

Proposal

The proposal creates a new affordable housing revitalization income tax credit under the Affordable Housing Tax Credit Act to support the redevelopment of vacant buildings and lots into housing in New Mexico. Eligibility extends to persons who incur rehabilitation expenses for qualifying revitalization projects and receive investment vouchers from the Mortgage Finance Authority. Eligible persons include individuals, tribal governments, housing authorities, corporations, limited liability companies, partnerships, nonprofit organizations, and qualifying grantees under the Affordable Housing Act. Projects must result in residential housing that meets specified affordability requirements.

The credit equals 30 percent of rehabilitation expenses for properties vacant for more than two years but less than five years, capped at \$1 million per person, or 40 percent for properties vacant five years or longer, capped at \$2 million per person. To qualify, at least 80 percent of residential units must serve households with incomes at or below 85 percent of area median income, adjusted for family size. The proposal requires rehabilitation expenses to fall between 80 and 125 percent of an unspecified amount, leaving the intended cost requirement unclear.

Investment vouchers must be issued or approved by the Mortgage Finance Authority, which must certify project approval to the Taxation and Revenue Department. The bill limits the aggregate amount of revitalization investment vouchers that may be issued or approved statewide to \$10 million per calendar year, with no more than \$5 million available for projects in non-rural areas. Rural areas are defined as counties with populations below 50 thousand or municipalities with populations below 25 thousand, according to the most recent federal decennial census.

Credits may be applied against personal income tax, corporate income tax, or modified combined tax liability, which excludes local-option gross receipts taxes and governmental gross receipts taxes but does include state gross receipt taxes. Credits are nonrefundable, may be carried forward for up to five consecutive taxable years, and may be sold or transferred to another person. Provisions in this bill apply to taxable years beginning on or after January 1, 2027. The new credit provision allows applications prior to January 1, 2038.

Issues

Project Eligibility and Targeting. Housing New Mexico estimates that New Mexico needs between 30,000 and 40,000 housing units to address ongoing shortages related to homelessness and housing affordability. This bill seeks to encourage redevelopment of abandoned buildings and previously occupied vacant lots by offsetting a portion of rehabilitation costs through a tax credit.

Affordable Housing Revitalization Tax Credit

Sponsor(s): Rep. Dow

**202#: 234612.3
October 15, 2026**

**One-Year Cost
\$10 M**

**Five-Year Cost
\$50 M**

Impact by Fund

Fund	1 Year	5 Year
General Fund	(\$10.0)	(\$50.0)
Total	(\$10.0)	(\$50.0)

Eligibility does not require a property to be structurally deficient, uninhabitable, blighted, or otherwise unsuitable for occupancy. A previously occupied family property that has remained vacant for the required period could potentially qualify even if it needs only limited repairs. Eligible expenses also include acquisition and related new construction, extending the subsidy beyond rehabilitation of deteriorated buildings. These broad provisions may support a range of housing projects but do not ensure awards are directed to properties facing substantial redevelopment barriers.

The bill permits both single-family and multifamily projects and does not require completed housing to be sold or rented. Consequently, an income-eligible owner could potentially receive a credit for rehabilitating a qualifying vacant property for personal occupancy. Returning vacant housing to use may provide a public benefit, but the proposal does not distinguish between projects providing housing to other households and improvements primarily benefiting the property owner.

Credit Size and Spending Incentives. The credit reimburses a percentage of eligible capital expenditures, with maximum awards of \$1 million or \$2 million per person. Because the award grows with eligible spending until the cap is reached, the structure may encourage higher-cost projects rather than cost-effective rehabilitation. Recipients would still bear a substantial share of expenses, but the subsidy could make discretionary upgrades, excessive project scope, or otherwise imprudent expenditures more financially attractive.

This concern is particularly relevant for owner-occupied projects, where improvements may increase the claimant's personal enjoyment and property value without a corresponding increase in affordable housing available to other households. The bill does not expressly limit awards according to reasonable rehabilitation costs, cost per qualifying unit, demonstrated financing need, or the minimum assistance necessary to complete a project. The provision requiring expenses to fall between 80 and 125 percent of rehabilitation expenses lacks a separate comparison benchmark and does not establish a meaningful cost-control test.

Income Verification and Continuing Affordability. At least 80 percent of developed units must serve households with incomes at or below 85 percent of area median income, adjusted for family size. The bill does not specify when income must be verified, what documentation is required, or how compliance must be monitored. For owner-occupied projects without a sale or lease, there may be no clear transaction at which household eligibility is established. The bill also does not expressly establish rent or sale-price limits, a minimum affordability period, restrictions on subsequent transfers, or repayment requirements if a property ceases to meet program conditions. Income eligibility alone does not ensure housing costs are affordable. Without continuing restrictions, a qualifying property could subsequently be sold, rented at market rates, or converted to another use after the credit is claimed.

MFA's existing voucher program rules provide an administrative foundation through underwriting, documentation, compliance oversight, and land use restriction agreements or acceptable alternatives. Those rules generally establish minimum affordability periods of five years for single-family housing and 10 years for multifamily housing. However, the rules are structured around contributions to approved affordable housing projects. MFA would need to clarify how these protections apply to rehabilitation-expense vouchers, particularly for owner-occupied properties.

Vacancy as a Measure of Redevelopment Need. Vacancy duration does not necessarily indicate physical deterioration or a need for substantial public assistance. Properties may remain vacant because of estate administration, family circumstances, ownership disputes, market conditions, or an owner's decision to hold the property. Some may be habitable or economically feasible to rehabilitate without a subsidy. Conversely, severely distressed properties vacant for less than the required period would not qualify. The vacancy requirement therefore provides an administratively identifiable threshold but is an imperfect measure of redevelopment need. The bill also does not specify documentation sufficient to establish that a property has been unoccupied and non-operational for income-producing purposes. Verification may be particularly difficult for family properties, intermittently occupied homes, and properties lacking

rental or business records.

Incentives to Delay Rehabilitation.

The credit structure could encourage owners to postpone otherwise feasible rehabilitation until a property crosses an eligibility threshold. Properties vacant for more than two years but less than five years qualify for a 30 percent credit, while those vacant for five years or longer qualify for a 40 percent credit and a higher individual cap. An owner approaching either threshold could receive a larger benefit by waiting rather than returning the property to use immediately. This incentive runs counter to the objective of promptly restoring vacant properties to productive use, although carrying costs and lost rental or sale proceeds may offset the benefit of delay.

Rural Allocation and Geographic Targeting.

The bill limits non-rural projects to \$5 million of the \$10 million annual voucher allocation. The bill also reserves a portion of the annual credit availability for rural communities by limiting the share of credits that may be certified for non-rural projects. This structure may help support affordable housing development in areas where construction costs are high relative to market rents and access to traditional financing and subsidies may be more limited. Rural status is determined by county or municipal population thresholds rather than population density, proximity to urban employment centers, infrastructure availability, or local housing market conditions. The allocation may therefore provide uneven treatment of communities with similar development conditions.

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?	  
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 stated purpose?	 
8	Reporting Requirements	Does the proposal require sufficient reporting on utilization, cost, and outcomes? Does it provide for data collection, sharing, and analysis? Does it identify performance measures and targets?	  

Comparison to Approved Guidelines

No supporting proposal or analysis was submitted with the bill draft. The proposal has mixed success meeting the committee's guidelines tax proposals. The draft did not contain a purpose statement; however, it can be easily inferred that the purpose is to encourage the repair and renovation of vacant land and buildings into affordable housing. There is no stated theory of change, goals, or targets. The tax credits do expire after 10 years and are capped annually. While

the draft does specify eligible taxpayers and eligible activities, it does not sufficiently target the tax benefits to derelict properties, to housing creation, or to projects that would not have otherwise occurred.

Although the bill requires basic tax expenditure reporting, evaluation should also track completed and qualifying units, location of projects, cost per unit, leveraged private investment, and whether projects would have proceeded without assistance. These measures would help determine whether the credit produces lasting housing benefits commensurate with its fiscal cost.

Fiscal Impacts

The proposal is expected to reduce general fund revenue by up to \$10 million annually in transferable tax credits, which can be sold or transferred to taxpayers with sufficient tax liability to fully use them. Transferability means the credits are not constrained by the original developer's tax capacity and are, therefore, far more likely to be fully claimed. Revenue losses in an individual fiscal year could exceed \$10 million if credits from multiple annual allocations that were carried forward are claimed in that year. In addition, vouchers approved in a prior calendar year do not count against the issuance limit in the year they are issued.

Other Considerations

Administrative Guardrails. The proposal uses MFA's existing voucher infrastructure but does not establish a complete process for approving projects, verifying expenses, and issuing vouchers, leaving these safeguards largely to rulemaking. Property definitions reference a notice of intent to rehabilitate without specifying how or when it must be submitted. The bill also ties credit claims to certification of project completion but separately requires MFA to certify project approval within 20 days of voucher issuance, leaving the sequence unclear. Establishing minimum procedural requirements in statute would strengthen accountability and give applicants greater certainty about when projects qualify and credits become available.

Potential Questions

- What problem is this tax credit intended to solve?
- What does success look like for this tax credit?
- How does this credit incentivize projects that would not have otherwise occurred?
- Can MFA establish rules for income requirements, including a minimum period the property must be occupied by low-income residents, clawback provisions, enforcement mechanisms, etc.?