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## **Targeted Rebate Better Than Food Tax Repeal**

**By Kelly O'Donnell and Tim R. Van Valen** *Economist, Tax Attorney*

New Mexico's Blue Ribbon Tax Reform Commission has its work cut out for it. The Legislature charged it with overhauling New Mexico's overall tax system in a way that ensures a broad-based tax system that fosters economic development while generating enough revenue to maintain necessary government services.

One of the many complicated and contentious proposals before the Commission is whether or not to include repeal of the gross receipts tax on food in its package of tax reforms. At first blush, eliminating the "food tax" sounds like a good idea because of the impact it has on the large number of low-income New Mexicans.

However, a broad coalition of interests across the political spectrum, including advocates for the poor, business groups, and many of New Mexico's foremost tax policy experts strongly oppose eliminating the tax on food.

Instead, they urge that if the Legislature wants to address the impact of the gross receipts tax on low income New Mexicans, it should use a more effective and much less costly alternative already on the books, the Low Income Comprehensive Tax Rebate (LICTR).

It is estimated that exempting food from the gross receipts tax will cost New Mexico's state and local governments between \$105 and \$125 million annually, out of a total of approximately \$2.2 billion total annual gross receipts tax revenues. Such a large tax cut could compel lawmakers to increase taxes or cut programs like public education, Medicaid or child care assistance to make up for the lost revenue.

New Mexico is in stable financial condition compared to most other states that are scrambling to raise revenue and taxes. Removing food from New Mexico's revenue base weakens state finances, and increases dependence on other sources of revenue.

Opponents of the cut also point out that it would provide larger benefits to middle- and upper-income families, who spend more money on food. In addition, many low-income people in New Mexico use food stamps, which are not subject to the gross receipts tax. However, these same low-income people pay other taxes— like the gross receipts taxes on diapers, clothing, gas and electricity, and over-the-counter medications, as well as the gasoline tax and the property tax. If taxes have to be raised to offset the food tax cut, many low-income families could actually find themselves worse off.

The business community also worries that exempting food could trigger an increase in the gross receipts tax rate. The gross receipts tax is already a competitive disadvantage for many New Mexico businesses, and increasing it to accommodate a tax break for food will only worsen New Mexico's standing relative to other states. Even if it doesn't trigger an increase in the gross receipts tax rate, exempting food is inconsistent with the Commission's mandate to propose changes that foster

economic development. Cutting the tax on food will neither stimulate economic development nor attract new employers to the state and may seriously limit the ability of the Legislature to enact tax legislation that benefits business. A healthy economy benefits all New Mexicans, rich and poor, young and old.

Fortunately, New Mexico already has a much more targeted way to address the impact of a tax on food upon low-income New Mexicans. LICTR is unique to New Mexico. In place since 1972, it was designed to address the fact that poor people pay a greater percentage of their income in gross receipts, excise and property taxes and than do middle- and upper-income families. Whether or not they pay any income tax, money is rebated to low-income households to reimburse them for the taxes they pay on all types of necessities throughout the year. This ensures that those of us who can afford to pay tax on food do, and those of us who can't get relief.

LICTR amounts haven't been increased since 1998. As a consequence, the rebate does not fully offset the burden on low-income New Mexicans from the gross receipts tax on groceries. However, expanding it to that level would cost about \$15 million- much less than exempting food altogether. For another \$15 million, LICTR could be expanded to help more low-income families that pay plenty of taxes but received no benefit from the recent state income tax cut.

Most business and social advocates, as well as tax professionals, agree that if the Legislature addresses the impact of the gross receipts tax on food upon low-income New Mexicans, expanding LICTR is a far more direct, targeted and economical solution than eliminating the tax. It's also a good way to make sure that the tax cut gets passed directly to the people for whom it was intended. It doesn't make sense to spend \$105 million or more when \$30 million would address the problem much better.

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