

# Arguments Against The Repeal Of The Gross Receipts Tax On Food

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# Three Reasons To NOT Repeal The Food Tax

- The very poorest people will not receive the benefits
- Higher income citizens who can afford to pay the tax will receive most of the benefits
- A tax rebate targeted at low income families will do more, and cost less

# Repealing The Food Tax Will Not Help The Poorest Citizens

- Most very poor people use food stamps, which are not subject to gross receipts taxes
  - According to a USDA study, most families at 85% FPL and below use food stamps
  - HSD reported 75,640 food stamp cases (197,722 people) in May, 2003
- But, even the poorest pay other taxes - on medicine, paper products, utilities, gasoline
  - We estimate that a family of three earning \$6.15/hr pays \$35/month in gross receipts and excise taxes, even if they pay no gross receipts taxes on food

# Gross Receipts and Excise Tax Liability for a Family of Three

mom w/ 2 children, \$6.15/hr	=	\$12,792 /yr
net after payroll taxes	=	11,886
net of housing (\$396/mo)	=	7,128
out-of-pocket grocery bill	=	0
(gets \$315/mo in food stamps)		
gross receipts and excise taxes on remaining income	=	\$428/yr or \$35/month

**Amount family receives from repeal of food tax = \$0**

# Kay Monaco's Savings if the Food Tax is Repealed

Amount spent for groceries in June, 2003

= \$453

= \$5,436/yr

Amount saved by food tax repeal

= \$27/mo

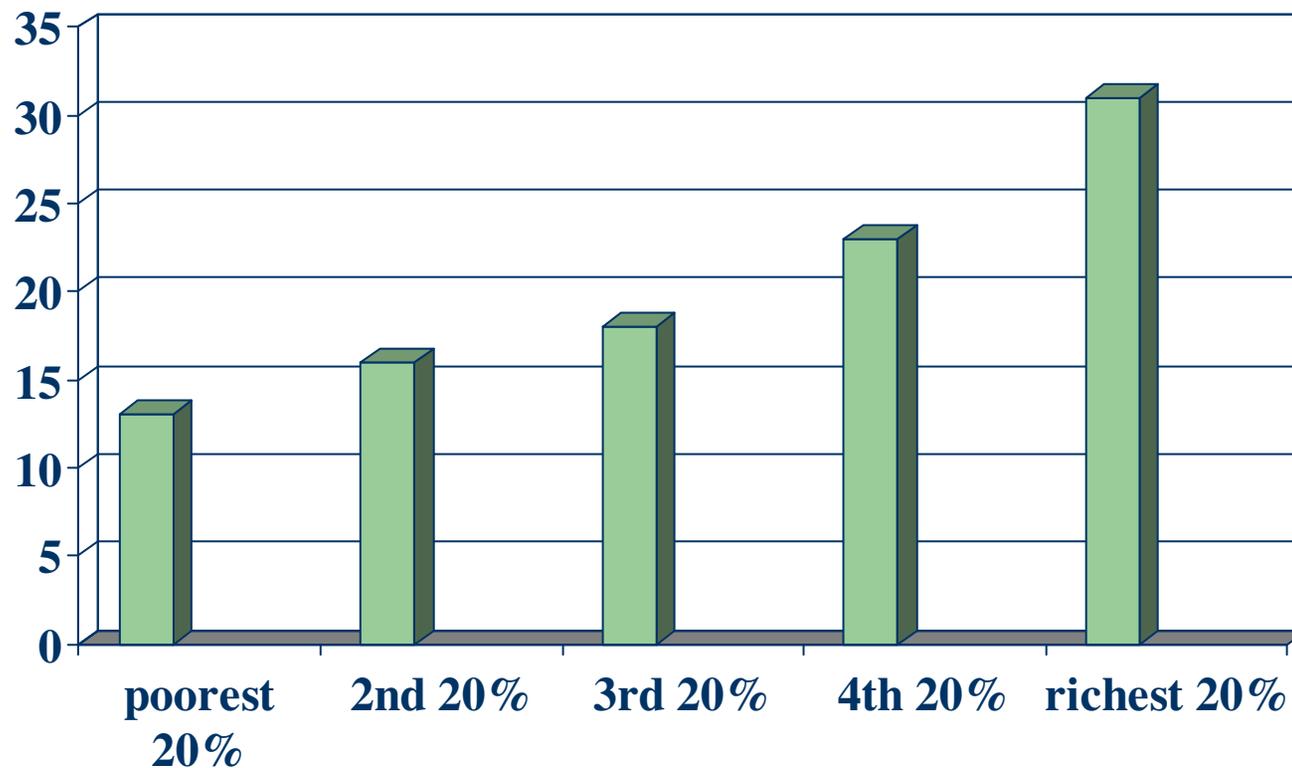
= \$324/yr

# Comparison of Eliminating the Tax on Food for Two Families

Poor mom w/ 2 children savings = \$ 0

Kay Monaco's savings = \$324

# The Benefits of Eliminating the Food Tax Go to Higher Income Families Who Can Afford to Pay the Tax



# Exempting Food May Force an Increase in the GRT Rate

- **Georgia** exempted food in 1998, since then it has expanded local sales tax authority more than almost any other state
- **North Carolina** exempted food in 1998 and increased both state and local rates
  - Residents at *all levels of income* now pay higher taxes. Hardest hit were moderate-to-low income taxpayers

# **A Better Solution is a Rebate Targeted at Low Income Families**

A targeted rebate will do more and cost less...

# Benefits of a Tax Rebate

- Can be targeted to people who need it most, and rebate taxes they pay on ALL goods and services, even if they do not pay the food tax because they receive food stamps
- It costs much less to rebate ALL of the gross receipts and excise tax liability for low income families while eliminating the food tax will cost \$105-120M

# There is No Such Thing as a Perfect Tax...

- **Regressive taxes** take a larger share of income from lower income people
  - Gross receipts tax on electricity, gas, diapers, clothing...
  - Gas tax
  - Cigarette and liquor taxes
- **Progressive taxes** take a larger share of income from higher income people
  - Income tax
- **Business taxes** mean higher prices and can slow economic growth

## But, a tax *system* can be fair...

- Progressive taxes balance regressive taxes
- Broad bases keep tax rates low for everyone
- No one pays too much

# The Low Income Comprehensive Tax Rebate (LICTR)

- Enacted in 1972
- Administered annually at tax time
- Acknowledges that all New Mexicans pay taxes
- Makes New Mexico's tax system more fair by reimbursing low income residents for some of the regressive state taxes they pay throughout the year

# LICTR Can Be Improved

- Increase eligibility
- Increase rebate amounts
- Index for inflation
- Increase benefits for families with children
- Change the name

# The New Mexico Family and Individual Rebate (NM FAIR)

- FAIR acknowledges that not only those below the Federal Poverty Level are burdened by taxes
- The working poor above the FPL also have a significant tax burden

<b>Family size</b>	<b>100% FPL</b>	<b>200% FPL</b>
<b>1</b>	<b>\$8,860</b>	<b>\$17,720</b>
<b>2</b>	<b>11,940</b>	<b>23,880</b>
<b>3</b>	<b>15,020</b>	<b>30,040</b>
<b>4</b>	<b>18,100</b>	<b>36,200</b>

# Why NM FAIR is Fair

FAIR acknowledges that the working poor have an increased tax burden



# New Mexico Family and Individual Rebate

- NM FAIR is indexed to the poverty threshold
- NM FAIR acknowledges that bigger families pay more taxes

# New Mexico FAIR

A better and more  
cost effective way  
to provide tax relief  
for families