



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.

Municipal governments in New Mexico also depend heavily on gross receipts taxes to finance police and fire protection as well as community infrastructure and environmental projects. Gross receipts taxes currently generate 71% of the City of Albuquerque's general fund.

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

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

The cost to the state's general fund of repealing the

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.

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.

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.

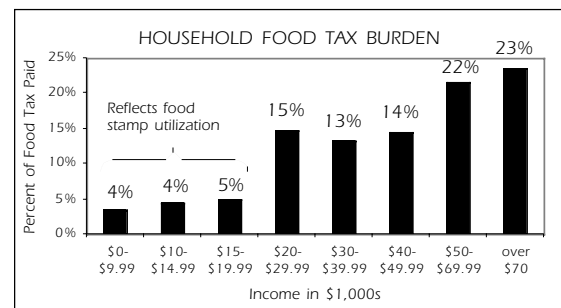
New Mexico's broad gross receipts tax base allows the state to keep the gross receipts tax rate low compared to surrounding states. Exempting food from gross receipts tax will narrow this tax base and may lead to higher gross receipts tax rates on other goods and services in the future in order to adequately fund state government.

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
Rio Rancho	11.5%	\$1,900,000
Roswell	6.8%	\$1,300,000
Farmington	5.4%	\$2,300,000
Alamogordo	6.6%	\$800,000
Clovis	7.7%	\$1,100,000
Hobbs	6.0%	\$1,300,000
Carlsbad	6.7%	\$900,000

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



exemption from gross receipts taxation. Thus, many of the poorest New Mexicans would receive little or no benefit from a general food tax exemption.

Middle and upper income households spend more on taxable food purchases than do lower income households. Households with income over \$30,000 would realize 72% of the \$122 million of tax relief, if food were to be exempted from the gross receipts tax.

Alternative Tax Relief To The Poor

The gross receipts tax is generally considered to be regressive because it imposes a greater relative tax burden on low income households. Including food in the gross receipts tax base contributes to this overall regressivity. However, as noted above, a broad gross receipts tax base also has many benefits for households at all levels of income, including keeping tax rates low and minimizing the adverse impact of state taxation on business and consumer decisions.

New Mexico has two alternative policy remedies for the food tax regressivity that are less costly than exempting food and that will preserve the broad gross receipts tax base:

The Low Income Comprehensive Tax Rebate (LICTR) On the books and well-utilized since 1972, LICTR sends money in the form of an income tax refund to low income households (annual income less than \$22,000) to reimburse them for the state taxes they pay on necessities such as food throughout the year. LICTR currently costs New Mexico about \$30 million annually. This is not enough to fully remedy gross receipts tax regressivity. However, an additional \$15 million in LICTR funding would be sufficient to fully offset all the gross receipts tax paid on food by all LICTR eligible households.

Food Stamps Groceries purchased with food stamps are exempt from the gross receipts tax. Food stamps are available to families with income below 130% of the federal poverty level (\$23,530 for a family of four), but most food stamp recipients are poor. About 60% of New Mexicans eligible for food stamps currently participate in the program. In 2002, New Mexicans received roughly \$140 million in food stamp benefits. Increased enrollment in the food stamp program would substantially decrease food tax regressivity. Because food stamp benefits are 100% federally funded, this approach would impose very little cost on the state general fund.

Taxation of Food in Other States

Forty five states currently impose a sales tax. New Mexico is one of 17 states that include food in their state sales tax base. Three of the states that tax food tax it at a lower rate than other goods.

State	Rate ¹	State	Rate ¹
Illinois ²	1.0%	Utah	4.75%
Missouri ²	1.225%	New Mexico	5.0%
Virginia ²	3.0%	S. Carolina	5.0%
Alabama	4.0%	Idaho	5.0%
Wyoming	4.0%	Arkansas	5.125%
Hawaii	4.0%	Tennessee	6.0%
S. Dakota	4.0%	W. Virginia	6.0%
Kansas	4.9%	Mississippi	7.0%
Oklahoma	4.5%		

¹State base, does not include local sales tax
²Food is taxed at a lower rate than other goods

All states that border New Mexico impose a state sales tax. Arizona, Colorado, and Texas exempt food for home consumption. Oklahoma and Utah, like New Mexico, tax food.

	State sales tax rate	Maximum state & local rate	Food
Arizona	5.6%	8.6%	Exempt
Colorado	2.9%	7.4%	Exempt
New Mexico	5.0%	7.1875%	Taxable
Oklahoma	4.5%	9.78%	Taxable
Texas	6.25%	8.25%	Exempt
Utah	4.75%	6.75%	Taxable

Other Policy Considerations

Public policy involves choices. Exempting food from the gross receipts tax will result in the loss of \$122 million in government revenue. The resulting tight budgetary condition may force policy makers to make expenditure cuts in programs that benefit the poor or that promote state economic development. The state may be unable to afford economic development incentives which target tax relief to private businesses and thereby expand the state's future tax base. Or the state may have to raise revenue through new or increased taxes on income, property, and gross receipts.

For more information, including methodology and sources, please visit our website at www.nmtri.org