

BILL ANALYSIS AND FISCAL IMPACT REPORT
Taxation and Revenue Department

February 7, 2025

Bill: HB-176

Sponsor: Representatives Harlan Vincent, Luis M. Terrazas and Rebecca Dow

Short Title: Backup Power Generation Tax Credit

Description: This bill adds a new section to the Income Tax Act creating the backup power generator income tax credit for a taxpayer who purchases and permanently installs a backup power generator in New Mexico. The amount of the credit is equal to fifty percent of the purchase and installation costs of the backup power generator. A taxpayer must apply for certification of eligibility from the Energy, Minerals and Natural Resources Department (EMNRD). Only one credit shall be certified per taxpayer and the annual aggregate amount of credits that may be certified in a calendar year is \$5 million. Any credit that exceeds a taxpayer's liability shall be refunded to the taxpayer. The credit applies to taxable years prior to January 1, 2035.

Effective Date: Not specified; 90 days following adjournment (June 20, 2025). Applicable to taxable years beginning on or after January 1, 2025. Delayed repeal effective January 1, 2035.

Taxation and Revenue Department Analyst: Pedro Clavijo

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2025	FY2026	FY2027	FY2028	FY2029		
--	(up to 5,000)	(up to 5,000)	(up to 5,000)	(up to 5,000)	R	General Fund

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

Methodology for Estimated Revenue Impact: On average, installing a standby generator costs between \$800 and \$1,000 per kilowatt (kW) of power. This implies that the installation cost of a 150kW generator, a standard home generator size, would be around \$135,000 on top of the \$38,000 price. Cheaper options might cost \$12,000, including the price and installation. The U.S. generator market supplies a variety of types (gasoline generator, diesel generator, other), applications (commercial, residential), and power that makes it difficult for the Taxation and Revenue Department (Tax & Rev) to estimate a precise fiscal impact. Given the credit is refundable, Tax & Rev assumes the impact could reach the annual aggregate cap of \$5 million.

Policy Issues: Tax incentives can support specific industries or promote desired social and economic actions, but the proliferation of more tax incentives has two primary effects. First, it creates special treatment and exceptions within the tax code, resulting in an expansion of tax expenditures and potentially narrowing the tax base. This, in turn, has a negative impact on the general fund, affecting overall revenue; Second, it imposes a heavier compliance burden on both taxpayers and Tax & Rev. The proliferation of tax incentives and the subsequent complexity they introduce do not align with the principles of sound tax policy. While tax incentives can serve a purpose, it is crucial to strike a balance that ensures fairness, simplicity, and effectiveness in the tax system.

The U.S. generator sales market was valued at \$6.10 billion in 2023 and is projected to reach \$6.43 billion in 2024 and \$10.26 billion by 2032. This growth is driven by frequent power outages due to ageing infrastructure and natural disasters.¹ Given recent episodes of wildfires and floods and the fact that New

¹ <https://www.fortunebusinessinsights.com/u-s-generator-sales-market-106160>

Mexico is vulnerable to those natural hazards, an increase in the demand for generators might be expected.² Seasonality and the upsurge of summer temperatures could also lead taxpayers to purchase backup generators to prevent power outages. Hence, the tax credit might help taxpayers to cover part of the associated cost of purchasing a generator. The broader question of subsidizing these purchases for an industry already forecast to grow and for consumers that are purchasing generators without incentives may need to be considered.

Technical Issues: Subsection C, page 2, line 9: This subsection states that “only one tax credit shall be certified per taxpayer.” This can be interpreted to be any tax credit. If this is intended for one backup generator tax credit that can be issued per taxpayer, it is recommended that the language identified is replaced with: “only one backup power generator income tax credit shall be certified per taxpayer.” This allows taxpayers to claim this credit along with any other tax credits they may be eligible for and claim.

Subsection H, on page 3, lines 23-25, is redundant language as the taxpayer reports their claim to the department as detailed in subsection D, page 3, lines 1-6. Tax & Rev suggests subsection H be deleted.

Other Issues: To enhance process efficiency and reduce internal risk, Tax & Rev suggests inserting the following text in subsection C on page 2, line 22, immediately after the word "claimed": "The Energy Minerals and Natural Resources Department shall regularly provide the department with electronically issued certificates of eligibility at agreed-upon intervals."

Tax & Rev notes that there is no definition of “permanently” installs referenced in subsection A, page 1, line 21. As the definition of “backup power generator” does not include permanent installation, portable recreational vehicle generators may appear to be eligible under the definition. These definitions may need further clarification and definition for EMNRD to certify the taxpayer’s project for eligibility.

Administrative & Compliance Impact: Tax & Rev will need to update forms, instructions, and publications and make information system changes. This implementation will be included in the annual tax year changes.

Tax & Rev’s Administrative Services Division (ASD) will test credit sourcing and perform other systems testing. It is anticipated this work will take approximately 40 hours split between 2 FTE of a pay band 70 and a pay band 80 at a cost of approximately \$2,500.

This bill will have a moderate impact on Tax & Rev’s Information Technology Division (ITD) of approximately 480 hours or 3 months for an estimated staff workload cost of \$31,987.

Estimated Additional Operating Budget Impact*				R or NR**	Fund(s) or Agency Affected
FY2025	FY2026	FY2027	3 Year Total Cost		
--	\$2.5	--	\$2.5	NR	ASD - Operating
--	\$32	--	\$32	NR	ITD - Staff Workload Cost

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