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FISCAL IMPACT REPORT

ORIGINAL DATE 02/02/09

SPONSOR Sanchez, B. **LAST UPDATED** _____ **HB** _____

SHORT TITLE Chile Production Income Tax Credit **SB** 327

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
	(\$291.5)	(\$1,121.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)
 NM Department of Agriculture (NMAG)

SUMMARY

Synopsis of Bill

Senate Bill 327 creates a credit of \$200 per acre of chile planted that can be used to offset personal or corporate income tax liability. The credit can be carried forward for up to three years but is not refundable and is applied first before any other tax credit.

The credit is effective for tax years 2009, 2010 and 2011 only.

FISCAL IMPLICATIONS

The fiscal impact is based on 11,000 acres of chile production which reflects a decline from the 2007 reported acreage of 12,000. The credit is assumed to stop the decline in planting but not increase it so the fiscal impact is equal each year. TRD assumes that 50 percent of the credit will offset personal income tax liability in the first year and 50 percent in the second year and for corporate income tax 20 percent in the first year and 80 percent in the second. Finally, TRD assumed that 20 percent offsets corporate income tax and 80 percent offsets personal income tax.

Attachment A is the latest Department of Agriculture production report.

SIGNIFICANT ISSUES

NMAG:

The chile industry contributes great economic and cultural values to the state. Besides its long cultural tradition, it adds to the states' economy through 3,000 full time and 9,000 part time jobs. Chile contributes \$235 million to the states economy, down from \$400 million 3 years ago (NM chile association).

However, the industry is faced with many challenges. These include scarcity of labor, high labor costs, weather, and increased foreign competition from mexico, china, peru, and others. Because of this, in 2007 new mexico chile production declined for the third straight year, falling 33 percent below 2006. Harvested acreage has fallen from 16,200 acres in 2005 to 11,000 acres in 2007. The chile production income tax credit will help this vital industry remain viable and competitive.

TECHNICAL ISSUES

TRD:

The bill allows taxpayers who own an interest in a “business entity” that is a chile producer to claim an income tax credit. It also prohibits a taxpayer claiming an income tax credit from claiming a corporate income tax credit. (P. 2, line 25 through P. 3 line 4.) A taxpayer claiming a personal income tax credit would not be liable for corporate income tax. A shareholder in a corporation, as a taxpayer owning an interest in a business entity, would be able to take the credit on his or her personal income tax. The bill perhaps intended that a corporate income tax credit would not be taken by the corporation when the credit is taken by shareholders, but does not clearly state that

NF/mt

The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:

- 1. Adequacy:*** revenue should be adequate to fund government services.
- 2. Efficiency:*** tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.
- 3. Equity:*** taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.
- 4. Simplicity:*** taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.
- 5. Accountability/Transparency:*** Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.

More information about the LFC tax policy principles will soon be available on the LFC website at www.nmlegis.gov/lcs/lfc



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**NEW MEXICO
DEPARTMENT OF
AGRICULTURE**

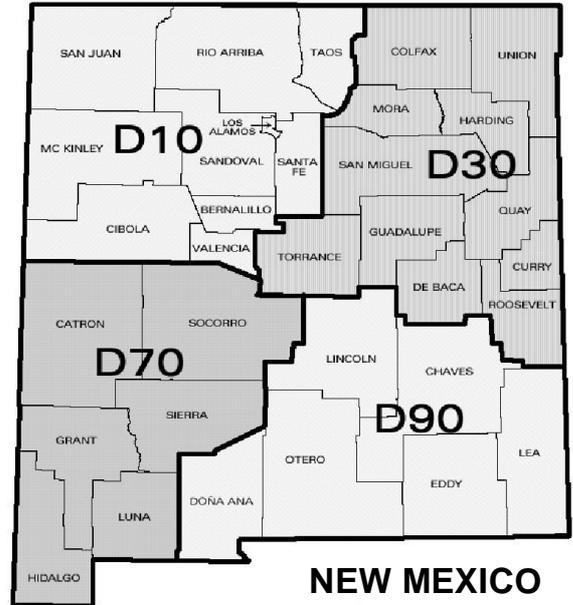
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2007 NEW MEXICO CHILE PRODUCTION

New Mexico chile production declined for the third year in a row to 49,000 tons, 33 percent below 2006. This was due primarily to a 20 percent decline in harvested acreage. Production was also affected by unfavorable weather conditions and rodent damage.

Overall state yields were lower than the previous year with green long mild averaging 10.8 tons per acre and paprika averaging 1.3 tons per acre.

The value of New Mexico chile was estimated at \$28.7 million, 18 percent below the previous year.



2007 Chile Acreage and Production by District & County

District / County	Planted Acreage			Harvested Acreage			Production (Tons)		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
Districts 10 & 30	550	400	300	400	400	300	800	1,200	400
District 70	9,050	7,800	5,600	8,700	7,000	5,200	63,470	42,520	31,700
Hidalgo	3,300	2,200	700	3,200	1,900	600	9,570	6,450	2,850
Luna	4,900	4,600	4,000	4,700	4,200	3,700	47,190	32,300	25,150
Other Counties	850	1,000	900	800	900	900	6,710	3,770	3,700
District 90	7,900	7,100	6,100	7,100	6,400	5,500	24,490	29,680	16,900
Chaves	1,300	1,200	900	1,300	1,100	700	4,070	2,750	2,200
Doña Ana	4,000	3,400	3,400	3,500	3,000	3,200	16,720	22,100	12,800
Other Counties	2,600	2,500	1,800	2,300	2,300	1,600	3,700	4,830	1,900
State	17,500	15,300	12,000	16,200	13,800	11,000	88,760	73,400	49,000

2007 Chile Acreage, Yield, Production, & Value by Variety

Variety	Acreage Harvested ^{1/}	Yield Per Acre	Production	Average Price Per Ton	Value of Production
		-----Tons-----		-----Dollars-----	-----\$1,000-----
Green					
Jalapeño	300	9.0	2,700	315	850
Long Mild	2,700	10.8	29,100	315	9,180
Long Hot	600	8.2	4,900	408	2,000
Red					
Paprika	4,800	1.3	6,000	1,528	9,170
Cayenne ^{2/}	400	7.0	2,800	407	1,140
Long Mild	1,800	1.3	2,250	1,707	3,840
Long Hot	1,100	1.1	1,250	2,000	2,500
Total	11,000	4.5	49,000	585	28,680

^{1/} 700 acres were harvested for both green and red, but only counted once in the total.

^{2/} Production and yield are wet tonnage.

2007 Chile Yields by District, County & Variety

District/County	---Green---			---Red---			
	Jalapeño	Long Mild	Long Hot	Paprika	Cayenne ^{1/}	Long Mild	Long Hot
	----- Tons -----			----- Tons -----			
District 70	^{2/}	11.4	9.0	1.1	---	1.1	1.1
Hidalgo	^{2/}	^{2/}	---	---	---	1.3	^{2/}
Luna	^{2/}	11.5	9.0	1.1	---	1.0	^{2/}
Other Counties	---	9.6	---	^{2/}	---	1.0	^{2/}
District 90	^{2/}	8.0	8.0	1.3	7.0	1.4	1.1
Chaves	^{2/}	---	---	1.2	^{2/}	---	---
Doña Ana	^{2/}	8.0	8.0	1.6	^{2/}	1.4	1.1
Other Counties	---	^{2/}	---	1.2	---	---	---
State	9.0	10.8	8.2	1.3	7.0	1.3	1.1

^{1/} Dry tonnage except for cayenne, which is wet tonnage.

^{2/} Not published to avoid disclosing individual information.