**
- **BECAUSE OF HOLD HARMLESS PROVISION TOTAL REVENUE LOSS FALLS ON THE STATE GENERAL FUND, ESTIMATED AT \$227.3 MILLION IN FY 2012—10% OF ANNUAL GENERAL FUND GRT_x REVENUE**
- **2013 NM LEGISLATURE PHASED OUT HOLD HARMLESS PAYMENTS OVER NEXT 15 YEARS AND ALLOW LOCAL GOVERNMENTS TO RAISE LOCAL GR TAX RATE TO OFFSET REVENUE LOSS.**

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- ***THIS 2004 LEGISLATIVE PACKAGE WAS INEFFECTIVE TAX POLICY***
 - **FAILS TO PROVIDE MUCH TAX RELIEF TO NM'S POOREST CITIZENS BECAUSE FOOD STAMP PURCHASES (SNAP PROGRAM TODAY) WERE ALREADY NON-TAXABLE BY FEDERAL LAW AND INCREASED THE TAX RATE BY 0.50% PAID ON NON-FOOD PURCHASES WITHIN CITIES**
 - **PROVIDED MOST OF THE FOOD TAX RELIEF TO MIDDLE AND UPPER INCOME HOUSEHOLDS WHO ALSO RECEIVED SIGNIFICANT TAX RELIEF WITH THE REDUCTION IN PERSONAL INCOME TAX RATES (HB 167 2003 LEGISLATION)**
 - **MADE WORSE THE BUSINESS TAX PYRAMIDING PROBLEM BY INCREASING THE GROSS RECEIPTS TAX RATE IN MUNICIPALITIES BY 0.50%; 2013 LEGISLATION WILL WORSEN**
 - **CREATED A DIFFICULT ADMINISTRATIVE CHALLENGE FOR NM TRD TO IMPLEMENT THE HOLD HARMLESS PAYMENTS TO LOCAL GOVERNMENTS**
 - **COULD HAVE TARGETED MORE TAX RELIEF TO LOW INCOME HOUSEHOLDS BY EXPANDING THE EXISTING LICTR PROGRAM TO DEAL WITH REGRESSIVITY PROBLEM**

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- **“QUALIFYING FOOD SALES AT RETAIL FOOD STORES” IS NOT THE FAMILY GROCERY BILL OR TOTAL FAMILY SPENDING ON FOOD....EXCLUDES FOOD CONSUMED AT RESTAURANTS, EXCLUDES MANY PURCHASES AT CONVENIENCE STORES, EXCLUDES PURCHASES OF PAPER PRODUCTS, HOUSEHOLD CLEANING SUPPLIES, PERSONAL CARE ITEMS....**
- **IN FY 2014 IN NEW MEXICO 195,258 HOUSEHOLDS RECEIVED FOOD STAMPS OUT OF TOTAL 767,285 (25.4%), RECEIVING \$629.2 MILLION IN BENEFITS; \$3,222 IN ANNUAL FOOD STAMP BENEFITS PER HOUSEHOLD (NON-TAXABLE, \$44.0 MILLION IN TAX RELIEF @ 7% NMGRRT RATE)**
- **BASED UPON US BLS 2014 CONSUMER EXPENDITURE SURVEY, THE LOWEST QUINTILE (20%) OF INCOME HOUSEHOLDS SPENT \$2,506 ON FOOD CONSUMED AT HOME WHILE THE SECOND QUINTILE SPENT \$3,138. CLEARLY, FOOD STAMPS PROVIDE A SIGNIFICANT SUPPLEMENT FOR FOOD CONSUMED AT HOME FOR LOW INCOME HOUSEHOLDS...NEGATING MUCH OF THE TAX RELIEF FROM THE FOOD EXEMPTION FOR LOW INCOME HOUSEHOLDS**
- **PARTICIPATION IN FOOD STAMP PROGRAM IN NEW MEXICO IS HIGH—81% OF ALL ELIGIBLE PEOPLE IN 2010 ACCORDING TO USDA (ONLY 10 STATES SIGNIFICANTLY HIGHER); AND 79% OF WORKING POOR RECEIVE FOOD STAMPS IN NM**

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- **THE LOWEST QUINTILE (20%) INCOME HOUSEHOLDS IN US SPEND ONLY 12.7% OF TOTAL FOOD CONSUMED AT HOME (US BLS, CONSUMER EXPENDITURE SURVEY) AND THAT INCLUDES FOOD PURCHASED WITH FOOD STAMPS.**
- **EVEN IF FOOD STAMPS COVER ONLY TWO THIRDS OF LOWEST INCOME HOUSEHOLD FOOD PURCHASES, NM FOOD TAX EXEMPTION DELIVERED ONLY 4.23% OF THE TOTAL TAX RELIEF TO THE POOREST HOUSEHOLDS = \$9.6 MILLION OUT OF \$227.3 MILLION.**
- **IN 2011 THERE WERE 767,285 HOUSEHOLDS IN NM; 237,986 HAD INCOME LESS THAN \$25,000. IF THE POLICY GOAL WAS TO PROVIDE TAX RELIEF TO LOW INCOME CITIZENS, THE \$227.3 MILLION IN FOREGONE STATE REVENUE COULD HAVE PROVIDED A REBATE TO THESE LOW INCOME HOUSEHOLDS OF \$955 PER HOUSEHOLD (\$227.3 MILLION DIVIDED BY 237,986). INSTEAD, MOST OF THE TAX RELIEF WENT TO MIDDLE AND UPPER INCOME HOUSEHOLDS.**
- **I HAVE ESTIMATED THAT \$115.6 MILLION OF THE \$227.3 MILLION IN FOOD TAX RELIEF WENT TO THE TOP 40% OF HOUSEHOLDS BY INCOME.**

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- THE 2004 LEGISLATIVE PACKAGE INCREASED GRT RATE 0.50% IN MUNICIPALITIES FOR ALL HOUSEHOLDS; LOWEST QUINTILE (20%) INCOME HOUSEHOLDS PAY AN ESTIMATED \$73 MORE PER HOUSEHOLD (\$11.2 MILLION IN TOTAL MORE) IN NMGR TX ON FOOD CONSUMED AWAY FROM HOME, UTILITIES, HOUSEHOLD SUPPLIES AND FURNISHINGS, APPAREL, AND ENTERTAINMENT (US BLS EXPENDITURE DATA)**
- EXPANDING THE EXISTING LOW INCOME COMPREHENSIVE TAX REBATE (LICTR) WOULD BE A MORE EFFICIENT AND TARGETED POLICY TO PROVIDE TAX RELIEF TO LOW INCOME CITIZENS; IN FY 2012 NM TRD REPORTED 260,463 CLAIMS FOR LICTR, AND A TOTAL TAX REBATE OF \$22.1 MILLION (\$85 PER CLAIM); IN 2005 THERE WERE 271,421 LICTR CLAIMS REPRESENTING 33.4% OF ALL INCOME TAX RETURNS....CLEARLY THERE IS SIGNIFICANT PARTICIPATION IN THE EXISTING LICTR PROGRAM**
- TAX PYRAMIDING IS RECOGNIZED AS A SIGNIFICANT TAX POLICY ISSUE BY THE NM BUSINESS COMMUNITY. A 2005 STUDY BY THE NMTRI ESTIMATED THAT 32% OF TOTAL GRT REVENUE IN NM ORIGINATES FROM GR TAX PYRAMIDING--\$748.6 MILLION IN 2005. THE 0.50% INCREASE ASSOCIATED WITH THE 2004 FOOD EXEMPTION WORSENS THIS NM TAX PROBLEM. MUCH OF THE BUSINESS COMMUNITY'S EFFORTS TO GAIN EXEMPTIONS AND DEDUCTIONS IN THE NMGR TX CODE ARE EFFORTS TO REDUCE TAX PYRAMIDING; 2013 LEGISLATION WILL MAKE PYRAMIDING WORSE.**

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- **IT IS TIME THAT ADVOCATES OF THE FOOD TAX EXEMPTION ADMIT THAT IT REPRESENTS INEFFECTIVE TAX POLICY, AND INSTEAD SUPPORT TAX POLICIES THAT PROVIDE REAL TAX RELIEF TO THE POOR**
- **REINSTATING THE FOOD TAX WILL ALLOW THE STATE TO REDUCE THE GRT RATE, PROVIDING TAX RELIEF TO THE POOR ON THEIR NON-FOOD PURCHASES, AND LESSENING THE ADVERSE EFFECTS OF TAX PYRAMIDING ON ECONOMIC DEVELOPMENT IN NM**
- **REINSTATING THE FOOD TAX WILL ALLOW THE STATE TO ELIMINATE THE ADMINISTRATIVELY BURDENSOME HOLD HARMLESS PAYMENTS TO LOCAL GOVERNMENTS AND WILL ALLOW THE REPEAL OF THE 2013 LEGISLATION WHICH WILL ULTIMATELY RESULT IN EVEN HIGHER GRT RATES IN CITIES AND COUNTIES, INCREASING TAX REGRESSIVITY ON THE POOR AND WORSENING FURTHER THE TAX PYRAMIDING PROBLEM**
- **REINSTATING THE FOOD TAX WILL ALLOW THE STATE THE OPPORTUNITY TO PROVIDE REAL TAX RELIEF TO THE POOR BY EXPANDING THE ALLOWABLE REBATES UNDER THE EXISTING LICTR PROGRAM, ADMINISTERED THROUGH THE STATE INCOME TAX RETURN.**
- **NM SHOULD INCREASE EFFORTS TO INCREASE ELIGIBLE PARTICIPATION IN THE FOOD STAMP/SNAP PROGRAM AND IN THE EXISTING LICTR PROGRAM.**