

**Bill Analysis and Fiscal Impact Report
Taxation and Revenue Department**

February 2, 2026

Bill:

SB-182

Sponsor:

Senators Joshua A. Sanchez, Pat Woods, and Crystal Brantley

Short Title:

Dyed Diesel Fuel GRT Deduction

Description:

This bill allows a deduction from gross receipts tax (GRT) for dyed special fuel (diesel). This deduction is required to be separately reported. This bill also repeals the gross receipts tax credit for sale of dyed special fuel used for agricultural purposes enacted in 2024. The bill has a sunset of July 1, 2031.

Effective Date, Applicability, and Contingency Language:

July 1, 2026

Taxation and Revenue Department Analyst:

Pedro Clavijo

Estimated Revenue Impact*

FY26	FY27	FY28	FY29	FY30	Recurring or Non-Recurring	Fund(s) Affected
--	(\$68,600)	(\$73,100)	(\$75,400)	(\$80,100)	NR	General Fund
--	(\$45,700)	(\$48,700)	(\$50,300)	(\$53,400)	NR	Local Governments

* In thousands of dollars. Parentheses () indicate a revenue loss. ** Recurring (R) or Non-Recurring (NR).

Methodology for Estimated Revenue Impact:

The Taxation and Revenue Department (Tax & Rev) collected data on dyed special fuel reported during FY2025 for the special fuels supplier tax that is deducted and reported under Section 7-16A-10 NMSA 1978. Tax & Rev estimated future volumes of dyed special fuel by applying the rate of growth of the special fuels tax from the Department of Transportation's (DOT) January 2026 State Road Fund forecast. For the price estimates, Tax & Rev averaged PADD 3 (Gulf Coast District) diesel sales prices in FY25 as reported by the U.S. Energy Information Administration and produced a price projection based on the S&P Global Chained Price Index forecast for consumer fuel. A statewide effective GRT rate of 6.94% was applied to calculate the estimated revenue impact and then the revenue impact was split as 60% General Fund and 40% local governments.

When the GRT credit for dyed diesel that this bill will repeal was enacted in 2024, the credit was estimated to have a significant General Fund fiscal impact. Since that time, GRT credit claims have been minimal and the December 2025 GRT forecast of the Consensus Revenue Estimating Group reflects minimal costs associated with the GRT credit repealed in this bill. Tax & Rev assumed that all sales of dyed special fuel can be deducted from GRT. Currently, taxpayers may claim a GRT credit for selling special fuel dyed for use primarily in agriculture. The fiscal analysis assumes that the revenue loss will be larger than it currently is under this deduction, as it removes the restriction on use for agricultural purposes. Moreover, as separately reported deductions are less burdensome to claim than credits, the bill provides incentives and a much simpler process for taxpayers to obtain the fiscal benefit.

Policy Issues:

Currently, receipts from special fuels are exempt from the gross receipts and compensating tax if receipts from special fuels have been taxed under the special fuels excise. Because receipts from dyed special fuels

are deductible from taxable receipts when applying the special fuels excise tax, the receipts are not receipts on which the special fuels excise tax has been paid and are therefore subject to the gross receipts and compensating tax under Section 7-9-26 NMSA 1978.

Under this legislation, receipts from the sale or use of the subset of dyed special fuels will not be subject to any tax. The creation of a special exemption for the sale or use of a particular category of fuel is not sound tax policy because: (i) it distorts the market for fuels generally; and (ii) violates principles of horizontal equity by favoring consumption of certain fuels that are otherwise similar in application and use to other fuels. Furthermore, allowing one kind of fuel to escape all taxation encourages abuse of the deduction through miscategorization and misreporting. Adding this deduction would therefore also increase the burden and complexity of audits. However, as separately reported GRT deductions are easier to administer than GRT credits, this bill provides a much simpler process for Tax & Rev.

Tax & Rev currently reviews and approves applications for the credit under Section 7-9-58.1 NMSA 1978. Administratively, this has proven to be a burden, and taxpayers have been vocal about their frustration with this credit. Allowing dyed diesel to be taken as a separately stated deduction provides a much simpler process for both the department and taxpayers. It removes the need for an application and manual review, and it allows the department to evaluate the cost and effectiveness of the deduction as a separately stated line item, which supports reevaluation prior to July 1, 2031.

Technical Issues:

None.

Other Issues:

The repeal of the credit should coincide with the effective date of the deduction to ensure this group of taxpayers do not have a period in which neither the credit or deduction is available.

Administrative & Compliance Impact:

Tax & Rev will update forms, instructions, and publications and make information system changes. Tax & Rev’s Information Technology Division (ITD) estimates that implementing the bill will require approximately 220 hours or about a month and a half and \$15,226 of staff workload costs.

Estimated Additional Operating Budget Impact*

FY26	FY27	FY28	3 Year Total Cost	Recurring or Non-Recurring	Fund(s) or Agency Affected
\$15.2	--	--	\$15.2	NR	ITD - Staff workload costs

* In thousands of dollars. Parentheses () indicate a cost saving. ** Recurring (R) or Non-Recurring (NR).