

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

January 26, 2026

Bill:
SB-55

Sponsor:
Senator Mimi Stewart and Representative Reena Szcepanski

Short Title:
Solar Market Income Tax Credit

Description:
This bill amends the new solar market development tax credit from 10% to 30% of the purchase and installation costs and increases the credit cap on individual taxpayers per year from \$6,000 to \$15,000. It also removes the requirement that a taxpayer must apply with the Taxation and Revenue Department (Tax & Rev) within 12 months after certification from the Energy, Minerals and Natural Resources Department (EMNRD).

Effective Date, Applicability, and Contingency Language:
Not specified or 90 days following adjournment (May 20, 2026). Applicability – The provisions of this act apply to taxable year beginning on or after January 1, 2026.

Taxation and Revenue Department Analyst:
Sara Grubbs

Estimated Revenue Impact*

FY26	FY27	FY28	FY29	FY30	Recurring or Non-Recurring	Fund(s) Affected
--	(\$9,000)	(\$9,000)	(\$9,000)	(\$9,000)	R	General Fund

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

Methodology for Estimated Revenue Impact:

From FY2021 to FY2025, the average tax credit per taxpayer for the new solar market tax credit was \$2,533. This amount is associated with a tax credit that is 10% of the purchase and installation of a solar thermal or photovoltaic system. This bill proposes to increase the credit from 10% to 30%. With a 30% credit, the average credit amount increases to an estimated at \$7,600, a difference of \$5,067. At the 30% level, the average new solar market tax credit is under the new proposed individual cap of \$15,000.

In FY2025, there were approximately 3,430 new solar market tax credit claims¹. Historically, this tax credit has been used in conjunction with federal clean energy tax credits. Federal H.R. 1 repealed the federal clean energy tax credit and as of December 31, 2025, so these federal tax credits are no longer available². Tax & Rev assumes the number of claims will remain constant as the credit increase may offset, in part, the loss of the federal credit. Tax & Rev also assumes the average tax credit amount remains constant, due to current market pricing and subsidy volatility. At an incremental increase of \$5,067 per claim for 3,430 taxpayers, Tax & Rev calculates an annual fiscal impact of over \$17 million.

Tax & Rev also assumes that eligible taxpayers will claim the credit in the tax year of the purchase and installation of a solar thermal or photovoltaic system.

¹ Tax & Rev has omitted previous tax years in the calculation due to a one-time increase in the aggregate cap of \$20 million only applicable to tax years 2020 through 2023.

² <https://www.irs.gov/credits-deductions/residential-clean-energy-credit>

Policy Issues:

Personal income tax (PIT) represents a consistent source of revenue for many states. For New Mexico, PIT is approximately 16% of the state’s recurring General Fund revenue. While this revenue source is susceptible to economic downturns, it is also positively responsive to economic expansions. New Mexico is one of 41 states, along with the District of Columbia, that impose a broad-based PIT (New Hampshire and Washington do not tax wage and salary income). Like several states, New Mexico computes its income tax based on the federal definition of “adjusted gross income” and ties to other statutes in the federal tax code. This is referred to as “conformity” to the federal tax code. The PIT is an important tax policy tool that has the potential to further both horizontal equity by ensuring the same statutes apply to all taxpayers, and vertical equity, by ensuring the tax burden is based on taxpayers’ ability to pay.

While tax incentives can support specific industries or promote desired social and economic behaviors, the growing number of such incentives complicates the tax code. Introducing more tax incentives has two main consequences: (1) it creates special treatment and exceptions within the code, leading to increased tax expenditures and a narrower tax base, which negatively impacts the General Fund; and (2) it imposes a heavier compliance burden on both taxpayers and Tax & Rev. Increasing complexity and exceptions in the tax code is generally not in line with sound tax policy.

The broader question of subsidizing solar energy involves several economic considerations, including job creation, impacts on established energy markets, and environmental stewardship A tax credit is a form of tax expenditure that provides preferential tax treatment to certain taxpayers. Some economists argue that energy prices should reflect the full environmental costs and benefits associated with energy production and use. Because solar energy can be capital-intensive at start-up but has relatively low environmental and health impacts, tax incentives are often justified to account for these broader social benefits. Over the long term, the environmental, health, and social benefits of solar energy are expected to outweigh the short-term revenue costs. In addition, solar energy development supports job creation, including positions such as solar photovoltaic installers, engineers, and project managers.

The credit has a defined sunset date of January 2032. Tax & Rev supports sunset dates for policymakers to review the impact of tax expenditures before extending them.

Technical Issues:

None.

Other Issues:

None.

Administrative & Compliance Impact:

Tax & Rev will update forms, instructions and publications and make information system changes. This implementation will be included in the annual tax year changes.

This bill will have low impact on Tax & Rev’s Administrative Services Division (ASD). The testing effort will consist of 40 hours with one existing FTE at a pay-band level 10.

Estimated Additional Operating Budget Impact*

FY26	FY27	FY28	3 Year Total Cost	Recurring or Non-Recurring	Fund(s) or Agency Affected
--	\$2.4	--	\$2.4	NR	ASD – Staff workload

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

Related Bills:

Relates to SB-121 (2024 Regular Session), SB-211 (2025 Regular Session)