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FISCAL IMPACT REPORT

SPONSOR:	Gubbels	DATE TYPED:	02/07/00	HB	397
SHORT TITLE:	Agriculture Water Conservation Tax Credit			SB	
				ANALYST:	Williams

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY00	FY01			
	\$ (500.0)	\$ (500.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

Duplicates/Conflicts with/Companion to/Relates to

SOURCES OF INFORMATION

Taxation and Revenue Department (TRD)

New Mexico Department of Agriculture (NMDA)

SUMMARY

Synopsis of Bill

Endorsed by the Water and Natural Resources Committee. The bill would authorize a personal and corporate income tax credit for agricultural water conservation expenses made after January 1,2001 for up to \$1,000 for improvements in irrigation systems or water management methods if the taxpayer meets the following conditions:

The taxpayer must:

1. hold a water right in New Mexico;
2. file an individual New Mexico income tax return
3. not be the dependent of another individual.

Qualified expenses include improvements:

1. in irrigation systems or water management methods approved and verified by the local soil and water conservation district;
2. on land located in New Mexico owned by the taxpayer and used by the taxpayer or the taxpayer's tenant to grow agricultural products;
3. consistent with a water conservation plan filed with the local soil and water conservation district;
4. on land entirely within a described area.

The credit would be based on a proportional split for co-owners, partners in a partnership, S corporation shareholders and limited liability corporations. Married, filing separate taxpayers would split the credit. The credit could be carried forward for up to five years.

The soil and water conservation commission is directed to adopt rules to implement the credit and establish guidelines for approved improvements in irrigation systems and water management methods.

Significant Issues

While the intent of the legislation is water conservation, New Mexico water policy provides that agricultural users face potential loss of water rights for nonuse.

FISCAL IMPLICATIONS

The general fund recurring revenue loss of \$500.0 assumes 500 projects each year, each of which will cost at least \$1,000. This assumption also estimates that each credit generated is fully used in the first year of eligibility. TRD indicates these assumptions are used to illustrate the cost of the bill, but does not know if these are reasonable levels of projected use.

ADMINISTRATIVE IMPLICATIONS

TRD estimates one additional FTE would be needed in FY01 and FY02 at a cost of \$35.0 per year. This cost would allow for manual verification of at least 5 percent of the claims. There would also be an administrative costs to the soil and water conservation bureau to develop regulations and potentially to NMDA to assist.

AW/gm