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FISCAL IMPACT REPORT

ORIGINAL DATE 2/9/18

SPONSOR Trujillo CH LAST UPDATED _____ HM 96

SHORT TITLE Study Gross Receipts Tax on Food SB _____

ANALYST Graeser

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY18	FY19	FY20	FY21	FY22		
No Fiscal Impact	No Fiscal Impact	No Fiscal Impact			Recurring	General Fund

Parenthesis () indicate revenue decreases

COMPANIONS, DUPLICATES, CONFLICTS: HJM-4, SJM-6 and SB-129 deal with taxing sugary drinks or restricting the food deduction to healthy foods.

SOURCES OF INFORMATION

LFC Files

Responses Received From

Children, Youth and Families (CYFD)

Indian Affairs (OIA)

SUMMARY

Synopsis of Bill

House Memorial 96 requests LFC to study the potential benefits and negative impacts of a gross receipts tax on some or all food. A report is requested to be presented to the LFC and Legislative Health and Human Services committee and the Department of Health by October 1, 2018,

FISCAL IMPLICATIONS

A study such as proposed imposes no direct costs on the general fund. However, the fiscal impact of Senate Bill 129 is shown below:

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY18	FY19	FY20	FY21	FY22		
\$0.0	\$82,370.0	\$82,020.0	\$81,520.0	\$81,140.0	Recurring	General Fund
\$0.0	\$7,070.0	\$7,690.0	\$8,440.0	\$9,040.0	Recurring	Counties
\$0.0	\$8,730.0	\$10,820.0	\$13,360.0	\$15,620.0	Recurring	Municipalities
\$0.0	\$98,170.0	\$100,530.0	\$103,320.0	\$105,800.0	Recurring	TOTAL

SB-129 would limit the definition of food qualifying for a deduction from gross receipts tax to food items approved by the department of health for the federal special supplemental nutrition program for women, infants, and children (WIC), as well as unprocessed meat, poultry and fish, and flour tortillas. ¹ The bill also seeks to restrict purchases under the Federal Supplemental Nutrition Assistance Program (SNAP) to those foods available under WIC and meat purchases.

Substantial additional information on the subject are included in the SB-129, HJM-4 and SJM-6 FIRs of this session.

SIGNIFICANT ISSUES

The FIR for SB-129 includes a number of issues that should be included in comprehensive study of this approach. These include the following:

According to the New Mexico Department of Health (DOH), “SNAP provides benefits to people with extreme financial need and who live under or below federal poverty levels. It provides basic subsistence for elderly, homebound, handicapped, and homeless people. Unlike WIC, SNAP benefits include foods that are easy to prepare or ready-made to heat and eat and this bill removes foods that are pre-prepared. [SB-129] could negatively impact elderly, battered, disabled, and homeless who may not be able to prepare their own foods either due to skill level, disability, or homelessness.”

As noted above, this bill does *not* alter the tax exemption for food purchased with SNAP benefits. SNAP purchases will remain tax-exempt. However, the bill does seek to limit the types of foods that be purchased with SNAP benefits to those that meet WIC definitions and meat purchases. The New Mexico Human Services Department (HSD) indicates that states across the country have previously submitted waivers to the USDA/FNS to restrict SNAP purchases; however, to date, such waiver applications have been denied.

According to TRD, if a waiver is received from the U.S. Secretary of Agriculture to restrict purchases under the federal SNAP program to the food items defined by New Mexico, there is a possibility of a change in federal funding levels.

Flour Tortillas. The rationale for specifying flour tortillas in Section 1 of this bill is to address the issue that only whole-wheat tortillas are included in the WIC definition of qualifying foods. Thus, flour tortillas will continue to be non-taxed. However, Section 2 of the bill does not specify flour tortillas in the new, narrowed SNAP eligibility

¹ For a list of WIC-eligible foods, see http://archive.nmwic.org/grocers/approved_grocer_list.php.

requirements. In effect, this means SNAP recipients could *not* use their SNAP benefits to purchase flour tortillas.

ADMINISTRATIVE IMPLICATIONS

There is a substantial body of information available to the LFC as it conducts this study.

OTHER SUBSTANTIVE ISSUES

According to the New Mexico Department of Health (DOH), this bill is related to DOH's strategic plan relative to improved health status for New Mexicans.

The revenue estimates for this bill assume no changes in food consumption due to the tax. However, impact of taxes on the prices consumers pay can affect what consumers eat and drink. Nevertheless, the size of this response varies. For example, consumers may find it easier to switch away from sugary drinks, which may have alternatives, than from other foods and drinks. Thus, taxes are an imprecise way to address many nutritional concerns. More research is needed to determine how taxes affect entire diets, how diets change over prolonged periods, and how responses vary across different groups of people. While taxing unhealthy food choices may narrow the price gap between healthy and unhealthy foods, in which unhealthy foods tend to be less expensive, imposing such a tax may disproportionately affect those less able to afford it.²

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² Chriqui et al., 2007, State Sales Tax Rates for Soft Drinks and Snacks Sold Through Grocery Stores and Vending Machines, *Journal of Public Health Policy*, 29(2), 226-249.