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**F I S C A L I M P A C T R E P O R T**



SPONSOR: Nunez DATE TYPED: 01/21/02 HB 46

SHORT TITLE: Agricultural Water Conservation Tax Credit SB \_\_\_\_\_

ANALYST: Neel

(Parenthesis ( ) Indicate Expenditure Decreases)\_

**APPROPRIATION**

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY02	FY03	FY02	FY03		
			\$40.0	Recurring – See Narrative	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

**REVENUE**

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY02	FY03			
	(\$2,500.0)	(\$10,000.0)	Recurring	General Fund

**SOURCES OF INFORMATION**

LFC Files  
 New Mexico Department of Agriculture  
 Tax and Revenue Department (TRD)

**SUMMARY**

House Bill 46 amends statute to allow taxpayers to claim a credit of up to 75 percent of incurred expenses up to \$50,000 for improvements in irrigation or water management methods if: (1) the taxpayer possesses a water right in New Mexico, (2) files an individual New Mexico income tax return, and (3) is not the dependent of another individual.

An individual would be eligible for a credit if improvements to irrigation systems and water management methods are verified and approved by the local soil and water conservation district. The same rules would apply to tenants of a taxpayer, shareholders in an S corporation, partners in a

partnership, and limited liability corporations, etc., growing agricultural products on land in New Mexico. Other requirements include that expenses must be incurred after January 1, 2003, and the improvements are in compliance with a water conservation plan filed with local soil and water conservation districts. The effective date of this legislation is July 1, 2003.

### **SIGNIFICANT ISSUES**

According to the Department of Agriculture, New Mexico has a forfeiture law, which does not complement the idea of conservation. Conservation of water resources by all sectors is an important concept; agricultural users face a potential loss of water rights under most conservation schemes due to nonuse. Therefore, encouraging the voluntary conservation of water may require other statutory changes.

### **FISCAL IMPLICATIONS**

According to TRD, the FY 2003 estimate reflects payments for the first six months of tax year 2003, comprising 25% of the full year effect.

TRD's assumptions include data from: (1) the Water Use and Conservation Bureau of the Office of the State Engineer, that indicates that there is over 1 million acres of irrigated cropland in New Mexico; (2) the USDA Economic Research Service indicates that farms in New Mexico spend about \$70 million per year on repair and maintenance of capital items; (3) the USDA estimates that that net farm income was approximately \$500 million in 2000.

These data make it clear that irrigation expenditures are a major category of spending for farm operations in New Mexico. The revenue estimate assumes these expenditures comprise roughly one-fifth of the total capital and maintenance budget, or about \$13 million per year. The annual value of the credit would then be 75% of this amount, or about \$10 million per year. This estimate should be viewed as only an approximation of the order of magnitude of the potential impacts of the proposal.

### **ADMINISTRATIVE IMPLICATIONS**

TRD states that provisions in HB 46 would require development of mechanisms to verify that the tax basis of the equipment is decreased by the amount of the credit. The mechanisms would be manual by nature. Modifications will be required in forms and instructions for both personal income tax and corporate income tax, systems and training for department personnel. Therefore, TRD recommends an additional FTE at approximately \$40.0.

SN/ar