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FISCAL IMPACT REPORT

SPONSOR Montoya/Henry

LAST UPDATED

ORIGINAL DATE 03/10/2025

SHORT TITLE Gas & Electric Bill Income Tax Credit

BILL NUMBER House Bill 545

ANALYST Faubion

REVENUE*
(dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
PIT	$0.0	($700,300.0)	($715,700.0)	($731,500.0)	($747,600.0)	Recurring	General Fund

Parentheses ( ) indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
PRC	**$0.0**	**$1,125.0**	**$1,193.0**	**$2,318.0**	Recurring	**General Fund**
TRD	**$0.0**	**$47.8**		**$47.8**	Nonrecurring	**General Fund**
TRD	**$0.0**	**$212.0**	**$212.0**	**$424.0**	Recurring	**General Fund**
Total	**$0.0**	**$1,384.8**	**$1,405.0**	**$2,789.8**	Recurring	**General Fund**

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files

Agency Analysis Received From
Public Regulation Commission (PRC)
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of House Bill 545

House Bill 545 (HB545) establishes a gas and electric bill income tax credit for residents of New Mexico. Eligible taxpayers who are not dependents and receive gas or electric services at their primary residence can claim a credit against their state income tax liability. The credit is equal to 50 percent of the amount billed for these utilities during the taxable year.

Taxpayers must apply for certification of eligibility from the Public Regulation Commission (PRC), which will issue certificates indicating the credit amount. The commission will also provide the tax department with electronic records of issued certificates. The credit is refundable, meaning any amount exceeding the taxpayer's liability will be refunded. Married individuals filing separately may each claim only half of the credit they would have received if filing jointly.

The credit must be claimed within one taxable year after certification. It will be included in the state's tax expenditure budget, with an annual report on its total cost. The provisions of the bill apply to taxable years beginning on or after January 1, 2025.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns, or June 20, 2025, if enacted.

FISCAL IMPLICATIONS

The federal Energy Information Administration (EIA) reports the New Mexico residential sector generated $1.693 billion in energy revenue from 912.4 thousand customer accounts with 69 percent attributable to electricity and 24 percent attributable to natural gas. This equates to an average bill of $1,725 per household per year. The 2020 Census identified an 88.2 percent primary occupancy rate in New Mexico. Assuming all residents, including qualified renters, will apply for this credit for their primary residence, this credit could cost the general fund over $700 million each year.

The Taxation and Revenue Department (TRD) used a similar methodology to estimate the impact of this bill:

> TRD drew from two sources to estimate the number of eligible taxpayers and the fiscal impact. EIA provides the annual number of electric residential customer accounts by state. TRD assumes that the number of accounts is a proxy for the number of eligible taxpayers. In 2024, there were approximately 912.4 thousand residential electric accounts in New Mexico.
>
> The U.S. Census Bureau provides an estimate of the number of occupied housing units in New Mexico that pay an electric bill and tabulates this by monthly electric bill amount (i.e., less than $50, $50 - $99, etc.). TRD calculated the percentage of housing units by cost bracket and applied the percentages to the number of residential electric accounts. TRD indexed the aggregate impact to FY25 using the U.S. Census Bureau's consumer price index for electricity, then adjusted the revenue impact for inflation using the Congressional Budget Office's inflation forecast.

HB545 would have a significant financial impact on the PRC for the creation of a new division, creation of implementing rules, workflow systems, and resources and for taxpayer outreach for a total of annual cost of $1.125 million in FY26 and $1.193 million in FY27.

TRD will update forms, instructions and publications and make information system changes. Staff training to administer the credit will take place. This implementation will be included in the annual tax year changes.

For TRD's Administrative Services Division, the Gentax effort will require existing 2 FTEs at 40 hours split between pay-band 70 and 80 positions. Pay band 70 hours are estimated at time and ½ due to extra hours worked required for implementation. For TRD's Revenue Processing Division, at least 2 FTEs are required. FTE is at a cost of $76 thousand annually for a pay band

60. An MOU and a data exchange specification will need to be established to receive the certification data from PRC.

This bill will have a moderate impact on TRD's Information Technology Division, requiring approximately 680 hours or about 4 months for an estimated staff workload cost of $45.3 thousand. The estimate includes an interface between TRD and PRC. The data exchange will require coordination with PRC and should be implemented shortly after PRC begins issuing certificates of eligibility so that TRD will have a record of the certificates of eligibility in the Business Credit Manager when the taxpayer claims the credit on their income tax return.

This bill creates or expands a tax expenditure with a cost that is difficult to determine but likely significant. LFC has serious concerns about the substantial risk to state revenues from tax expenditures and the increase in revenue volatility from erosion of the revenue base. The committee recommends the bill adhere to the LFC tax expenditure policy principles for vetting, targeting, and reporting or action be postponed until the implications can be more fully studied.

SIGNIFICANT ISSUES

House Bill 545 could provide relief to New Mexico residents by offsetting a portion of their gas and electricity costs through a refundable tax credit. This financial support could be particularly beneficial for low- and middle-income households that struggle with high utility bills, especially in areas with extreme weather conditions requiring significant heating or cooling. By reducing the overall energy burden, the credit could help residents free up household income for other essential expenses, providing economic stability and reducing energy insecurity.

However, the bill may also incentivize excess energy use by effectively subsidizing a portion of residents' gas and electricity consumption, regardless of necessity. Since the credit is based on total utility bills rather than need-based criteria, it applies equally to large homes with high energy demands—such as those with heated swimming pools or extensive lighting—as it does to households with limited means. This structure could discourage investment in energy efficiency measures or renewable energy sources like solar panels, as residents may see less financial benefit from reducing their dependence on traditional utilities. By offering a blanket credit instead of targeting assistance to those with the greatest financial hardship, the bill risks allocating public funds to high-usage consumers rather than prioritizing relief for households struggling to afford basic energy needs.

TRD notes the following policy issues:

> Personal income tax (PIT) represents a consistent source of revenue for many states. For New Mexico, PIT is approximately 16 percent of the state's recurring general fund revenue. While this revenue source is susceptible to economic downturns, it is also positively responsive to economic expansions. New Mexico is one of 41 states, along with the District of Columbia, that impose a broad-based PIT (New Hampshire and Washington do not tax wage and salary income). Like several states, New Mexico computes its income tax based on the federal definition of taxable income and ties to other statues in the federal tax code. This is referred to as "conformity" to the federal tax code. PIT is an important tax policy tool that has the potential to further both horizontal equity by ensuring the same statutes apply to all taxpayers, and vertical equity, by ensuring the tax burden is based on taxpayers' ability to pay.

The intent of this bill appears to be to assist individuals with heating and cooling expenses. Some rural New Mexicans do not have access to natural gas or electricity and if they do have access, the main source of heat is often propane or firewood. These taxpayers would be ineligible for this credit and horizontal equity would be eroded.

Some residents do not pay a gas or electric bill separately from other utilities or it may be included in a rental or housing contract. If the account is not in the taxpayer’s name, the taxpayer may have difficulty claiming this credit. For properties that pay the utilities directly and then bill residents, it is possible that these residents would not benefit from the credit. In addition, if the property is owned by a corporate entity, there would be no applicable credit. This also would erode horizontal equity.

This credit does not have a sunset date with a delayed repeal. TRD supports sunset dates for policymakers to review the impact of a deduction or other tax incentive before extending it if a sufficient timeframe is allotted for tax incentives to be measured. A delayed repeal promotes accuracy, brevity, and clarity in the tax code.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is met with the bill’s requirement to report annually in the tax expenditure budget regarding the data compiled from the reports from taxpayers taking the credit.

ADMINISTRATIVE IMPLICATIONS

PRC notes this bill could result in hundreds of thousands of applications for this credit. This would be a large administrative burden on PRC and may require the creation of an entirely new division within the agency solely to process these applications. TRD notes since the population that qualify for the credit is large, this may result in increased calls to the call center, district offices, and the protest office.

TRD notes this bill applies to residents with primary residency in New Mexico. TRD can establish business rules that will not allow the credit against non-resident returns or for part-year residents who are no longer domiciled in the state. This will result in returns being stopped for review and possible denial. It may also result in more certifications by PRC that cannot be claimed on the income tax return.

TECHNICAL ISSUES

House Bill 545 does not explicitly define "primary residence" within its text. However, in tax and legal contexts, a primary residence generally refers to the main home where a taxpayer resides for the majority of the year. The bill states that a taxpayer must be billed by a public utility or rural electric cooperative for gas or electric services at their primary residence to qualify for the credit. If a renter receives utility bills in their name and directly pays a public utility or rural electric cooperative, they may qualify for the credit. However, if utilities are included in rent and the bill is under the landlord’s name, the renter would likely not be eligible. For precise eligibility, further clarification from the Public Regulation Commission or state tax authorities may be necessary.

OTHER SUBSTANTIVE ISSUES

In assessing all tax legislation, LFC staff considers whether the proposal is aligned with committee-adopted tax policy principles. Those five principles:

- **Adequacy**: Revenue should be adequate to fund needed government services.
- **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
- **Equity**: Different taxpayers should be treated fairly.
- **Simplicity**: Collection should be simple and easily understood.
- **Accountability**: Preferences should be easy to monitor and evaluate

In addition, staff reviews whether the bill meets principles specific to tax expenditures. Those policies and how this bill addresses those issues:

Tax Expenditure Policy Principle	Met?	Comments
Vetted: The proposed new or expanded tax expenditure was vetted through interim legislative committees, such as LFC and the Revenue Stabilization and Tax Policy Committee, to review fiscal, legal, and general policy parameters.	✗	No record of an interim committee hearing can be found.
Targeted: The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals. Clearly stated purpose Long-term goals Measurable targets	✗	There are no stated purposes, goals, or targets.
Transparent: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies	✓	The credit must be reported on annually. The credit does not have an expiration date.
Accountable: The required reporting allows for analysis by members of the public to determine progress toward annual targets and determination of effectiveness and efficiency. The tax expenditure is set to expire unless legislative action is taken to review the tax expenditure and extend the expiration date. Public analysis Expiration date	✗	
Effective: The tax expenditure fulfills the stated purpose. If the tax expenditure is designed to alter behavior – for example, economic development incentives intended to increase economic growth – there are indicators the recipients would not have performed the desired actions "but for" the existence of the tax expenditure. Fulfills stated purpose Passes "but for" test	?	There are no stated purposes, goals, or targets with which to measure effectiveness or efficiency.
Efficient: The tax expenditure is the most cost-effective way to achieve the desired results.	?	
Key: ✓ Met ✗ Not Met ? Unclear		

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