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FISCAL IMPACT REPORT

SPONSOR Gonzales **DATE TYPED** 3-11-2005 **HB** 997/aHTRC

SHORT TITLE School Bus Fuel Excise Tax Exemption **SB** _____

ANALYST Taylor

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
	(\$430.0)	Similar	Recurring	Road Fund
	(\$45.0)	Similar	Recurring	Local Governments Road Funds
	\$140.0	Similar	Recurring	State General Fund
	\$50.0	Similar	Recurring	Local Governments

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files
Taxation and Revenue Department

SUMMARY

Synopsis of HTRC Amendment

The HTRC amendment expands the deduction provided to include school buses under contract with the Public Education Department.

Synopsis of original bill

House Bill 997 provides a special fuels tax deduction for number 2 diesel fuel used by public school buses.

FISCAL IMPLICATIONS

The Taxation and Revenue Department's estimate is reported below.

\Special Fuel Tax Deduction:

Based on information provided by the N.M. Public Education Department, total fuel consumption by private contractors operating public school buses is estimated at 3.0 million gallons. 25% of these contractors currently purchase tax deductible dyed fuel. Another 25% purchase their fuel in bulk quantities, but do not have access to dyed fuel, and are therefore paying tax under present law. These buyers would benefit as follows from the deduction provided in HB 997: 750 thousand gallons at \$0.21 per gallon, the special fuel tax reduction is \$158 thousand. Under present distribution formulas, 90.48% of this amount is attributable to the State Road Fund and the remainder to the Local Government Road Fund. Gross receipts tax collections would increase by an estimated \$66 thousand due to the provision because fuel that is exempt from the Special Fuels Tax becomes taxable under the gross receipts tax.

Special Fuel Tax Refunds:

The refund provisions are estimated to benefit 50% of total fuel used by school bus operators, or 1.5 million gallons. At \$0.21 per gallon, this reduces net special fuel tax collections by \$315 thousand. Under present distribution formulas, 90.48% of this amount is attributable to the State Road Fund and the remainder to the Local Government Road Fund. Compensating tax collections would increase by an estimated \$125 thousand due to the provision because fuel on which refunds are claimed for the Special Fuels Tax becomes taxable under the compensating tax. 80% of this revenue is distributed to the General Fund while the other 20% goes to local governments through the Small Cities and Small Counties Assistance programs.

ADMINISTRATIVE IMPLICATIONS

TRD's analysis included this discussion of administrative impacts:

The increase in refund claims will impose additional costs on the Department's fuels tax processing unit. Depending on the number of monthly refund claims, the costs could be as high as 0.5 FTE.

TECHNICAL ISSUES

TRD raised these technical issues:

The language in the bill specifying the type of eligible fuel by reference to the distillation temperature, etc. causes a significant increase in the complexity of administering the new deduction. Also, the language limiting the deduction to "number 2 diesel" would exclude some school bus fuel that is subject to the Special Fuel Tax. If the purpose is to allow the deduction for all school bus fuel users, the language should simply refer to "special fuel."

OTHER SUBSTANTIVE ISSUES

TRD reported these issues:

Under present law and regulations, a special fuels tax deduction is available for school buses that are owned by government entities. In addition, non-government owned school bus users of special fuel can buy tax-deductible fuel if they purchase dyed fuel from a

supplier. The dyed fuel requirement enables the Department (and the Federal government) to keep track of legitimately tax-deductible fuel. Thus, the only school bus users currently paying the special fuel tax are private contractors operating school buses who are not able to get access to dyed fuel.

According to the N.M. Public Education Department, the contractors paying the tax have been billing the Department for reimbursement. Thus, if the tax is eliminated, the amount in the Public School budget for this purpose could be reduced by an equivalent amount.

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