

LFC Requester:

AGENCY BILL ANALYSIS - 2025 REGULAR SESSION

WITHIN 24 HOURS OF BILL POSTING, UPLOAD ANALYSIS TO

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(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: HB506 Original Correction
 Amendment Substitute

Sponsor: <u>Mark Duncan</u> Short Title: <u>HOTEL RENOVATION TAX CREDIT</u>	Agency Name and Code Number: <u>Economic Development Department 41900</u> Person Writing: <u>Daye Kwon</u> Phone: <u>525-946-7291</u> Email: <u>daye.kwon@edd.nm.gov</u>	Art De La Cruz, Luis M. Terrazas, Doreen Y. Gallegos,
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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						

(Parenthesis () Indicate Expenditure Decreases)

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

SECTION III: NARRATIVE

BILL SUMMARY

Synopsis:

House Bill 506 (HB506) creates the hotel renovation income tax credit under the Income Tax Act and the hotel renovation corporate income tax credit under the Corporate Income and Franchise Tax Act.

A taxpayer who is not a dependent of another individual and who incurs qualifying costs for a hotel renovation project from January 1, 2025, to January 1, 2035, may claim the hotel renovation income tax credit against income tax liability. Similarly, a taxpayer who incurs qualifying costs for a hotel renovation project during the same period may claim the hotel renovation corporate income tax credit against corporate income tax liability.

Each credit equals 30 percent of qualifying costs for a hotel with LEED-NC silver certification or 20 percent otherwise. A taxpayer must apply for pre-certification from the Tourism Department before beginning a hotel renovation project. The application must include a project proposal detailing the project, projected costs, expected start and completion dates, and a construction plan with phases, if applicable. If the Tourism Department determines that projected costs are likely to qualify, it issues a pre-certification to the taxpayer; however, pre-certification does not ensure that the actual costs will be approved for the tax credit.

A taxpayer must apply for certification of eligibility from the Tourism Department within one calendar year of project completion, including an affidavit from a certified public accountant verifying that qualifying costs were incurred and meet the requirements. The total amount of each credit certified as eligible is \$30,000,000 per calendar year. If the credit amount exceeds a taxpayer's income tax liability, the excess may be carried forward for five consecutive taxable years.

Concerning the hotel 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 hotel renovation project involves the restoration, renovation, and rehabilitation of at least 40 percent of guest rooms or suites but does not include new construction. LEED-NC silver refers to a rating that meets or exceeds the third-highest level in the LEED certification process for new buildings and major renovations, following the latest guidelines from the United States Green Building Council.

Qualifying costs include planning, designing, construction, and construction-related equipment for the hotel renovation project. The minimum required costs are \$25,000 in

counties with a population of 15,000 or less and \$40,000 in counties with a population over 15,000, based on the most recent federal decennial census. Costs for which a federal new markets tax credit under Section 45D of the Internal Revenue Code has been claimed do not qualify.

The provisions of this act apply to taxable years beginning on or after January 1, 2025.

FISCAL IMPLICATIONS

SIGNIFICANT ISSUES

HB506 can incentivize investment in renovations for outdated, dilapidated, and shuttered hotels throughout the state, not only leading to job creation in the construction and hospitality sectors but could also contribute to the preservation and revitalization of our downtowns and MainStreet Districts. Shuttered hotels and vacant buildings are one of the biggest impediments to downtown revitalization, especially in rural communities where hotel accommodation can be extremely limited. There are also a number of shuttered or outdated historic hotels along I-40/Route 66 that could greatly benefit from renovations leading up to the Route 66 Centennial Celebration that will be drawing countless national and international visitors in 2026. By modernizing accommodation and increasing the number of rooms available to travelers, it can enhance tourism appeal, increase visitor spending, number of nights stayed, local tax revenues, and overall economic activity in the region.

The tax credits, however, may favor larger hotel operators with greater access to capital and a higher tax liability, potentially disadvantaging smaller businesses 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 hotel operators may not have enough tax liability to claim the full benefits of the credit over the allotted five years they have to claim the credit.

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