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UPDATED: Richardson Vetoes \$68M Food Tax Measure

By Barry Massey

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SANTA FE — New Mexicans will pay a higher tax when they buy goods and services, from soap to car repairs, but Gov. Bill Richardson made certain on Wednesday that groceries will remain tax free.

The Democratic governor vetoed a proposed tax on food that the Legislature had passed to provide \$68 million to help balance next year's budget. However, Richardson signed other tax increases that will generate about \$170 million to finance government.

The state lifted the tax on food in 2005, and Richardson said he did not want to reinstate what he considered to be a regressive tax that would hurt the poor and middle-income families.

"The food tax, I believe, is one of my legacies, one of my signature accomplishments — getting rid of it. It's the right thing to do and the responsible thing to do," Richardson said at a news conference.

Richardson is term-limited and cannot seek re-election this year.

Measures signed by Richardson will:

— Increase the gross receipts tax by one-eighth cent, providing about \$60 million next year. The tax applies to goods and services. The state rate will go from 5 percent to 5.125 percent starting July 1. On a \$100 purchase, the higher tax will be 12.5 cents. Cities and counties impose local option rates on top of the state levy.

— Raise personal income taxes for about one-fourth of New Mexico taxpayers, providing about \$66 million. New Mexico's personal income tax will apply to state income taxes that were deducted on federal returns. Currently, those itemized deductions are not counted as income for state tax purposes. The change takes effect in the 2010 tax year. That means most people will see their tax liability go up when they file income tax returns next year. The average increase is estimated at \$193 for each tax filer.

— Increase the cigarette tax by 75 cents a pack, bringing it to \$1.66 starting in July. The increase will generate \$33 million for the state. The governor vetoed a provision that would have repealed the higher tax rate in July 2014. He also eliminated provisions that would have earmarked part of the money to early childhood programs

and that veto will add \$13 million to the state's reserves.

— Ensure the compensating tax applies to purchases by businesses and others from out-of-state vendors, providing \$12 million next year. The change will not require taxes to be paid on goods bought over the Internet by individuals, however.

The governor also signed a budget bill to allocate about \$5.6 billion for public education and government programs in the fiscal year that starts in July. The measure provides for a 1.8 percent, or \$100 million, reduction from spending in the current budget year.

The Legislature had approved a proposal to reinstate the gross receipts tax on food at the rate imposed by local governments, which averages about 2 percent statewide. The state would have gained revenues, however, because it no longer would have sent money to local governments to offset what they lost from the 2005 food tax repeal.

The governor also vetoed a \$5 million expansion of an income tax rebate for low-income New Mexicans. The larger rebates were intended to offset part of the proposed higher taxes on foods and other goods, but Richardson said the measure wasn't necessary because of his food tax veto. Eliminating the expanded rebate also helps offset the loss of revenue from the food tax.

Richardson said the administration will be able to balance next year's budget without the food tax. The state's cash reserves — projected at \$272 million at the end of this year — can offset the revenue loss.

Richardson also said he was ready to use \$20 million in federal economic money to shore up the reserves and balance the budget. And, if necessary, Richardson can use powers provided in the budget bill that allow him to make across-the-board cuts in programs.

Legislators said the state could run into budget trouble if revenues are lower-than-expected this year or next year.

"I am a little bit apprehensive but the governor is the eternal optimist, and he better be right," said Sen. John Arthur Smith, a Deming Democrat and chairman of the Senate's budget committee.