

AN ACT

RELATING TO TAXATION; PROVIDING FOR INCOME TAX AND CORPORATE INCOME TAX CREDITS FOR INVESTMENTS IN CLEANING WATER PRODUCED FROM OIL AND GAS DRILLING AND PRODUCTION, CRUDE OIL REFINING AND NATURAL GAS PROCESSING.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF NEW MEXICO:

Section 1. A new section of the Income Tax Act is enacted to read:

"CREDIT FOR PRODUCED WATER. --

A. An operator who files an individual New Mexico income tax return who is not a dependent of another taxpayer may take a tax credit in an amount equal to one thousand dollars (\$1,000) per acre-foot of produced water not to exceed four hundred thousand dollars (\$400,000) per year if the following conditions are met:

(1) the operator delivers the water to the interstate stream commission at the Pecos river in compliance with the applicable requirements of New Mexico's Water Quality Act, New Mexico's water quality control commission regulations and federal clean water acts;

(2) the operator delivers the water solely in a manner approved by the interstate stream commission to contribute to delivery obligations pursuant to the Pecos River Compact; and

(3) upon delivery to the interstate stream commission at the Pecos river, title is transferred to the interstate stream commission, which shall indemnify the operator from future liability.

B. A husband and wife who file separate returns for a taxable year in which they could have filed a joint return may each claim only one-half of the credit that would have been allowed on a joint return.

C. The tax credit provided in this section may only be deducted from the operator's personal income tax liability. Any portion of the tax credit provided in this section that remains unused at the end of the operator's taxable year may be carried forward for three consecutive taxable years.

D. As used in this section, "produced water" means water produced from oil or gas drilling and production from a depth of two thousand five hundred feet or more below the surface or refining crude oil or processing natural gas.

E. As used in this section, "operator" means a refinery, a natural gas processor or a person who operates an oil or gas well.

F. The interstate stream commission shall provide legal confirmation of receipt of the water from the operator, and the operator shall provide documentation to the department to prove eligibility for the tax credit provided

in this section."

Section 2. A new section of the Corporate Income and Franchise Tax Act is enacted to read:

"CREDIT FOR PRODUCED WATER. --

A. An operator that files a New Mexico corporate income tax return may take a tax credit in an amount equal to one thousand dollars (\$1,000) per acre-foot of produced water not to exceed four hundred thousand dollars (\$400,000) per year if the following conditions are met:

(1) the operator delivers the water to the interstate stream commission at the Pecos river in compliance with the applicable requirements of New Mexico's Water Quality Act, New Mexico's water quality control commission regulations and federal clean water acts;

(2) the operator delivers the water solely in a manner approved by the interstate stream commission to contribute to delivery obligations pursuant to the Pecos River Compact; and

(3) upon delivery to the interstate stream commission at the Pecos river, title is transferred to the interstate stream commission, which shall indemnify the operator from future liability.

B. The tax credit provided in this section may only be deducted from the operator's corporate income tax liability. Any portion of the tax credit provided in this

section that remains unused at the end of the operator's taxable year may be carried forward for three consecutive taxable years.

C. As used in this section, "produced water" means water produced from oil or gas drilling and production from a depth of two thousand five hundred feet or more below the surface or refining crude oil or processing natural gas.

D. As used in this section, "operator" means a refinery, a natural gas processor or a person who operates an oil or gas well.

E. The interstate stream commission shall provide legal confirmation of receipt of the water from the operator, and the operator shall provide documentation to the department to prove eligibility for the tax credit provided in this section."

Section 3. DELAYED REPEAL. --Sections 1 and 2 of this act are repealed effective January 1, 2006.

Section 4. APPLICABILITY. --The provisions of this act apply to taxable years beginning on or after January 1, 2002.