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## FISCAL IMPACT REPORT

ORIGINAL DATE 2/1/06

SPONSOR     Balderas     LAST UPDATED                      HB   395  

SHORT TITLE   Biomass-Related Material Tax Deduction   SB                     

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ANALYST   Schardin  

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
	(200.0)	(240.0)	Recurring	General Fund
	(130.0)	(150.0)	Recurring	Local Govern- ments

(Parenthesis ( ) Indicate Expenditure Decreases)

Conflicts with SB469.

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Energy Minerals and Natural Resources Department (EMNRD)  
Taxation and Revenue Department (TRD)

### SUMMARY

#### Synopsis of Bill

House Bill 395 amends the renewable energy production tax credit by changing the definition of “biomass” to match the definition for “biomass material” found in Section 7-9-98 NMSA 1978, which provides a compensating tax deduction for biomass equipment and materials.

The bill amends the existing compensating tax deduction found in Section 7-9-98 NMSA 1978 to include equipment for harvesting, transportation, composting or mulching. The bill also creates a new deduction from the gross receipts tax for biomass equipment and materials to match the amended compensating tax deduction in Section 7-9-98 NMSA 1978.

The bill repeals amendments to the credit that were included in the omnibus tax bill of 2005 (HB410) because they were signed one day before HB950, which contained identical amendments to the renewable energy production tax credit.

The effective date of these provisions is July 1, 2006.

### **FISCAL IMPLICATIONS**

The new gross receipts tax deduction will reduce revenue. TRD estimates that about \$5 million worth of sales will be eligible for this deduction each year. Taxed at an effective statewide rate of 6.6 percent, the gross receipts tax deduction will reduce revenue by about \$330 thousand. About 60 percent of this deduction will accrue to the general fund, and about 40 percent to local governments.

### **SIGNIFICANT ISSUES**

According to EMNRD, the gross receipts tax deduction for biomass equipment and materials will level the playing field for New Mexico businesses who compete with out-of-state businesses for the sale of biomass equipment.

EMNRD states that New Mexico has significant biomass resources. However, the majority of these resources are unused. Encouraging biomass development encourages job and revenue growth in the state's rural areas. Further, economic incentives to use forest thinnings and dairy waste reduce the likelihood of forest fires and groundwater contamination.

Currently, the renewable energy production tax credit defines biomass as animal waste, forest thinnings less than 15 inches in diameter, slash and brush, lumbermill and sawmill residues, and salt cedar and other phreatophytes removed from watersheds or river basins.

The new definition of biomass that matches the definition in Section 7-9-98 NMSA 1978 these includes these items as well as 1) the following forest-related materials: logging residues, low-commercial-value materials or undesirable species, woody vegetation removed for the purpose of forest fire fuel reduction, forest health, or watershed improvement; 2) the following agricultural-related materials: orchard trees, vineyard, grain or crop residues, aquatic plants and agricultural processed co-products and waste products; 3) the following solid woody waste materials: tree trimmings, range land maintenance residues, waste pallets, crates and other wood wastes, excluding pressure-treated or otherwise treated wood contaminated with plastic; 4) landfill gas, wastewater treatment gas and biosolids; and 5) segregated municipal solid waste excluding tires, medical and hazardous waste.

### **ADMINISTRATIVE IMPLICATIONS**

Administrative impacts on TRD would be minor.

### **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

House Bill 395 conflicts with Senate Bill 469, which proposes different amendments to the renewable energy production tax credit.

SS/yr