

**Bill Analysis and Fiscal Impact Report
Taxation and Revenue Department**

February 11, 2026

Bill:

HCEDC sub. for HB-77

Sponsor:

Representatives Rebecca Dow, Joshua N. Hernandez, and Anita Gonzales and Senator Cindy Nava

Short Title:

Affordable Housing Revitalization Tax Credit

Description:

The *House Commerce and Economic Committee* substitute for HB-77 creates the affordable housing revitalization corporate income tax (CIT) credit. The taxpayer must be pre-certified by the New Mexico Mortgage Finance Authority (MFA). If a taxpayer’s eligible expenses are incurred for rehabilitation of a lot that has been vacant for 2 to 5 years, the credit is 30% of the rehabilitation expenses up to a maximum credit of \$2 million. If the lot has been vacant for more than five years, the credit is 40% of the expenses up to a maximum credit of \$4 million. The taxpayer is eligible for the credit only if at least 80% of the residential housing units developed are affordable housing, and the rehabilitation expenses must be at least 80% but not more than 125% of the estimated expenses reported to MFA in the taxpayer’s application for pre-certification.

The statewide annual cap for the credit is \$100 million, but no more than \$50 million may be certified for developments in non-rural areas. If the statewide cap is met, approved certifications must be considered for the following calendar year. A certificate can be sold, exchanged, or transferred, or carried forward for five taxable years.

The credit is repealed on January 1, 2037.

Effective Date, Applicability, and Contingency Language:

Not specified or 90 days following adjournment (May 20, 2026). Applicability – January 1, 2026. Delayed Repeal – Section 1 January 1, 2038.

Taxation and Revenue Department Analyst:

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Estimated Revenue Impact*

FY26	FY27	FY28	FY29	FY30	Recurring or Non-Recurring	Fund(s) Affected
--	(\$25,000)	(\$32,500)	(\$42,250)	(\$50,000)	R	General Fund

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

Methodology for Estimated Revenue Impact:

The bill creates a new CIT credit for affordable housing revitalization projects. Because this credit is new, there is no claims history to show how many taxpayers will use it or how quickly it will grow. To estimate the revenue impact, the Taxation and Revenue Department (Tax & Rev) uses participation in the existing affordable housing tax credit as a guide for likely taxpayer behavior. A major uncertainty is the potential “market size”—Tax & Rev does not know how many abandoned buildings or long-vacant lots could realistically become revitalization projects under the bill’s rules. The bill also limits eligibility to qualifying Affordable Housing Act grantees and requires that at least 80% of units be affordable housing, which may reduce participation. Because the credit can be, Tax & Rev expects some demand even among organizations that cannot use the full credit themselves. However, given the eligibility limits and program uncertainty in

the early years, Tax & Rev assumes taxpayers will initially use only 25% of the annual credit cap during the outlook period. If more qualifying projects enter the pipeline over time and a stable market develops for buying and selling these credits, Tax & Rev assumes participation increases. Under this growth scenario, the assumed utilization of the credit cap rises to 32.5% in FY2028, 42.25% in FY2029, and reaches 50% starting in FY2030, will increase the revenue impact to the General Fund.

Policy Issues:

The bill aims to stimulate the renovation, development, or redevelopment of long-vacant properties into housing—specifically by encouraging revitalization projects that convert abandoned buildings or vacant lots into single-family or multifamily residential housing, with at least 80% of the housing developed are affordable housing. By incentivizing these projects, the bill will affect the construction industry and related trades and can increase general economic activity, employment, and tax collections through gross receipts, personal income, and other tax bases associated with construction and expanded local economic activity. In addition to direct construction impacts, repurposing vacant buildings and lots into occupied housing may improve surrounding property values, aesthetics and perceptions of safety, supporting local economic growth and community engagement as new residents will increase demand for services and attract complementary private investment.

The residential housing system in the U.S., in general, and in New Mexico in particular, faces several significant challenges when it comes to cost. These challenges are interconnected and impact affordability, accessibility, and the overall stability of the housing market. One of the main drivers of high home prices is the lack of available housing supply. There are not enough homes being built to meet the demand. This is due to a combination of factors, including restrictive zoning laws, a shortage of skilled labor in construction, and rising costs of labor and materials. When supply does not keep up with demand, prices inevitably rise. High home prices are closely tied to increasing rents. Median rents in New Mexico increased by 60% from 2017 to 2024, much more than the 27% recorded for the US overall. The average price of a New Mexico home climbed even faster during that time, increasing by 70%. High prices have forced individuals to live in substandard conditions or face high rental rates that drain their incomes. The limited rental supply has made it even more difficult for low-income and middle-class families to find affordable housing. From 2017 to 2024, homelessness in New Mexico increased by 87%, more than double the nation’s 40% rise. Thus, the proposed credits might help increase the number of units and revert the troubling trend of the housing system across New Mexico.

Since the credit is non-refundable, some taxpayers may not be able to use the full value of the credit in the taxable year it is claimed if they have limited CIT liability, including in years when large projects generate net operating losses to offset tax liabilities. Unused amounts may be carried forward for up to five consecutive taxable years, which can mitigate (but not eliminate) the risk of unused credit. The bill also allows credit certificates to be sold, exchanged, or otherwise transferred for full value, which may increase the likelihood that credits are ultimately monetized by enabling transfer to taxpayers with sufficient liability.

Finally, the credit has fiscal guardrails and a sunset that allows for future review. The bill limits the aggregate amount that may be certified annually, requires inclusion in the tax expenditure budget, applies to taxable years beginning on or after January 1, 2026, and is available for expenses incurred prior to January 1, 2037, with repeal effective January 1, 2038. While such incentives may support construction activity and advance affordable housing goals, they also add complexity to the tax code and increase compliance burdens for taxpayers and administrative burdens for Tax & Rev and the certifying agency.

Technical Issues:

[Section 1] Under subsection E, page 4, the bill does not specify the inclusion of which tax years the certificate is applicable to. Tax & Rev suggests removing the period on line 6 and at the end of line 6 add, “and the taxable years in which the credit may be claimed.”

Under subsection G, page 4, line 14: refers to “income tax liability.” For clarity change to “corporate income tax liability.”

Other Issues:

[Section 1] Page 4, Line 6 - Tax & Rev recommends adding a new sentence on line 6 that reads: “The New Mexico mortgage finance authority shall provide the taxation and revenue department with certificates of eligibility issued pursuant to this section in an electronic format at regularly agreed-upon intervals.”

Under subsection F, page 4, To ensure consistent and auditable transfer tracking, Tax & Rev suggests replacing the sentence that starts on line 9 with “the parties” and ends on line 12, with the following sentence: “The parties to any sale, exchange or transfer of a certificate of eligibility shall notify the taxation and revenue department of the transaction in an electronic format prescribed by the department within ten days of the transfer.”

Administrative & Compliance Impact:

Tax & Rev will update forms, instructions and publications and make information system changes. Staff training to administer the credit will occur. 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 two FTE of a pay band eight and a pay band 10 at a cost of approximately \$2,700. Pay band eight hours are estimated at time and ½ due to extra hours worked required for implementation.

The bill will have a moderate impact on Tax & Rev’s Information Technology Division (ITD), approximately 680 hours or about four months for an estimated staff workload cost of \$47,063. The estimate assumes an electronic data exchange between Tax & Rev and the MFA.

Estimated Additional Operating Budget Impact*

FY26	FY27	FY28	3 Year Total Cost	Recurring or Non-Recurring	Fund(s) or Agency Affected
--	\$2.7	--	\$2.7	NR	ASD – Staff workload
--	\$47.0	--	\$47.0	NR	ITD – Staff workload

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