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FISCAL IMPACT REPORT

ORIGINAL DATE 1/29/07
 SPONSOR Strickler LAST UPDATED 3/07/07 HB 256/aSCONC
 SHORT TITLE Agricultural Equipment Gross Receipts SB _____
 ANALYST Schardin

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	(336.6)		Recurring	General Fund
	(224.4)		Recurring	Local Governments

(Parenthesis () Indicate Revenue Decreases)

Conflicts with HB 530, SB 477, SB 317

SOURCES OF INFORMATION

LFC Files

Responses Received From

New Mexico Department of Agriculture (NMDA)
 Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of SCONC Amendment

The Senate Conservation Committee amendment to House Bill 256 replaces all instances of the word “produce” with the word “crop” or “crops,” based on a technical suggestion made by New Mexico Department of Agriculture. The term “produce” normally refers to fruits and vegetables, while the term “crop” refers to a broader variety of agricultural products.

Synopsis of Original Bill

House Bill 256 expands an existing 50 percent gross receipts tax deduction for agricultural implements to include aboveground and belowground produce irrigation systems that are used at a place where produce is grown.

The effective date of the bill is July 1, 2007.

FISCAL IMPLICATIONS

According to TRD, the USDA Census of Agriculture’s publication “2003 Farm and Ranch Irrigation Survey” indicates that New Mexico farms spent nearly \$17 million on irrigation equipment and machinery in 2003. Making 50 percent of these receipts (\$8.5 million) deductible would reduce gross receipts tax revenues by \$561 thousand, assuming a statewide average tax rate of 6.6 percent. About 60 percent of that revenue decrease will accrue to the general fund and about 40 percent will accrue to local governments.

SIGNIFICANT ISSUES

According to NMDA, the provisions of this bill may provide an incentive for New Mexico farmers to utilize irrigation systems. These irrigation systems will save water and increase crop yields.

LFC notes that while individual deductions from the gross receipts tax may have small fiscal impacts, their cumulative effect significantly narrows the gross receipts tax base. Narrowing the gross receipts tax base increases revenue volatility and requires a higher tax rate to generate the same amount of revenue.

The bill will reduce local government gross receipts tax collections. Many of New Mexico’s local governments are highly dependent on gross receipts tax revenue.

ADMINISTRATIVE IMPLICATIONS

This bill will have a minimal impact on TRD. CRS-1 instructions and publications will be revised and audit and compliances procedures will be developed.

CONFLICT

House Bill 256 conflicts with House Bill 530, Senate Bill 477, and Senate Bill 317 (the Senate’s omnibus tax bill). Those bills amend the same section to expand the existing deduction for receipts of aircraft manufacturers to include from an aircraft manufacturer’s affiliate from selling aircraft parts, components, flight support, pilot training, or maintenance training services.

TECHNICAL ISSUES

TRD notes that the definition of agricultural implement is vague and could mean almost any tool, utensil or irrigation instrument. The definition could also be interpreted to include construction materials.

SS/csd