BILL ANALYSIS AND FISCAL IMPACT REPORT
Taxation and Revenue Department

March 7, 2025

Bill: HB-472 **Sponsor:** Representatives Jonathan A. Henry and Rebecca Dow

Short Title: Abandoned Building Revitalization Tax Credit

Description: This bill creates a corporate income tax (CIT) credit for taxpayers who incur rehabilitation expenses for the rehabilitation of an abandoned building in New Mexico, prior to January 1, 2036. The credit is equal to 25% of the rehabilitation expenses incurred, up to a maximum of $700,000 per taxpayer, provided that the rehabilitation expenses are at least 80% but not more than 125% of the estimated rehabilitation expenses stated in the notice of intent to rehabilitate. Prior to incurring rehabilitation expenses the taxpayer shall apply for pre-certification from the Economic Development Department (EDD), which shall issue a pre-certification to the taxpayer. The aggregate amount of credits that may be certified as eligible in a calendar year is $20 million. If a taxpayer is eligible for the credit, a dated certificate of eligibility shall be issued to the taxpayer providing the amount of credit for which the taxpayer is eligible. The certificate of eligibility may be sold, exchanged or otherwise transferred to another taxpayer for the full value of the credit. The portion of the credit that exceeds the taxpayer's tax liability in the tax year may be carried forward for five consecutive tax years.

Effective Date: Not specified; 90 days following adjournment (June 20, 2025). Applicable to taxable years beginning on or after January 1, 2025.

Taxation and Revenue Department Analyst: Pedro Clavijo

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2025	FY2026	FY2027	FY2028	FY2029		
--	(Unknown but up to $20,000)	(Unknown but up to $20,000)	(Unknown but up to $20,000)	(Unknown but up to $20,000)	R	General Fund

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

Methodology for Estimated Revenue Impact: Some unknown aspects do not allow the Taxation and Revenue Department (Tax & Rev) to estimate a precise fiscal impact. First, it is unknown how many abandoned buildings will be rehabilitated, or the size of those projects. Second, Tax & Rev cannot anticipate how much taxpayers will invest in rehabilitation projects and therefore how much credit they may potentially claim against their corporate tax liability. Finally, the credit is dependent on the total cost of the rehabilitation project, as it is calculated as 25% of the rehabilitation expenses. Based on these limitations, Tax & Rev determined the fiscal impact would be negative but unknown. Per the bill, the maximum aggregate amount of credits available in any fiscal year would not exceed $20 million for credits claimed under CIT.

Policy Issues: The bill aims to stimulate the rehabilitation of abandoned buildings in New Mexico, which will impact the construction industry in the State. These rehabilitation projects will boost general economic activity, employment, and tax collection under different programs. Additionally, the rehabilitation of these buildings will impact the surrounding communities by attracting businesses, entrepreneurs, and residents to the area, contributing to the overall aesthetic appeal and improving safety, and encouraging economic growth and community engagement. However, the full extent of both the costs and benefits of this credit is unknown.

According to data from the New Mexico Economic Development Department, the construction industry is the second largest contributor to the gross receipts tax base. The New Mexico Department of Workforce Solutions reports that New Mexico's construction industry employed just under 57,000 workers in 2023, contributing over $3.6 billion in total wages that contribute to personal income tax revenue. Construction is the state's seventh-largest industry sector in terms of employment.[1] The positive economic impact of these credits will be felt only if the proposed tax incentive is sufficient to trigger generalized renovation projects and if it is accompanied by other strategies.

Since the credit is non-refundable, it is possible that a taxpayer may not receive the benefit of the entire credit. Taxpayers will have little additional incentive to undertake a rehabilitation project as a result of this credit if they have little or no New Mexico tax liability to offset. During a large rehabilitation project, a taxpayer may have negative taxable income and net operating losses that reduce or eliminate their tax liability, causing the incentive to go unused. However, the credit may be carried forward for up to five year and be available if the taxpayer has positive taxable income in future years. It may also be sold or transferred at its full value.

To apply for this credit, the taxpayer must file taxes under CIT. However, taxpayers filing pursuant to the Personal Income Tax (PIT) would not be eligible for the credit provided by this bill. The requirement of being a CIT filler to claim the credit creates horizontal inequality in the tax code among the businesses that make up the sector since those companies filing under PIT cannot claim the tax incentive.

The credit has a defined aggregate claim limit and an end date of tax year 2035. Tax & Rev supports fiscal limits and sunset dates for policymakers to review the impact of tax expenditures before extending them. This is important to this bill as the fiscal impact is unknown.

While tax incentives may support particular industries or encourage specific social and economic behaviors, the proliferation of such incentives complicates the tax code. Adding more tax incentives: (1) creates special treatment and exceptions to the code, growing tax expenditures or narrowing the tax base, with a negative impact on the general fund; and, (2) increases the burden of compliance on both taxpayers and Tax & Rev. Adding complexity and exceptions to the tax code does not comport generally with the best tax policy.

Technical Issues: Tax & Rev recommends the following additions on page 3, line 13, after "approved.": "The economic development department shall provide the department appropriate information for all certificates of eligibility in a secure manner on regular intervals agreed upon by both departments."

Other Issues: None.

Administrative & Compliance Impact: Tax & Rev will update forms, instructions, and publications and make information system changes. This bill will have an impact on Tax & Rev's Information Technology Division (ITD) of approximately 4 months and 680 hours for an estimated staff workload cost of $45,315. Additionally, Tax & Rev's Administrative Services Division (ASD) will be required to test the system changes. It is anticipated this work will take approximately 40 hours, split between two existing full-time employees (FTE).

Estimated Additional Operating Budget Impact*				**R or NR****	**Fund(s) or Agency Affected**
FY2025	**FY2026**	**FY2027**	**3 Year Total Cost**		

[1] https://www.dws.state.nm.us/Portals/0/DM/LMI/Industry_Spotlight_Construction_2024.pdf

--	$2.5	--	$2.5	NR	ASD-Operating
--	$45.3	--	$45.3	NR	ITD-Staff workload cost

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