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FISCAL IMPACT REPORT

SPONSOR Chatfield/Armstrong **ORIGINAL DATE** 1/25/2021
 G/Chandler **LAST UPDATED** 1/29/2021 **HB** 89

SHORT TITLE Healthy Soil Tax Refund Contribution Option **SB** _____

ANALYST Graeser

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY21	FY22	FY23	FY24	FY25		
	(0.0)	(0.0)	(0.0)	(0.0)	Recurring	General Fund
	\$10.0	\$10.0	\$10.0	\$10.0	Recurring	Healthy Soils Program (NMDA)

Parenthesis () indicate revenue decreases

Taxation and Revenue Department will have IT and forms development costs involved with the implementation of this program.

SOURCES OF INFORMATION

LFC Files

Responses Received From

Department of Agriculture (NMDA)

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 89 provides for individual taxpayers who would otherwise be owed a personal income tax refund to donate all or a portion of that refund to the Healthy Soils program administered by NMDA.

There is no effective date of this bill. It is assumed the effective date is 90 days following adjournment of the Legislature (June 18, 2021). The provisions of the bill are applicable for tax years beginning January 1, 2021.

FISCAL IMPLICATIONS

TRD notes the following:

The bill makes a change to the income tax form to provide the taxpayer with an option for donating their PIT refund to the healthy soil program. Because this is an optional contribution from the income tax refund that is due to the taxpayer, to be made at the discretion of the taxpayer, there will be no revenue impact on state revenues.

Currently allowed refund contributions follow, with fiscal totals estimated from GenTax reports prepared by TRD. The largest donation program is currently the Share with Wildlife fund followed by the animal care fund.

	FY2020 &2021 annualized
ALS Research Fund	-\$3,540
Animal Care Fund	-\$17,480
NM Forest Re-Leaf Program	-\$12,740
Horse Shelter Rescue Fund	-\$7,460
Kids in Parks Education Fund	-\$7,920
National Guard Member & Family	-\$10,370
NM Housing Trust Fund	-\$8,550
Sexual Assault Exam Kit Fund	-\$8,740
Sexual Assault Services Fund	-\$8,060
Substance Abuse Education Fund	-\$8,980
Supp Senior Svcs Fund	-\$10,660
Share with Wildlife Fund	-\$20,340
Vietnam Memorial	-\$4,320
Veteran's Enterprise Fund	-\$4,120
Veteran's National Cemetery Fund	-\$7,100
Total Transferred	-\$140,380
Average donation amount	-\$9,359

NMDA notes the following:

Any funds generated by this program would be added to other funding sources (recurring general fund appropriations) for NMDA to implement the healthy soil program.

Funding benefits from this program are currently indeterminate. A similar optional personal income tax contribution program exists within the New Mexico department of game and fish. "Share with Wildlife" was initiated in 1981 and receives much of its funding through its own state income tax check-off program. Annual contributions to the "Share with Wildlife" program within the last five to ten fiscal years are said to range from \$20 thousand to \$30 thousand per year.

This refund check-off program is unlikely to be as popular as the Share with Wildlife or the animal care programs. The expected amount of refund donations will probably be near the average for the 15 current check-off programs.

This is not a tax expenditure because no state funds receive less revenue.

SIGNIFICANT ISSUES

TRD notes the following significant issues:

At present, taxpayers can choose to donate all or a portion of their PIT refund to 16 different voluntary contribution funds. This legislation will add another one to the list – the healthy

soil program. The healthy soil program was created under the Healthy Soil Act (Section 76-25-3 NMSA 1978) to promote and support farming, ranching and other forms of land management to improve the health, yield, and profitability of the soils of New Mexico.

Adding an optional designation on the income tax form to contribute a portion of income tax refund to the healthy soil program will make it easier for individuals to contribute to the cause. This will also have the secondary benefit of popularizing the program among New Mexico taxpayers. However, addition of this program might seem as though the State of New Mexico or the Taxation and Revenue Department (TRD) are advocating for this cause over other causes that are not available for refund contribution on the PIT form.

Historically, total voluntary donations have been very small, with only approximately \$103,000 contributed towards all 16 existing voluntary contributions in FY 20. Animal shelter and forest re-leaf funds received about 30% of the total (\$31,000), followed by senior services and Vietnam memorial funds, which received 25% (or \$26,000). The sexual assault examination kit processing grant fund, optional designation to which is to be repealed effective January 1, 2023, received 9% of the funds (or about \$9,000).

More information on the Healthy Soil Program can be obtained from the following website:
<https://www.nmhealthysoil.org/>

Apparently, this is a grant program, but there is no indication on the website of grants offered. The Healthy Soils Act was enacted by Laws 2019, Chapter 126. The original bill included a \$5.15 million appropriation to implement the program, but the bill subsequently passed without an appropriation.

ADMINISTRATIVE IMPLICATIONS

TRD is expected to publish an estimate of administrative costs. These IT and forms development costs are probably included in the regular 2021 TRD operating appropriation,

TECHNICAL ISSUES

Section 1.B (page 2, starting on line 4) of the bill proposes the use of the following language when revising the state income tax form to allow for an optional designation of an amount of the taxpayer's refund to the healthy soil program: "Enter here \$ _____ the amount of your contribution." This assumes that the taxpayer's calculation of their refund is accurate. This might be problematic if the calculations are inaccurate, and the amount designated ends up being higher than the actual refund.

A sunset clause may be added to this bill, although Section 7-2-31.1. NMSA 1978 provides for a conditional repeal of optional refund contribution provisions if optional contributions to a particular fund fall short of \$5,000 for three consecutive years.

OTHER SUBSTANTIVE ISSUES

From NMDA:

What is the Healthy Soil Program?

- The Healthy Soil Program was created by the Healthy Soil Act, which was enacted in the 2019 legislature with overwhelming bipartisan support ([learn more](#)).
- The program provides coordinated technical assistance, education, training, and grant funding for farmers, ranchers, and other land managers engaged in regenerative agriculture and soil stewardship.
- The program encourages the core principles: keeping soil covered, minimizing soil disturbance, maximizing biodiversity, integrating animals, and maintaining a living root.

Why is the Healthy Soil Program important?

- The program and adoption of these principles can have a major impact on water retention, public health, producer success, rural economic development, pollution reduction, carbon sequestration and working lands resiliency (see [the many benefits of soil health](#)).
- NMDA is successfully administering the program in coordination with the following eligible entities: soil and water conservation districts, pueblos & tribes, acequias, land grants, and cooperative extension.
- Demand for the Healthy Soil Program is strong and widespread, far exceeding appropriated state funds: during the first two years of the program 177 grant applications were received coming from all around the state and 63 applications (35%) were funded. There were nearly \$3 million in total requests with \$600,000 (20%) ultimately awarded.
- There has been significant leveraging of resources for this program, including from USDA/NRCS, a State Conservation Innovation Grant, and foundation funding. New prospects include federal block grants for states with Healthy Soil programs like New Mexico's.

LG/sb/rl/al