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FISCAL IMPACT REPORT

SPONSOR: Cervantes DATE TYPED: 3/3/03 HB 962

SHORT TITLE: Agricultural Implement Tax Deduction SB _____

ANALYST: Smith

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	FY04			
	(5.5)	(6.0)	Recurring	General Fund
	(1.0)	(1.5)	Recurring	Small Cit- ies/Counties Assis- tance

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

Responses Received From
TRD

SUMMARY

Synopsis of Bill

House Bill 962 makes certain definitional changes. Section 7-9-77 NMSA 1978, persons regularly engaged in the business of farming or ranching, are permitted to deduct 50% of the value of agricultural implements and farm tractors when computing compensating tax due. Under this section of statute, qualifying agricultural implements are implements designed primarily for use with a source of *motive* power, such as a tractor, and are to be used primarily at the place where produce is grown.

This bill:

1. deletes the “motive” qualification;
2. explicitly includes storage containers and bins in the meaning of “agricultural implement”; and
3. deletes the requirement that implements be used primarily “on-site”.

FISCAL IMPLICATIONS

The agricultural sector annually pays between \$50.0 and \$75.0 in compensating tax. This estimate assumes agricultural implements valued at about \$300.0 will qualify for the 50% deduction allowed under this proposal. Hence \$150.0 in equipment value will no longer be taxable. Eighty percent (80%) of net compensating tax collections go to the general fund, the remaining 20% is directed to small cities and small counties assistance funds.

TECHNICAL ISSUES

Section 7-9-62 NMSA 1978 currently allows a 50% gross receipts tax deduction for agricultural implements. The definition of “agricultural implements” contained in that section of statute is currently identical to the definition contained in Section 7-9-77. This proposal, by amending one section of statute and not the other, creates two different definitions of “agricultural implement” in the Gross Receipts and Compensating Tax Act (GR&CTA). This is potentially confusing to taxpayers and therefore not desirable from a tax policy perspective.

OTHER SUBSTANTIVE ISSUES

TRD makes the following observations:

- Section 7-9-62 NMSA 1978 currently allows a 50% gross receipts tax deduction for agricultural implements. The definition of “agricultural implements” contained in that section of statute is currently identical to the definition contained in Section 7-9-77. This proposal, by amending one section of statute and not the other, creates two different definitions of “agricultural implement” in the Gross Receipts and Compensating Tax Act (GR&CTA). This is potentially confusing to taxpayers and therefore not desirable from a tax policy perspective.
- Allowing a 50% compensating tax deduction for storage containers and bins without a corresponding gross receipts tax deduction creates an incentive to purchase the equipment from out-of-state vendors in order to obtain the more favorable tax rate. This shift would be at the expense of local retailers.
- The existing 50% compensating tax deduction is based on the fact that the motor vehicle excise tax is about ½ the rate of gross receipts and compensating taxes. Thus off-road vehicles, such as farm tractors, pay approximately the same tax as vehicles for on-road use. Expanding the deduction to farm implements that are not intended for use with a source of motive power (such as storage containers) represents a divergence from the original intent of this law.