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HOUSE BILL 1122

48TH LEGISLATURE - STATE OF NEW MEXICO - FIRST SESSION, 2007

INTRODUCED BY

George J. Hanosh

AN ACT

RELATING TO TAXATION; PROVIDING FOR INCOME TAX AND CORPORATE
INCOME TAX CREDITS FOR DELIVERING WATER PRODUCED FROM OIL AND
GAS DRILLING AND PRODUCTION.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF NEW MEXICO:

Section 1. A new section of the Income Tax Act is enacted
to read:

"[NEW MATERIAL] CREDIT FOR PRODUCED WATER.--

A. An operator who files a New Mexico income tax
return and who is not a dependent of another taxpayer may take
a tax credit in an amount equal to one thousand dollars
(\$1,000) per acre-foot of produced water not to exceed four
hundred thousand dollars (\$400,000) per year if the following
conditions are met:

- (1) the operator delivers the water to the

1 interstate stream commission at the Pecos river in compliance
2 with the applicable requirements of the Water Quality Act,
3 water quality control commission regulations and federal clean
4 water acts;

5 (2) the operator delivers the water solely in
6 a manner approved by the interstate stream commission to
7 contribute to meeting the state's delivery obligations pursuant
8 to the Pecos River Compact; and

9 (3) upon delivery to the interstate stream
10 commission at the Pecos river, title is transferred to the
11 interstate stream commission.

12 B. A husband and wife who file separate returns for
13 a taxable year in which they could have filed a joint return
14 may each claim only one-half of the credit that would have been
15 allowed on a joint return.

16 C. The tax credit provided in this section may only
17 be deducted from the operator's personal income tax liability.
18 Any portion of the tax credit provided in this section that
19 remains unused at the end of the operator's taxable year may be
20 carried forward for three consecutive taxable years.

21 D. As used in this section:

22 (1) "operator" means a person who operates an
23 oil or gas well; and

24 (2) "produced water" means water produced from
25 oil or gas drilling and production from a depth of two thousand

underscored material = new
[bracketed material] = delete

1 five hundred feet or more below the surface.

2 E. The interstate stream commission shall provide
3 legal confirmation of receipt of the water from the operator,
4 and the operator shall provide documentation to the department
5 to prove eligibility for the tax credit provided in this
6 section."

7 Section 2. A new section of the Corporate Income and
8 Franchise Tax Act is enacted to read:

9 "[NEW MATERIAL] CREDIT FOR PRODUCED WATER.--

10 A. An operator that files a New Mexico corporate
11 income tax return may take a tax credit in an amount equal to
12 one thousand dollars (\$1,000) per acre-foot of produced water
13 not to exceed four hundred thousand dollars (\$400,000) per year
14 if the following conditions are met:

15 (1) the operator delivers the water to the
16 interstate stream commission at the Pecos river in compliance
17 with the applicable requirements of the Water Quality Act,
18 water quality control commission regulations and federal clean
19 water acts;

20 (2) the operator delivers the water solely in
21 a manner approved by the interstate stream commission to
22 contribute to delivery obligations pursuant to the Pecos River
23 Compact; and

24 (3) upon delivery to the interstate stream
25 commission at the Pecos river, title is transferred to the

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1 interstate stream commission.

2 B. The tax credit provided in this section may only
3 be deducted from the operator's corporate income tax liability.
4 Any portion of the tax credit provided in this section that
5 remains unused at the end of the operator's taxable year may be
6 carried forward for three consecutive taxable years.

7 C. As used in this section:

8 (1) "operator" means a person that operates an
9 oil or gas well; and

10 (2) "produced water" means water produced from
11 oil or gas drilling and production from a depth of two thousand
12 five hundred feet or more below the surface.

13 D. The interstate stream commission shall provide
14 legal confirmation of receipt of the water from the operator,
15 and the operator shall provide documentation to the department
16 to prove eligibility for the tax credit provided in this
17 section."

18 Section 3. DELAYED REPEAL.--Sections 1 and 2 of this act
19 are repealed effective January 1, 2011.

20 Section 4. APPLICABILITY.--The provisions of this act
21 apply to taxable years beginning on or after January 1, 2007.