

Group wants return of sales tax on food

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Chief

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SANTA FE – The group that lobbies for New Mexico cities is backing a proposal to allow local governments to reimpose a sales tax on food, reigniting a fiery political debate.

New Mexico Municipal League Executive Director Bill Fulginiti said Tuesday that the food tax idea has nearly unanimous support from municipal leaders. If approved by state lawmakers during the 2014 legislative session, he said, it would give cities a way to absorb the loss of a big-dollar tax subsidy from the state without having to raise their local base tax rates.

“It seems to solve a whole bunch of problems without winners and losers,” Fulginiti said after testifying before an interim legislative committee in the state Capitol.

But reimposing a tax on food drew opposition from Gov. Susana Martinez, who has vowed to veto any tax increases during her four-year term.

“The governor does not support the reimposition of the food tax,” Martinez spokesman Enrique Knell said Tuesday.

A massive tax package approved this year by lawmakers and signed into law by Martinez includes a gradual phaseout of the state’s “hold-harmless” distributions to local governments, starting in July 2015.

Those distributions – which totalled nearly \$120 million in 2012 – have been provided to cities and counties in exchange for their not taxing food and medicine.

To offset the revenue hit to local governments, the tax package allowed them to enact a local gross receipts tax hike of no more than 0.375 percent without having to hold a public vote.

At least two New Mexico cities, Corrales and Las Cruces, already have moved to take advantage of the tax hike option.

However, Fulginiti said allowing local governments to reimpose the tax on most food items would eliminate the need for higher local tax rates.

At least some legislators indicated Tuesday they would be willing to consider the proposal.

“I think that’s something that shouldn’t have happened anyway,” said Sen. Clemente Sanchez, D-Grants, referring to the 2004 repeal of New Mexico’s food tax. “It’s something that we need to look at.”

But, as Martinez’s stance indicates, any attempt to reinstate the food tax during next year’s session will likely draw fierce opposition from other lawmakers, advocates for lower-income New Mexicans and others.

The food tax has a volatile history.

A 2010 proposal to impose city and county gross receipts taxes on most food items – approved by the Democratic-controlled Legislature in the midst of a state budget crunch – was dubbed a “tortilla tax” by opponents and ultimately

vetoed by then-Gov. Bill Richardsdon.

Fred Nathan, the executive director of the Santa Fe-based nonprofit Think New Mexico, which proposed and lobbied for pulling back the tax, said it would hurt vulnerable New Mexicans.

“Reimposing the regressive food tax would be more bad news for New Mexico’s working families, who are already struggling to afford the increasing cost of things like health care and college tuition, while wages stagnate and retirement gets put off,” Nathan told the **Journal** .

In addition to the food tax, other possible tweaks to this year’s tax package were discussed at Tuesday’s meeting of the interim Revenue Stabilization and Tax Policy Committee.

One proposal that could be an alternative to the food tax would require the state to ensure “fairness” under the hold-harmless elimination.

As several lawmakers pointed out Tuesday, the hold-harmless tax hike option does not match the amount of money that cities and counties stand to lose via the state subsidy’s gradual elimination. Some local governments could, by enacting the maximum 0.375 percent tax increase, end up taking in more money than they previously were receiving, while others would take in less, even if they raised their local tax rates.

Based on current projections, the cost to the state to make up the difference for cities on the short end of the stick would be \$9 million, Fulginiti said.

Meanwhile, Rep. Jason Harper, R-Rio Rancho, suggested the state could prohibit cities and counties from enacting a local tax hike before the phaseout of the hold-harmless subsidy kicks in. That’s not scheduled to happen until the 2016 budget year.

Martinez, who has criticized Las Cruces city councilors for approving the local tax increase, indicated Tuesday that she would back that legislation.

“It’s absolutely irresponsible to double-dip on taxpayers,” Knell told the **Journal** . “There’s no financial justification for raising taxes, given that there is a significant delay in the implementation of the phaseout and an additional 15 years over which the phaseout actually occurs.”