LFC Requester:	

AGENCY BILL ANALYSIS - 2025 REGULAR SESSION

WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO
AgencyAnalysis.nmlegis.gov and email to **billanalysis@dfa.nm.gov**
(Analysis must be uploaded as a PDF)

SECTION I: GENERAL INFORMATION

{Indicate if analysis is on an original bill, amendment, substitute or a correction of a previous bill}

Date Prepared: 2/22/2025 *Check all that apply:*
Bill Number: HB511 Original X Correction __
Amendment __ Substitute __

Sponsor: Rebecca Dow, Jonathan A. Henry, Alan T. Martinez, Andrea Romero

Agency Name and Code Number: Economic Development Department 41900

Short Title: Retail Center Renovation Tax Credit

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SECTION II: FISCAL IMPACT

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY25	FY26		

(Parenthesis ( ) indicate expenditure decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY25	FY26	FY27		

(Parenthesis ( ) indicate revenue decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	$100.0	$100.0	$100.0	$300.0	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates/Conflicts with/Companion to/Relates to:
Duplicates/Relates to Appropriation in the General Appropriation Act

<u>SECTION III: NARRATIVE</u>

BILL SUMMARY

<u>Synopsis:</u>

House Bill 511 (HB 511) creates the retail center renovation income tax credit under the Income Tax Act and the retail center renovation corporate income tax credit under the Corporate Income and Franchise Tax Act.

A taxpayer who incurs qualifying renovation costs for a retail center renovation project from January 1, 2025, to January 1, 2035, may claim either the retail center renovation income tax credit against income tax liability or the retail center renovation corporate income tax credit against corporate income tax liability, but not both. A taxpayer claiming one of these credits cannot claim the other credit or any other tax credit for the same qualifying renovation costs or renovation project, including the federal new markets tax credit under Section 45D of the Internal Revenue Code.

Each credit equals 10 percent of qualifying renovation costs, up to a maximum of $1,500,000 per retail center renovation project. A taxpayer must apply for certification of eligibility from the Economic Development Department (EDD) within one calendar year of project completion. The application must include a compliance certificate from the local jurisdiction verifying that the project complied with building codes and permitting requirements, and a notarized declaration from the property owner or project manager affirming that at least 50 percent of the total leasable square footage of the retail center was renovated with qualifying renovation costs incurred by the taxpayer.

The total amount of the two credits certified as eligible is $15,000,000 per calendar year. Applications are processed in the order received, and eligible taxpayers receive a dated certificate of eligibility with the approved credit amount. Once the total annual limit is reached, no further applications are approved.

A taxpayer whose application for certification of eligibility is denied may appeal to the Administrative Hearings Office. Each credit must be included in the tax expenditure budget with the annual aggregate cost, number of claimants, and economic impact of the credit, including job creation and property value changes.

Concerning the retail center renovation income tax credit only, married individuals filing separately may each claim only one-half of the credit that would have been claimed on a joint return. A taxpayer with an ownership interest in a partnership or limited liability company taxed for federal income tax purposes may claim a proportion of the credit based on their ownership share, provided the entity meets eligibility requirements. The total credit claimed by all members cannot exceed the allowable credit limit.

A retail center refers to a commercial real estate property in New Mexico that has at least three separate businesses engaged in retail, food, or beverage sales, is leased or licensed by the owner to such businesses, and is primarily zoned for commercial or mixed-use development. A retail center renovation project involves the restoration, renovation, rehabilitation, or adaptive reuse of at least 50 percent of the total square footage of a retail center, including both indoor and outdoor areas. It includes the conversion of a retail center into a mixed-use development with commercial, office, or residential spaces or adaptive reuse into multifamily residential housing.

Qualifying renovation costs include expenses related to planning, engineering, construction, structural improvements, accessibility upgrades, energy efficiency enhancements, and construction-related equipment.

The provisions of this act apply to taxable years beginning on or after January 1, 2025, and are repealed effective January 1, 2036.

FISCAL IMPLICATIONS

EDD may require additional staff to fulfill the duties and responsibilities outlined in the bill, with costs estimated at $100,000 including employee benefits.

SIGNIFICANT ISSUES

HB 511 can help encourage investment by providing tax credits that incentivize property owners and developers to renovate retail centers, leading to increased private sector spending. It can promote job creation in construction and retail sectors, enhance property values, and support local businesses by attracting new tenants and increasing consumer foot traffic. Additionally, revitalized retail centers may contribute to broader economic growth by increasing local tax revenues and improving surrounding neighborhoods.

Tax credit incentives for the renovation of retail centers, especially those located outside town centers, could potentially have a negative impact on small businesses and property owners that don't qualify for the tax credit. This includes many of the older and historic buildings in downtown districts that are in dire need of renovation. This may end up incentivizing the renovation of strip malls and larger commercial centers located outside the town center and away from the diverse mix of retail, cultural institutions, entertainment venues, and government offices that have higher pedestrian traffic due to their central location and walkability.

Incentivizing redevelopment of retail centers could also lead to increased rents, making it difficult for small businesses or lower-income tenants to remain in their current space. The financial benefits of the tax credits may also favor larger developers with greater access to capital and a higher tax liability, potentially disadvantaging smaller property owners that may struggle to finance renovations or may not see a benefit in the tax credit incentive. The tax credit, for instance, is non-refundable, meaning smaller retail center property owners that qualify for the credit may not have enough tax liability to claim the full benefits of the credit over the allotted five years they have to claim it.

PERFORMANCE IMPLICATIONS

ADMINISTRATIVE IMPLICATIONS

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

TECHNICAL ISSUES

OTHER SUBSTANTIVE ISSUES

ALTERNATIVES

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

AMENDMENTS