

Proposal Summary

The proposal creates paired personal and corporate income tax credits of \$10 thousand for each new single-family home developed in New Mexico by a taxpayer who develops at least five, up to a maximum of 100 homes per taxpayer. The construction industries division of the regulation and licensing department would certify eligibility after a certificate of occupancy issues. Each section separately caps annual certifications at \$100 million. Credits are nonrefundable with a five-year carryforward, and the proposal applies to taxable years beginning on or after January 1, 2027, with no sunset.

No purpose statement or supporting analysis accompanied the draft. Staff estimates the proposal would reduce recurring general fund revenue by between \$36.5 million and \$56.3 million a year beginning in FY28, depending on the current makeup of single-family home construction by builder size, not known at the writing of this analysis. The credit carries no affordability condition, no sales-price limit and no buyer income test.

Issues

What Qualifies. Any new single-family home counts. The draft sets no limit on sales price, requires no affordability restriction, and imposes no condition on who buys the home or at what income. The only tests are that the taxpayer develop at least five homes, that a certificate of occupancy issue, and that the division certify eligibility.

Caps. Each section caps certifications at \$100 million a year, and the two caps are stated separately rather than shared, so the proposal authorizes \$200 million a year in total. At \$10 thousand a home, the cap would support 20 thousand single-family homes each year. New Mexico is permitting roughly 6 thousand single-family units in a year. The spending authority is more than the single-family home output of the state before any eligibility screen is applied. A cap set so far above current construction volumes is not likely to act as a fiscal control with volatility and credit cost exposure reliant on construction volume.

Five-Home Minimum and Hundred-Home Maximum. The five-home minimum excludes owner-builders, custom builders and small contractors, who may account for a meaningful share of New Mexico single-family construction. The hundred-home maximum limits the benefit from the largest production builders in the state, likely concentrated in the Albuquerque metropolitan area, whose homes above 100 earn nothing. Together the caps aim the credit benefit at mid-sized production builders.

Single-Family Home Development

Sponsor(s): Rep. Henry

**202#: 234728.2,
October 15, 2026**

One-Year Cost
\$36.5 M to \$56.3 M
general fund

Five-Year Cost
\$182.4 M to \$281.3 M general
fund

Impact by Fund (in millions)

Fund	1 Year	5 Year
Total General Fund	(\$36.5 M) to (\$56.3 M)	(\$182.4 M) to (\$281.3 M)

Additionality and “But For”. Because the credit attaches to completion rather than to any decision to build on the margin, the credit is paid on every qualifying home whether or not the subsidy changed the decision to build. At a New Mexico median new-home price, \$10 thousand may not be a deciding factor on making a previously unprofitable project, profitable and inducing a new construction. Furthermore, the market already creates construction of thousands of homes that the credit would apply to, therefore most of the cost of the credit will fall on construction that would have occurred anyway.

Comparison to Approved Guidelines

Eligible taxpayers and activities are clearly identified: a developer of at least five new single-family homes in New Mexico, certified after a certificate of occupancy. The draft also requires the credit to appear in the tax expenditure budget with its annual aggregate cost and claims, and requires the taxpayer to claim it in a manner prescribed by the department, which gives partial reporting.

Some findings that do not meet the committee guidelines include efficient targeting, setting of outcomes, and delayed repeal dates. First, the proposal does not limit benefits to what is necessary to achieve a purpose: no requirement for inducement of new construction, no price ceiling, affordability requirement or buyer income test, the credit subsidizes existing, market-rate, and high-end construction on the same terms as housing that addresses the state's shortage or affordability needs. Second, the expenditure caps are present in form but cannot bind in substance. Third, there is no sunset or delayed repeal, so the credit would run indefinitely without review of effectiveness.

Against the committee's tax principles, the proposal is simple and administrable, and the certification trigger is well constructed. The tension is with efficiency as a subsidy paid on output that would occur anyway is a low return per dollar, and the committee's guidelines ask that incentives prioritize the highest return and lowest cost per intended behavior.

1	Clearly Stated Purpose	Does the proposal identify the problem to be solved?	
		Does it explain why a tax policy change is the right solution?	
		If an economic development incentive, is the purpose included in the language of the proposal itself?	N/A
2	Theory of Change or Logic Model	Does the proposal explain how the tax change will achieve the intended outcome?	
		Does it identify the taxpayer behavior it is intended to influence?	
3	Measurable Goals and Targets	Does the proposal identify expected outcomes?	
		Does it identify affected populations or activities?	
		Does it explain how success will be measured?	
4	Fiscal Impact Analysis	Does the proposal estimate the impact on the general fund?	
		Does it estimate the impact on the local government and other funds?	
		Does it identify the impacts as recurring or nonrecurring?	
5	Expiration Date (Sunset)	Does the proposal include a delayed repeal?	
6	Expenditure Cap	If feasible, does the proposal include an annual or aggregate cap on total cost?	
7	Effective Targeting	Does the proposal clearly identify eligible taxpayers or activities?	
		Does it limit benefits to those populations or activities necessary to achieve the state purpose?	
		Does the proposal require sufficient reporting on utilization, cost, and outcomes?	
8	Reporting Requirements	Does it provide for data collection, sharing, and analysis?	
		Does it identify performance measures and targets?	

Fiscal Impacts

Staff estimates the proposal would reduce recurring general fund revenue by between \$17.1 million and \$40.3 million a year beginning in FY28, with a midpoint of approximately \$27.4 million, and by between \$89 million and \$210 million over FY28 through FY32. All amounts are recurring, and the proposal has no sunset. There is no impact on local government funds.

Methodology. The estimate is derived from construction volume and statutory caps. New Mexico single-family building permits are approximately 6,000 a year, and an applied share of homes built by developers of five or more homes was applied. The scenarios span 5 percent to 35 percent for homes lost to taxpayer limits, primarily due to the 5 home minimum as large developers may more easily be able to split construction activity into multiple tax paying entities (form new pass-through entities) to circumvent the 100-home cap.

Utilization is assumed high, between 80 and 95 percent, as this credit is certified only after a home is finished, is simple to claim, and carries a five-year carryforward, leaving little credit amount stranded. The credit is not refundable, however, so a developer with no New Mexico liability in the carryforward window loses it.

The estimate assumes no change in construction volume. If the credit does induce additional building, the cost rises above these figures rather than being offset by them, because the credit is paid on the induced homes as well. Staff was unable to estimate the induced supply for this analysis.

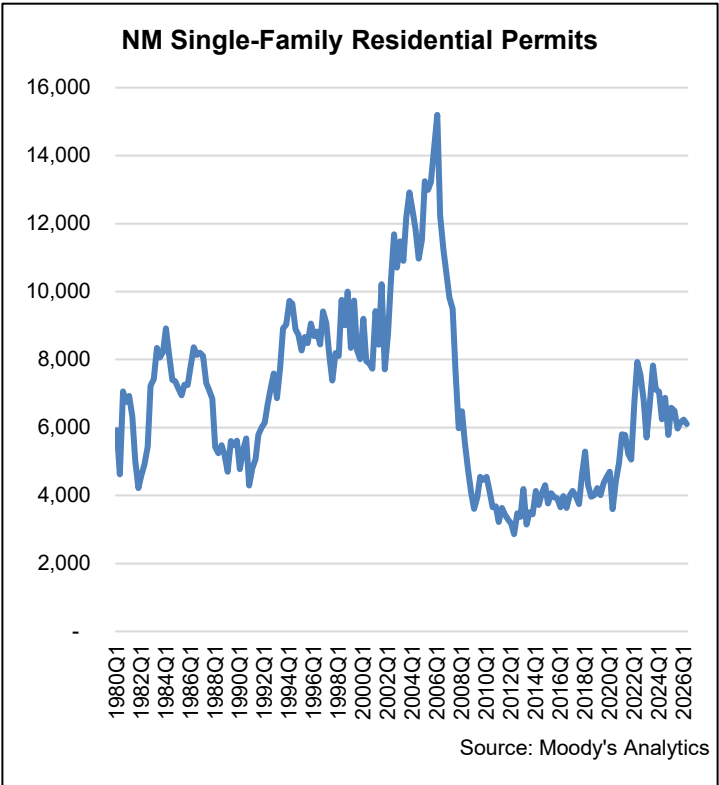
Administrative cost is not estimated. The construction industries division would certify eligibility for several thousand homes a year, a function it does not perform today and one that requires matching certificates of occupancy to developers and tracking cumulative home counts per taxpayer against the hundred-home limit. The department should be asked what this proposal would require.

Other Considerations

New Mexico's housing challenge is one of affordability and aggregate supply. The state added about 62,000 housing units from 2020 to 2026, after a decade in which it authorized only about 4,000 to 5,000 units a year, and the Legislative Finance Committee's September 2026 progress report finds that recent production is generally exceeding the annual number of units needed. Even so, Housing New Mexico's 2026 housing strategy update projects the state will need roughly 58,000 additional units by 2045, about 39,000 for ownership and 19,000 for rental. Shortages are most severe for extremely low-income renters to households earning below 30 percent of area median income. Ownership has also become harder to reach, as a 20 percent down payment on the median New Mexico home is now about \$67,000, up from about \$47,000 in 2020.

The mortgage finance authority's 2025 statewide housing needs assessment identifies New Mexico's shortage as concentrated in affordable and rental housing. An untargeted credit for new single-family construction responds to supply constraints generally rather than a specific need.

The draft contains no expiration date and no delayed repeal. Combined with caps that are not likely to bind, the proposal



may commit the state to an open-ended recurring cost with no scheduled occasion to revisit for effectiveness.

Potential Questions

Purpose and Targeting

- What problem is the credit intended to solve? Increasing total housing supply, lowering prices for buyers, and supporting the construction industry are different objectives that impact how these proposal is deemed effective.
- What evidence exists that can help clarify the additional homes that would be built given the \$10 thousand credit? How many new homes could be built with this credit? What is the cost to the state for each additional unit?
- Why five homes as a floor and one hundred as a ceiling?

Cost Control and Evaluation

- The two \$100 million caps together authorize credits for 20 thousand homes a year against statewide single-family permitting of roughly 6 thousand. Are the caps intended as real limits, and if so should they be set at a level closer to current construction levels?
- Should the two sections share one cap, rather than each carrying its own?
- Should the credit carry a sunset and delayed repeal?
- What would the Legislature need to observe to conclude the credit worked? Housing starts, prices and inventory are already measured; should the proposal require reporting against them?