

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

January 27, 2026

Bill:
HB-113

Sponsor:
Representative John Block

Short Title:
Renewable Energy Production Tax Act

Description:
This bill enacts a renewable energy production tax on electricity generated from renewable energy resources at a rate of 3.75% of the taxable value. The taxable value of electricity generated from renewable energy resources shall be the wholesale value of electricity established by the United States Energy Information Administration (EIA) for the southwest regional wholesale market, calculated on a monthly-average basis. The bill exempts renewably-generated electricity produced by the United States and its agencies, departments or instrumentalities, New Mexico, and its political subdivisions, any Indian nation, tribe or pueblo from the tax. An additional exemption from the tax applies to electricity generated from renewable energy used by the producer, including excess electricity not consumed by the producer that does not exceed 500 kilowatt-hours in 24 hour period. The tax is due the 25th day of the month following the month in which the taxable event occurred. Revenue from the new tax will be distributed to the Severance Tax Permanent Fund (STPF)

Effective Date, Applicability, and Contingency Language:
January 1, 2027. Applicable to production of electricity from renewable energy resources beginning on or after January 1, 2027.

Taxation and Revenue Department Analyst:
Sara Grubbs

Estimated Revenue Impact*

FY26	FY27	FY28	FY29	FY30	Recurring or Non-Recurring	Fund(s) Affected
--	\$27,450	\$56,500	\$58,100	\$59,800	R	Severance Tax Permanent Fund

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

Methodology for Estimated Revenue Impact:
To estimate the fiscal impact of the proposed bill, the Taxation and Revenue Department (Tax & Rev) used annual state data on net electricity generation by source, the total amount of electricity sold by megawatt-hour, and total revenue for electricity generation provided by the EIA.

Using the percentage of net generation of small-scale solar photovoltaic to total renewable energy generation in New Mexico, Tax & Rev assumes that 4% of the total renewable electricity is exempt from the tax ¹. Because 51% of New Mexico’s electricity generation is from renewable energy, of which 4% of the production is exempt, this results in 47% of New Mexico’s energy generation being subject to the tax².

¹ U.S. EIA, Electricity Data Browser, Net generation for all sectors, New Mexico, All fuels, Conventional hydroelectric, Other renewables (total), Small-scale solar photovoltaic, Annual, 2001-2024.

² Ibid.

To determine the taxable value of electricity in this bill, Tax & Rev uses electricity revenue as a proxy for taxable value. The average annual revenue growth is calculated at 2.89% based on the EIA's renewable energy electricity revenue in New Mexico from 2011 to 2024. Using this growth rate, Tax & Rev projected revenues through FY2030. The 3.75% tax rate was then applied. For FY2027, the estimated revenue impact is for a half-year, as the bill's effective date is January 1, 2027.

Policy Issues:

Since 2010, more than 2,500 megawatts of the state's coal-fired electric generating capacity have been retired. As coal-fired generation has declined, natural gas, wind, and solar resources have increased as a share of the state's electric generating capacity. Currently, in New Mexico, wind is the largest source of electricity, natural gas is the second largest source, followed by coal³.

All planned additions to New Mexico's electricity-generating capacity are focused on solar photovoltaic, wind, natural gas, and battery storage installations⁴. In 2023 and 2024, wind power accounted for approximately 38% of New Mexico's in-state electricity generation, about twice its share in 2020⁵.

In 2024, renewable energy resources supplied approximately 51% of New Mexico's in-state electricity generation, representing an increase of about 10 percentage points from 2023. The majority of this increase was attributable to growth in utility-scale solar power generation⁶.

According to the Solar Energy Industries Association, New Mexico ranks 14th in solar installations and has sufficient installed solar capacity to power more than 980,000 homes⁷. Another 1,500 megawatts of solar power capacity and related battery energy storage are scheduled to come online in the state by 2028⁸.

This proposed tax conflicts with the intent of several existing tax incentives, including the following:

- Renewable energy production tax credit
- 2021 Sustainable Building Tax Credit
- Advanced Energy Equipment Tax Credit
- Alternative Energy Product Manufacturers Tax Credit
- Agricultural Biomass Tax Credit
- Geothermal Electricity Generation Credit
- Geothermal Ground-Coupled Heat Pump Credit
- New Solar Market Tax Credit

Taxing renewable energy production while offering tax incentives is counter to the equity and efficiency principles of tax policy. "Efficiency denotes whether policies benefit economic growth. Tax policy experts agree that all taxes potentially affect or distort economic behavior by making certain economic choices more or less attractive, and these effects on the economy are complicated. Removing renewable energy tax incentives suggests a policy shift regarding the role of tax incentives in supporting renewable energy generation.

³ U.S. EIA, Electricity Data Browser, Net generation for all sectors, New Mexico, All fuels, Conventional hydroelectric, Other renewables (total), Small-scale solar photovoltaic, Annual, 2001-2024.

⁴ U.S. EIA, Electricity, Preliminary Monthly Electric Generator Inventory (based on Form EIA-860M as a supplement to Form EIA-860), Inventory of Planned Generators as of November 2025.

⁵ U.S. EIA, Electricity Data Browser, Net generation for all sectors, New Mexico, All fuels, Conventional hydroelectric, Other renewables (total), Small-scale solar photovoltaic, Annual, 2001-2024.

⁶ Ibid.

⁷ <https://seia.org/state-solar-policy/new-mexico-solar/>

⁸ U.S. EIA, Electricity, Preliminary Monthly Electric Generator Inventory (based on Form EIA-860M as a supplement to Form EIA-860), Inventory of Planned Generators as of November 2025.

It is clear that providing incentives for the production and use of renewable energy while also taxing such production is poor tax policy, leading to confusion for taxpayers and administrators.

Tax & Rev cautions on the proliferation of tax programs aimed at one activity, as this results in a more complicated and burdensome tax structure. This issue is, in part, demonstrated by the nearly \$4 million Tax & Rev implementation cost of this bill identified under Administrative & Compliance Impact, below.

A tax on electricity produced from renewable sources in New Mexico could potentially have adverse effects on electricity production and the state's ability to achieve the goals set in Governor's Executive Order 2019-003. More specifically, the proposed tax could negatively impact New Mexico's renewable energy sector, and the goals outlined in the executive order:

1. **Renewable energy investment:** Taxes on renewable electricity production may discourage investment in new renewable energy projects and may conflict against existing incentives, creating confusion among taxpayers. This could impede the development of additional renewable energy capacity needed to achieve the targets set in the executive order. Without sufficient investment, it could be challenging to expand renewable electricity production and meet the renewable energy goals within the specified timeline.
2. **Renewable energy affordability:** Taxes on renewable electricity could lead to increased costs for consumers. This could make renewable energy less financially viable for households and businesses, potentially reducing demand for renewable electricity. Affordability plays a crucial role in promoting the adoption of renewable energy sources, and any additional taxes on renewable electricity could hinder the affordability aspect.
3. **Market competitiveness:** New Mexico's executive order outlines the goal of achieving a carbon-free electricity grid by 2045. To meet this objective, the state may need to export excess renewable electricity to neighboring regions or states. However, if a tax is imposed on renewable electricity, it could reduce the competitiveness of New Mexico's renewable energy exports. This could limit the state's ability to expand renewable energy production and hinder its progress toward a carbon-free grid.
4. **Economic impact:** The renewable energy sector in New Mexico has been an essential driver of economic growth and job creation. Imposing a tax on renewable electricity could negatively impact the industry, potentially leading to job losses and reduced economic activity. This could hinder the state's ability to achieve the economic and job creation goals outlined in the executive order.

Technical Issues:

[Section 2] The definition of “renewable energy resources” on page 2, lines 5-11, is broadly consistent with the definition of that term in the Renewable Energy Act, Section 62-16-3 NMSA 1978. However, to make the definitions consistent, Tax & Rev recommends adding the words, “not to exceed eight inches” after the words, “small diameter timber” on page 2, line 8, and possibly using the complete definition from the Renewable Energy Act for this definition.

[Section 3] Section 3(B) on page 2 states that “the taxable value for electricity generated from renewable energy resources shall be the wholesale value of electricity established by the United States energy information administration for the southwest regional wholesale market. The taxable event occurs when the electricity is generated.” Palo Verde, located in Arizona, is the electricity hub for the southwest regional wholesale market⁹. The taxable event occurs when the electricity is generated, which may not correlate with

⁹ <https://www.eia.gov/electricity/wholesale/>

the Palo Verde price. For example, wind or solar electricity generation occurs at the windmill or at the solar panel for photovoltaics (PV)¹⁰. The wholesale price under these circumstances may not reflect the southwest regional wholesale market price.

Tax & Rev suggests replacing Section 3(B) with “The taxable value for electricity generated from renewable energy resources shall be the value at the point of first sale”.

Other Issues:

Electricity is considered tangible personal property for the purposes of gross receipts tax. The renewable energy production tax would be an additional excise tax on top of gross receipts taxes.

Administrative & Compliance Impact:

This bill proposes implementing a new excise tax. Tax & Rev will create and publish new forms and publications, update information systems, and draft new regulations. Tax & Rev will need to test system changes and train employees on the administration of the proposed tax act.

For Tax & Rev’s Information Technology Division (ITD) implementation of this bill will have a high impact, requiring approximately nine-12 months and approximately \$3,498,226 (\$3,210,313 contractual resources and \$287,914 staff workload costs).

Due to the nature and complexity of the effort required to implement the proposed changes, a contract with the GenTax vendor, FAST Enterprises, LLC is required. The estimate for FAST to implement this bill is estimated at \$2,704,688. In addition to the contract with FAST, a full-time contract project manager will be required at a cost of approximately \$213,779. Due to the nature of this implementation, Independent Verification and Validation (IV&V) services would also be required, at a cost of approximately \$22,087. Further, one state development resource and one state business analyst (FTEs) would be needed for the duration of the project at which is estimated at \$287,914 of staff workload costs.

For Tax & Rev’s Administrative Services Division (ASD), this bill will require ASD to collaborate with ITD to implement and test this new tax. The estimated time to implement this tax is 560 hours (14 weeks half-time) for a dedicated Subject Matter Expert (SME). The SME and 560 hours are for a pay band level 10. Business Testing and end-to-end testing would require an additional 120 hours at a pay band level eight. Pay band eight costs are presented at time and a half. ASD will request one additional FTE to process this new tax program on an on-going basis at a pay band level eight.

For Tax & Rev’s Revenue Processing Division (RPD), this bill will have a moderate impact. SMEs will require approximately 680 hours or about 4 months for an estimated staff workload cost of \$44,200.

Estimated Additional Operating Budget Impact*

FY26	FY27	FY28	3 Year Total Cost	Recurring or Non-Recurring	Fund(s) or Agency Affected
--	\$43.1	--	\$43.1	NR	ASD – Staff workload
--	--	\$105.7	\$105.7	R	ASD – 1.0 FTE
\$802.6	\$2,407.7	--	\$3,210.3	NR	ITD - Contractual
\$71.9	\$215.9	--	\$287.8	NR	ITD – Staff workload

¹⁰ <https://www.energy.gov/eere/wind/how-do-wind-turbines-work>; <https://www.energy.gov/eere/solar/how-does-solar-work>

--	\$8	--	\$8	NR	RPD – Cost to add new program to Remittance software
--	\$44	--	\$44	NR	RPD – Staff workload

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

Related Bills:

Similar to HB-45 (2025 Regular Session)