

Food tax back on the block

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By **BARRY MASSEY**
The Associated Press

New Mexicans would no longer pay taxes on groceries and some medical services under a proposal announced Friday by Gov. Bill Richardson and House Speaker Ben Luján.

The measure also would protect the state, cities and counties from a loss of revenue.

To offset the estimated \$140 million annual loss of revenue from the tax cuts, the gross-tax-receipts rate in municipalities would go up by half a percent. The state would eliminate a half a percent gross-receipts-tax credit that it has provided to cities, which effectively lowered the tax rate within municipalities.

Overall, Richardson said, most New Mexico families should receive a net tax reduction from the proposal. "This is a tax cut for middle-class families," Richardson said at a news conference.

Taxation and Revenue Secretary Jan Goodwin estimated that a "typical middle-class family should save in excess of \$100 per year, inclusive of any rate

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increase of nonfood items."

"We feel the end result will be a win-win situation for the average wage earners in New Mexico," said Luján, D-Nambé.

Key provisions of the proposal:

■ The gross-receipts tax would be removed from sales of staple groceries and cold prepared foods for home consumption. However, the tax would continue to apply to alcoholic drinks, tobacco, meals at restaurants and "prepared hot foods" sold for immediate consumption. The food tax currently provides about \$107 million for state and local governments.

■ A gross-receipts-tax deduction would be given for licensed health-care providers for payments from health-maintenance organizations and managed-care companies for services for Medicaid part "C." The tax provides about \$33 million to state and local governments.

■ A "hold harmless" provision would prevent state and local governments from losing revenues. The state would distribute additional revenues to local governments to cover the amount they would have collected had the taxes remained in place. Retailers must track and report sales that otherwise would have been taxable.

The state imposes a 5 percent gross-receipts tax. Cities and counties have the option of imposing varying local-option rates in varying increments.

Currently a credit of 0.5 percent against the state rate is provided to municipalities. That helps narrow the differences between tax rates on sales inside a city and sales in counties.

By removing the credit, the state's tax rate will go to 5 percent inside a municipality — the same rate that applies on sales outside a municipality.

The state's credit has served as a tax break for sales of goods and services within city boundaries. The proposal by Richardson and Luján would shift that tax break to a new group of people — those buying food and certain medical services statewide.

Bill Fulginiti, executive director of the New Mexico Municipal League, said his group "would support the governor's attempt to holding us harmless. We would support the way they are doing that."

Fred Nathan, executive director of Think New Mexico, an independent think tank that has advocated removal of the food tax, said the proposal by the governor and Luján was "an elegant solution that is revenue neutral, holds localities harmless and eliminates the most antifamily aspects of the tax code: the tax on food and doctor visits."

Richardson, when he campaigned for governor in 2002, advocated lifting the tax on food and medical services. He did not offer a food-tax proposal last year during a special session that was devoted to tax and crime measures.

However, the governor renewed his call for a food-tax repeal this year and said he would work with lawmakers to develop a way to cover the potential revenue loss. An agreement was reached Friday between Richardson and Luján.

The next step is to get the tax changes through the House and Senate before the Legislature adjourns on Feb. 19.

"We've got two weeks. We are going to be getting an army of support to get these two initiatives passed," said Richardson.