

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (legis.state.nm.us). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

SPONSOR Carraro **DATE TYPED** 10/06/05 **HB** _____

SHORT TITLE Natural Gas Heating Cost Tax Rebates **SB** 10

ANALYST Francis

APPROPRIATION

| Appropriation Contained | | Estimated Additional Impact | | Recurring or Non-Rec | Fund Affected |
|-------------------------|-------------|-----------------------------|------|-------------------------|------------------|
| FY05 | FY06 | FY05 | FY06 | | |
| | \$106,000.0 | | | Non-Recurring | General Fund |

(Parenthesis () Indicate Expenditure Decreases)

Relates to HB8

SOURCES OF INFORMATION

LFC Files
 Tax and Revenue Department (TRD)
 Public Service Company of New Mexico (PNM)
 Department of Energy, Energy Information Agency

SUMMARY

Synopsis of Bill

Senate Bill 10 provides a rebate in the amount of \$200 for each taxpayer who has paid a heating and cooling bill in one of the last four months of taxable year 2005 (September through December, 2005). The rebate will go to individual taxpayers who submit an income tax return and a bill from a natural gas provider in New Mexico. The bill must be addressed to the person on the tax return, a sole proprietorship owned by that person or to a partnership of which the person is a member.

A taxpayer is entitled to multiple rebates if they pay the natural gas heating bill on more than one property. A landlord that pays the utilities for the tenants would be able to receive multiple rebates, for example.

If the person is part of a partnership that is the account holder of the natural gas bill than the rebate is apportioned based on the ownership interest of the person. The total rebate is not more than \$200.

Similar language in the bill is included in the Corporate Income Tax Act. The bill must be in the name of the corporate income tax filer.

Though the bill does not make it explicit, the rebate payments are assumed to come from the general fund.

Significant Issues

According to the Energy Information Administration, approximately 30% of New Mexican households use other means than natural gas to heat and cook and so will not receive a rebate. There are some who use solar power or other alternative fuels for heating and cooking, but the bulk of these households use electricity for heating and cooking and a not insignificant number uses propane (particularly in rural areas where transmission lines and utilities are not available). Since natural gas can represent anywhere from 25-50% of the inputs to an electrical generator, the high price is also reflected in higher electricity bills. Propane has increased in price 21% and has also been affected by the Gulf Coast hurricanes.

FISCAL IMPLICATIONS

This bill is estimated to cost at least \$106 million for the rebates. There are an estimated 712,000 households in the state, 493,000 are owner-occupied and 219,000 are rental units. According to the Energy Information Administration, in the West, 70% of households use natural gas which means that approximately 500,000 households will be affected by this bill. At \$200 per customer, assuming all customers are PIT filers, that would cost the state general fund \$100 million.

There are also approximately 44,000 businesses in New Mexico and assuming the same share of businesses use natural gas as households, 31,000 would receive \$6 million in rebates. This may include real estate companies that will receive the rebate for their tenants and so may overcount some businesses. There are also government agencies, except government hospitals, and proprietors without employees who do not work out of their homes. These could amount to an additional \$7 to \$10 million but the number is not known.

According to PNM, the largest provider of natural gas in New Mexico, the average heating bill this winter will be 60% higher than the similar five month period in 2004. Using their reported average of \$157 per month, that would mean that New Mexicans will be paying an average of \$300 more this winter than they did last winter.

TECHNICAL ISSUES

There may be a problem with the copy of the heating bill with the use of electronic payment. The "bill" will come in different sizes and formats depending on the bill payer's printer and paper.

The bill calls for the income tax return rather than a copy of the income tax return and does not explicitly state a year. This may confuse taxpayers as to whether they should send in their original or a copy. It also opens it up to people who have filed in the past but not in 2004 since there is no explicit year. It does mention that it is for taxpayers who have been subject to taxes for tax year 2005 but does not specify that those be income taxes.

POSSIBLE QUESTIONS

Is this for taxpayers who filed in 2004 and can prove it?

What about taxpayers in 2005 who did not file in 2004 – will they receive a credit?

How do we ensure the bill is authentic?

NF/yr