"Anti-family" food tax eliminated starting Jan. 1

■ Municipal tax credit repealed to compensate for lost revenue

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SANTA FE — Those planning to load up on groceries would be wise to wait until after the start of the new year, while others looking to buy a big-ticket item like a new entertainment center or bedroom set would be better off to buy before Jan. 1.

A new tax law that will eliminate the gross receipts tax on food while boosting taxes on other items takes effect the first of the year.

Fred Nathan, executive director of Think New Mexico, a public policy group that helped spearhead the effort to end the food tax, said the tax was especially hard on large families.

"It's a very regressive tax that harms working families," Nathan said. "And, the larger your family, the more mouths to feed, the more groceries you buy, the more taxes you pay. So it's truly an anti-family tax."

The tax will only be eliminated on food. Other items purchased at a grocery store, such as medication, paper towels or cleaners, will still be taxed. So will hot, prepared foods, such as those purchased at a grocery store deli. All food that qualifies under the federal food stamp program will have the gross receipts tax removed.

To make up for the lost revenue, the state will repeal a .5 percent municipal tax credit. Those making purchases outside of the city limits won't notice any difference. But for items bought within a municipality, the gross receipts tax will be .5 percent higher.

One of the criticisms of the bill is that it will end up hurting the neediest New Mexicans. Those who purchase their groceries with food stamps are already able to buy food without paying taxes, and will now have to pay higher taxes on items like school supplies and clothing.

"With food stamps already tax exempt, it's a net tax increase. So, we're hurting the people we want to help, the lower income," Senate Minority Whip Lee Rawson, R-Las Cruces, said.

But Allen Sanchez, executive director of the New Mexico Catholic Conference, said the bill will help the "working poor," those who are making just enough that they don't qualify for food stamps.

Sanchez said he became convinced of the need to support the bill when he was waiting in a checkout line at Wal-Mart. In front of him were a mother, a teen-age daughter and younger child. When the final item was scanned, they didn't have enough money to pay the bill. The daughter, who had been adding up the cost of each item as it went into the cart, had forgotten to include the tax, Sanchez said.

"They ended up having to take a box of Cream of Wheat and a frozen pizza out of the cart," Sanchez said. "If the food tax hadn't been there, that food would have stayed in the cart. That really brought it home to me. That food needed to stay in the cart."

Rawson, who has led the battle for years to eliminate the tax on food, said he has mixed feelings about the bill.

Food Tax Facts

- Since 1933 when a new "temporary" tax was enacted, food tax in New Mexico has more than doubled from its original rate of 2.5 percent.
- With the elimination of the food tax, New Mexicans will save about $6.50 on every $100 worth of groceries they buy.
- The average family will save $250 on their grocery bill each year.
- New Mexico had been one of only eight states to fully tax food. Others are Alabama, Arkansas, Mississippi, South Carolina, West Virginia, Hawaii and Utah.

— Source: Think New Mexico

"Many of us believe we could have had this same tax reduction without the corresponding increase in the gross receipts tax," he said. "It passed the Senate without the corresponding increase in the gross receipts tax."

That Senate bill also lacked a provision in the current bill to return lost tax revenue to cities and counties, and was vehemently opposed by local government officials throughout the state. But Rawson said tax revenues on the local level are on a continuous upward trend.

"If you look at Las Cruces and Doña Ana County, the gross receipts tax is up significantly from the past year, every year. It has been an economic boom for them," he said. "They need to reassess their appetite for government."

Nathan said that their goal was always to make the bill "revenue neutral," meaning that lost revenue would be made up somewhere else. The original bill, which died in the closing minutes of the 2002 session, included a tax hike on tobacco and alcohol. When taxes were subsequently raised on cigarettes, they looked to the municipal tax credit instead.

"It has an effect, because people, when they buy their Starbucks coffee or when they buy their big-screen TVs, they will pay a little bit more," he said. "From our standpoint, it's better to take the tax off a necessity, which people don't have an option — food. Nobody has an option about going to the grocery store and eating."

Nathan said both the tax on food, as well as the municipal tax credit that was repealed to pave the way for the elimination of the food tax, are relics of the past.

The state instituted a sales tax in 1933 to make up for the decline in property tax revenue caused by the Great Depression, Nathan said.

"In the statute, it says it's a temporary measure. It's also an emergency measure, basically to keep the schools open," he said. "That emergency, the Great Depression, ended more than six decades ago. But the food tax has endured."

Nathan said the municipal tax credit was passed during a time when cities had the ability to impose a local option tax on top of the tax collected by the state, but counties did not. That lead to the fear that businesses would locate outside of the city limits to forego paying the tax. The municipal tax credit was passed to prevent that from happening.

Several years later, county governments were also given the authority to tack on a local option tax, eliminating the need for a municipal tax credit, Nathan said.

Rawson said one of the benefits of the new law is that it will stop people in towns like Las Cruces and Farmington from making the short drive across the state border to purchase tax-free groceries.

"We have people who go down on a weekly basis to El Paso with their ice chests because they're saving 6 1/2 percent. That's a significant savings," he said. "And while they're there, they may see a movie or go out to dinner. I think taking the tax off will be a significant benefit to the economies in the border communities."

Gene Valdez, executive director of the New Mexico Grocers' Association, said his group opposed the law because it will mean more expense for stores in calculating what items are and are not taxed.

"Our association is on record as not supporting this for several reasons," he said. "It's going to be time consuming and costly to change the front-end systems, especially for the smaller stores."