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FISCAL IMPACT REPORT

BILL NUMBER: Senate Bill 182

SHORT TITLE: Dyed Diesel Deduction

SPONSOR: Sanchez/Brantley/Woods

LAST UPDATE: ______ **ORIGINAL DATE:** 2/2/2026 **ANALYST:** Faubion

REVENUE*
(dollars in thousands)

Type	FY26	FY27	FY28	FY29	FY30	Recurring or Nonrecurring	Fund Affected
GRT	$0.0	($68,600.0)	($73,100.0)	($75,400.0)	($80,100.0)	Recurring	General Fund
GRT	$0.0	($45,700.0)	($48,700.0)	($50,300.0)	($53,400.0)	Recurring	Local Governments

Parentheses indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files

Agency or Agencies Providing Analysis
NM Department of Agriculture
NM Municipal League
Taxation and Revenue Department

Agency or Agencies That Were Asked for Analysis but did not Respond
Department of Transportation
NM Counties

SUMMARY

Synopsis of Senate Bill 182

Senate Bill 182 (SB182) creates a temporary gross receipts tax (GRT) deduction for receipts from the sale of dyed diesel fuel, as defined under federal regulations, allowing the deduction to be claimed through June 30, 2031. The bill also repeals the existing gross receipts tax credit for dyed diesel used for agricultural purposes enacted in 2024, replacing that credit with the broader deduction. The effective date of this bill is July 1, 2026.

FISCAL IMPLICATIONS

Estimating the fiscal impact of this bill is inherently difficult due to the lack of current, detailed, and New Mexico–specific data on dyed diesel use. Dyed diesel, a fuel dyed red to indicate it is intended for off-highway uses such as agriculture, construction, and rail, is not consistently tracked in available data sources. Available data sources do not consistently identify the volume of dyed diesel sold in the state by end use, purchaser type, or tax district, nor do they distinguish between these off-highway uses. In addition, publicly available data on dyed diesel prices and volumes are typically national or regional in scope and must be adapted to New Mexico using assumptions that may not reflect current market conditions or compliance behavior. Because the deduction is self-reported and applies broadly to dyed diesel sales, the degree of utilization, potential misclassification, and overlap with the repealed agricultural credit are uncertain, making any fiscal estimate subject to significant variability and risk.

LFC estimated the fiscal impact by first using U.S. Energy Information Administration (EIA) data to determine the historical relationship between dyed diesel and on-highway diesel use in New Mexico. Projected gallons of on-highway special fuels were taken from the New Mexico Department of Transportation's fuel tax forecast, and the historical EIA share was applied to those forecasts to estimate future gallons of dyed diesel sold in the state. LFC applied the EIA's 2025 diesel price to the estimated dyed diesel volumes to calculate taxable receipts and then grew those receipts forward using an inflation factor to reflect expected price growth over the forecast period. The estimated receipts were multiplied by the statewide weighted-average gross receipts tax rate, and the resulting revenue impact was allocated between the state general fund and local governments using statewide GRT distributions.

The Taxation and Revenue Department (TRD) collected data on dyed special fuel reported during FY25 for the special fuels supplier tax that is deducted and reported under Section 7-16A-10 NMSA 1978. TRD estimated future volumes of dyed special fuel by applying the rate of growth of the special fuels tax from the NM Department of Transportation's (DOT) January 2026 state road fund forecast. For the price estimates, TRD averaged PADD 3 (Gulf Coast District) diesel sales prices in FY25 as reported by the EIA and produced a price projection based on the S&P global chained price index forecast for consumer fuel. A statewide effective GRT rate of 6.94 percent was applied to calculate the estimated revenue impact and then the revenue impact was split as 60 percent general fund and 40% local governments.

TRD notes when the GRT credit for dyed diesel that this bill will repeal was enacted in 2024, the credit was estimated to have a significant general fund fiscal impact. Since that time, GRT credit claims have been minimal and the December 2025 GRT forecast of the Consensus Revenue Estimating Group reflects minimal costs associated with the GRT credit repealed in this bill. TRD assumed that all sales of dyed special fuel can be deducted from GRT. Currently, taxpayers may claim a GRT credit for selling special fuel dyed for use primarily in agriculture. The fiscal analysis assumes that the revenue loss will be larger than it currently is under this deduction, as it removes the restriction on use for agricultural purposes. Moreover, as separately reported deductions are less burdensome to claim than credits, the bill provides incentives and a much simpler process for taxpayers to obtain the fiscal benefit.

This bill creates or expands a tax expenditure with a cost that is difficult to determine but likely significant. LFC has serious concerns about the substantial risk to state revenues from tax expenditures and the increase in revenue volatility from erosion of the revenue base. The committee recommends the bill adhere to the LFC tax expenditure policy principles for vetting, targeting, and reporting or action be postponed until the implications can be more fully studied.

SIGNIFICANT ISSUES

Under current law, New Mexico taxes motor fuels differently depending on whether the fuel is intended for on-road or off-road use. Clear fuels—gasoline and undyed diesel—are subject to federal and state motor fuel excise taxes, which function as road-use fees. Because those excise taxes are paid, receipts from sales of clear fuels are generally exempt from the gross receipts tax (GRT). In contrast, dyed fuels are chemically marked under federal regulations to indicate they are intended for off-highway uses such as agriculture, construction equipment, generators, rail, and other non-road applications. Dyed fuels are exempt from motor fuel excise taxes, but because no excise tax is paid, receipts from sales of dyed special fuels are currently subject to GRT.

As a result, dyed fuels are presently taxed through the GRT system, except for agricultural use which are currently able to apply an offsetting credit. This bill would alter this structure by allowing a deduction for receipts from the sale of all dyed diesel, effectively removing dyed diesel from both the motor fuel excise tax base and the GRT base. This would create a category of fuel that is not subject to either form of taxation, raising equity and neutrality concerns relative to other fuels that perform similar functions but remain taxed.

TRD explains that, under current law, receipts from special fuels are exempt from the gross receipts and compensating tax only when the special fuels excise tax has been paid; because dyed special fuels are exempt from the excise tax, receipts from their sale are currently subject to GRT. TRD notes that this bill would allow receipts from dyed diesel to escape both the excise tax and GRT, raising tax policy concerns by narrowing the tax base, distorting fuel markets, and violating horizontal equity by favoring certain fuels that are otherwise similar in use. TRD also cautions that allowing a deduction for dyed diesel increases the risk of miscategorization and misreporting and could add audit complexity. At the same time, TRD indicates that replacing the existing dyed diesel credit with a separately stated deduction would be administratively simpler, eliminating the need for applications and manual reviews and improving transparency and evaluation of the deduction's cost and effectiveness.

The New Mexico Municipal League reports that the gross receipts tax deduction in this bill would substantially reduce municipal GRT revenues, which account for more than two-thirds of total municipal general fund revenue and are a primary source of funding for essential services such as public safety, operations, and employee compensation. The Municipal League notes that the bill does not include a cap on the amount of GRT that may be deducted, increasing fiscal uncertainty and limiting municipalities' ability to plan for or mitigate revenue losses. Although the deduction includes a July 1, 2031 sunset date, the Municipal League cautions that sunsets are often extended or removed, potentially resulting in permanent recurring revenue reductions. The Municipal League further indicates that municipalities have limited alternative revenue options, and continued erosion of the GRT base could necessitate tax increases that disproportionately affect lower-income residents, particularly amid uncertainty in federal funding. Finally, the Municipal League raises concerns that reduced GRT revenues could weaken municipal debt service coverage ratios and negatively affect bond ratings, increasing borrowing costs for local governments.

This bill narrows the gross receipts tax (GRT) base. Many New Mexico tax reform efforts over the last few years have focused on broadening the GRT base and lowering the rates. Narrowing the base leads to continually rising GRT rates, increasing volatility in the state's largest general fund revenue source. Higher rates compound tax pyramiding issues and force consumers and businesses to pay higher taxes on all other purchases without an exemption, deduction, or credit.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is met with the bill's requirement to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the deduction and other information to determine whether the deduction is meeting its purpose.

ADMINISTRATIVE IMPLICATIONS

The Taxation and Revenue Department would incur administrative costs to implement this bill, including updating tax forms, instructions, publications, and information systems to allow for separate reporting and verification of the dyed diesel gross receipts tax deduction.

OTHER SUBSTANTIVE ISSUES

In assessing all tax legislation, LFC staff considers whether the proposal is aligned with committee-adopted tax policy principles. Those five principles:

- **Adequacy**: Revenue should be adequate to fund needed government services.
- **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
- **Equity**: Different taxpayers should be treated fairly.
- **Simplicity**: Collection should be simple and easily understood.
- **Accountability**: Preferences should be easy to monitor and evaluate.

In addition, staff reviews whether the bill meets principles specific to tax expenditures. Those policies and how this bill addresses those issues:

Tax Expenditure Policy Principle	Met?	Comments
Vetted: The proposed new or expanded tax expenditure was vetted through interim legislative committees, such as LFC and the Revenue Stabilization and Tax Policy Committee, to review fiscal, legal, and general policy parameters.	?	No records of an interim committee hearing could be found.
Targeted: The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals. Clearly stated purpose Long-term goals Measurable targets	✗	There are no stated purposes, goals, or targets.
Transparent: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies	✓	The deduction must be reported annually in the public Tax Expenditure Report.
Accountable: The required reporting allows for analysis by members of the public to determine progress toward annual targets and determination of effectiveness and efficiency. The tax expenditure is set to expire unless legislative action is taken to review the tax expenditure and extend the expiration date. Public analysis Expiration date	✓	There is a sunset.
Effective: The tax expenditure fulfills the stated purpose. If the tax expenditure is designed to alter behavior – for example, economic	?	There are no goals or targets by which

development incentives intended to increase economic growth – there are indicators the recipients would not have performed the desired actions "but for" the existence of the tax expenditure. Fulfills stated purpose Passes "but for" test		to measure effectiveness or efficiency.
Efficient: The tax expenditure is the most cost-effective way to achieve the desired results.	?	
Key: ✓ Met ✗ Not Met ? Unclear		

JF/dw/sgs