

Time to Take Bite Out of Food Tax

BY FRED NATHAN

Think New Mexico

It is time to finally abolish New Mexico's tax on food, which has been punishing low- and middle-income working families for seven decades.

New Mexico's food tax was enacted in 1933, following the lead of Mississippi in 1930, as part of a "temporary" and "emergency" measure to compensate for a severe shortfall in government revenues caused by the Great Depression. Since 1933, the food tax has more than doubled from its original rate of 2.5 percent.

In 1958, a quarter of a century after New Mexico's food tax began, 41 states taxed food. Since then, however, the states have moved steadily in the direction of exempting food from tax. In the past six years alone, Georgia, Louisiana, Missouri, North Carolina and Virginia have acted to phase out, reduce or repeal their tax on food.

Today, New Mexico is in the company of only eight states, including Mississippi, which continue to fully tax food.

The trend toward repealing the tax on food has been accelerated in part by the recognition that the food tax is a weak foundation on which to base essential government services because food tax revenue grows much more slowly than state and local government spending.

In New Mexico, revenue from the food tax has grown at only a 1.7 percent annual rate over the past decade, according to the Taxation and Revenue Department, while state and local government spending grew about 5 percent during the same period.

The food tax is regressive, meaning that working low- and middle-income families spend a far greater percentage of their household income on groceries and lose a much larger proportion of their earnings to the tax than do higher-income households.

Still, some would prefer to retain the food tax. They imply that food stamps provide adequate relief for low-income people. Although the food stamp pro-



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gram has been around since the early 1960s, only 52 percent of eligible New Mexicans actually received food stamps in 2001, according to the USDA. More than 150,000 New Mexicans who needed and qualified for food stamps did not receive them that year.

Moreover, the food stamp benefit formula is based on the expectation that families will pay a portion of their food budget with income other than food stamps. The average monthly benefit per person in New Mexico is about \$75 or \$2.50 per day. Food purchased beyond this meager allotment is still taxed.

Opponents of repealing the food tax argue that the government should instead expand New Mexico's Low Income Comprehensive Tax Rebate (LICTR). However, as with food stamps, tens of thousands of eligible low-income New Mexicans never receive this rebate.

Due to high rates of illiteracy and other factors, nearly half of those who file for low-income tax rebates must pay someone else to prepare their paperwork. Many of these low-income filers, desperate for an advance on the rebate, pay an exorbitant rate of interest to the

tax preparer for what is known as a "rapid refund."

The most efficient rebate would be to simply repeal the food tax. That way the consumer instantly receives his "rebate" at the cash register in exact proportion to the groceries purchased. No tax forms, no middlemen to siphon off a portion of the rebate for themselves and no government bureaucracy to absorb part of what's left over for administrative costs.

The plan to expand LICTR would also explicitly deny any food tax relief to middle-class families. Most middle-class families in New Mexico struggle just to get by paycheck to paycheck. Food tax relief of \$225 for a typical family of four would make a tangible difference in the lives of these families and their children.

These families will spend their food tax savings immediately, which will stimulate the local economy and generate gross receipts tax revenue.

The Tax and Revenue Department estimates the cost of repealing the food tax at \$105 million in the fiscal year beginning July 1, 2004, but lowers that estimate to \$86 million if New Mexico continues to tax luxuries, like candy and soft drinks. The cost would be even lower if we limited the repeal only to food staples.

Local governments can and should be protected from a loss in revenue by creating a reportable deduction for groceries to obtain accurate data and then reimbursing local governments accordingly. Any repeal should be revenue neutral at the state level.

Who else supports repeal of the food tax? Gov. Bill Richardson, Archbishop Michael Sheehan, Common Cause New Mexico, the Albuquerque Hispano Chamber of Commerce and the New Mexico Family Council, among others.

Abolishing the food tax would benefit every working low- and middle-income New Mexico family. That's real tax reform.

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