FISCAL IMPACT REPORT

BILL NUMBER: CS/House Bill 27/HCEDCS
SHORT TITLE: Technology Jobs R&D Tax Credit Expansion

SPONSOR: HCEDC
LAST UPDATE: **ORIGINAL DATE:** 2/2/2026 **ANALYST:** Gray/Torres

REVENUE*
(dollars in thousands)

Type	FY26	FY27	FY28	FY29	FY30	Recurring or Nonrecurring	Fund Affected
GRT	$0.0	($34,100.0) to ($70,680.0)	($25,400.0) to ($61,980.0)	($16,100.0) to ($52,680.0)	($16,450.0) to ($29,450.0)	Recurring	General Fund

Parentheses indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files

Agency or Agencies That Were Asked for Analysis but did not Respond
Taxation and Revenue Department
Economic Development Department
State Ethics Commission
New Mexico Attorney General

SUMMARY

Synopsis of HCEDC Substitute for House Bill 27

The House Commerce and Economic Development Committee substitute for House Bill 27 (HB27/HCEDCS) amends the Technology Jobs and Research and Development Tax Credit Act to expand the definition of "qualified expenditure" to include expenditures for property owned by a municipality or county when used in connection with an industrial revenue bond (IRB) project. Under current law, expenditures for property owned by a municipality or county in an IRB project are explicitly excluded from eligibility. The bill removes that exclusion, allowing taxpayers participating in IRB-financed projects to claim technology jobs and research and development (R&D) tax credits for qualifying expenditures associated with publicly owned property. The bill provides that only IRB beneficiaries whose IRBs were approved after January 1, 2025, are eligible for the credit.

In New Mexico, IRBs are a device to eliminate a company's property and gross receipts tax obligations. This is accomplished by putting the ownership of development in the name of a public entity. The bonds issued by the entity to finance construction, improvements, or other

expenditures are all purchased by the company that will occupy the development. The lease payments made by the company go to pay off the bonds.

In addition to allowing IRB projects, the bill

- increases the credit's carryforward provision from three years to seven years, increasing the credit amount that can be claimed by businesses, and
- adds a transferability provision, meaning that a business that previously did not have enough tax liability to claim the credit can now sell their credit to other businesses with New Mexico tax liability.

The bill makes national laboratories ineligible to claim the credit.

The provisions of the bill are applicable to tax years beginning 2026.

FISCAL IMPLICATIONS

The bill is expected to reduce general fund revenue in FY27 by at least $34.1 million and up to $77.1 million.

This analysis provides a lower and upper bound of fiscal impacts given the major shift in tax policy contemplated by HB27/HCEDCS. For the lower bound estimate, this analysis estimates the impact of extending the credit's benefits to current IRB recipients, and to two large IRB beneficiaries: Intel Corporation and Pacific Fusion. The lower bound estimate is summarized in table 1.

For the upper bound estimate, this analysis includes the lower bound components and adds the impact of new "induced" IRB activity, and the impact of providing expanding the credit to current IRB beneficiaries. See "Significant Issues" for why this analysis assumes the January 1, 2025, applicability provision will not impact the fiscal impact. The upper bound estimate is summarized in table 2.

Detailed methodology for each component is provided below.

Table 1. Lower Bound Recurring General Fund Revenue Impact by Component
(dollars in thousands)

	Project/ Estimate Component	FY27	FY28	FY29	FY30
1	Pacific fusion	$20,500	$11,600	$2,200	$2,250
2	Intel	$13,600	$13,800	$13,900	$14,200
3	**Total**	**$34,100**	**$25,400**	**$16,100**	**$16,450**

Table 2. Upper Bound Recurring General Fund Revenue Impact by Component
(dollars in thousands)

	Project/ Estimate Component	FY27	FY28	FY29	FY30
1	Current beneficiaries	$8,280	$8,280	$8,280	$0
2	New IRBs	$2,800	$2,800	$2,800	$2,800
3	Current IRBs	$25,500	$25,500	$25,500	$10,200
4	Pacific fusion	$20,500	$11,600	$2,200	$2,250
5	Intel	$13,600	$13,800	$13,900	$14,200
6	**Total**	**$70,680**	**$61,980**	**$52,680**	**$29,450**

Lower Bound Estimate Methods

New IRBs. This analysis estimates the cost for projects associated with industrial revenue bonds (IRBs). Capital investment, spending, and payroll data from a sample of recent IRBs suggest that the average IRB project could increase expenditures by about $4.2 million for each new IRB.[1] It is assumed each year there will be 10 new IRBs approved by local governments, and that 6.6 percent—twice the share of eligible R&D spending in the economy—will utilize the increased credit benefit.

Pacific Fusion. Pacific Fusion, a commercial energy company developing magnetic fusion technology, announced a large research and manufacturing campus in Albuquerque in 2025. The company will receive tax relief on its facilities pursuant to an IRB. Based on public filings, this analysis estimates that Pacific Fusion will have increased its payroll to $35 million by 2028 and will conduct $776 million in construction over two years. This analysis assumes that 100 percent of expenditures are eligible for the credit, and that there will be additional operational expenditures on going in 2027 and beyond equal to 25 percent of the payroll costs. While the transferability cap could impact expenditure timing, it is unlikely to impact the overall amount of credit expenditures given the more generous carry forward provisions provided in HB27/HCEDCS.

Pacific Fusion Revenue Impact Estimate (dollars in thousands)					
Calendar Year	2026	2027	2028	2029	2030
Announced payroll expenditures	$11,119	$25,282	$35,726	$35,366	$36,073
Announced construction expenditures	$388,300	$388,300	$0	$0	$0
Operational expenditures	$0	$6,321	$8,931	$8,841	$9,018
All expenditures	$399,419	$419,903	$44,657	$44,207	$45,091
Eligible expenditures share	100%	100%	100%	100%	100%
Base credit	$20,000	$21,000	$2,200	$2,200	$2,300
Fiscal Year	FY27	FY28	FY29	FY30	FY31
Fiscal Year Amount	**$20,500**	**$11,600**	**$2,200**	**$2,250**	**$1,150**

Intel. Intel Corporation, a semiconductor manufacturer located in Rio Rancho, has benefited from tax relief under an IRB since 1980. This analysis assumes existing annual payroll expenses of $284 million, reflecting the reported 3,100 employees earning an average $90,000 annual salary, which would grow by 2 percent annually. This analysis assumes 50 percent of the total expenditures would be eligible. In addition, Intel committed to spending $100 million in annual expenditures pursuant to its 2024 IRB extension. HB27/HCEDCS attempts to disallow projects under IRBs "issued" prior to 2025. This analysis assumes corporations, including Intel, will maximize profits and minimize tax liability and receive the appropriate bond issuance that satisfies the provisions of HB27/HCEDCS because the benefit of receiving new IRB issuance is greater than the cost. See "Significant Issues" for additional discussion for this assumption.

[1] See page 5 for the sample figures.

Intel Revenue Impact Estimate (dollars in thousands)					
Fiscal Year	2026	2027	2028	2029	2030
Payroll expenditures	$284,580	$290,272	$296,077	$301,999	$308,039
Additional expenditures	$100,000	$100,000	$100,000	$100,000	$100,000
Total Expenditures	$384,580	$390,272	$396,077	$401,999	$408,039
Share eligible	50%	50%	50%	50%	50%

Basic credit	$9,600	$9,800	$9,900	$10,000	$10,200
Additional credit	$3,700	$3,800	$3,900	$3,900	$4,000
Total	**$13,300**	**$13,600**	**$13,800**	**$13,900**	**$14,200**

Upper Bound Estimate Methods

In addition to each of the components in the lower bound estimate (table 1), this analysis includes additional components to capture the full array of general fund risks.

Current TJRDC beneficiaries. This analysis first estimates the impact of the carryforward extension and the transferability extension among current technology jobs and research and development credit (TJRDC) claimants. This analysis uses data from the Tax Expenditure Report, the Bureau of Economic Analysis (BEA), and Quarterly Census of Employment and Wages (QCEW) to estimate the distribution of total expenditure amounts among claimants. Currently, refundability is determined based on a sliding scale of expenditure amounts. The bill makes the credit entirely transferable, which is expected to double the expenditure amount for current claimants, equal to $8.3 million in FY27. Given the transferability expiration of December 31, 2028, the analysis assumes this expenditure amount will end beginning FY30.

Average IRBs Cost

This analysis uses IRB materials from five recent IRB announcements, including total capital expenditures, capital deployment timelines, and payroll estimates. These are multiplied by the assumed number of eligible IRB projects to estimate the costs for new and existing IRBs. While the transferability cap could influence expenditure timing, it is unlikely to impact the overall amount of credit expenditures given the more generous carry forward provisions provided in HB27/HCEDCS.

Average IRB Revenue Impact Estimate (dollars in thousands)						
Project	BlueHalo	SolAero	Ebon Solar	Castellion	Array Technologies	Average
IRB Amount	$16,175	$72,600	$942,000	$125,000	$49,500	$241,055
Capital Investments	$33,000	$72,600	$942,000	$101,000	$49,500	$239,620
Capital deployment length	1	4	6	2	2	3
Annual Capital	$33,000	$18,150	$157,000	$50,500	$24,750	$56,680
Annual Payroll	$5,760	$5,580	$12,147	$13,500	$1,785	$7,754
Eligible Share	100%	100%	100%	100%	100%	100%
Estimated basic credit amount	$1,650	$908	$7,850	$2,525	$1,238	$2,834
Estimated additional credit amount	$825	$454	$3,925	$1,263	$619	$1,417
Total credit amount	**$2,475**	**$1,361**	**$11,775**	**$3,788**	**$1,856**	**$4,251**

Definition of research

Statute currently defines "qualified research" as research:

(1) That is undertaken for the purpose of discovering information:
   a. That is technological in nature and
   b. The application of which is intended to be useful in the development of a new or improved business component of the taxpayer; and

(2) Substantially all the activities of which constitute elements of a process of experimentation related to a new or improved function, performance, reliability or quality, but not related to style, taste, or cosmetic or seasonal design factors.

If an R&D expenditure is an allocation of a larger expenditure, then the taxpayer must use the same cost accounting method used in its other business activities. The Taxation and Revenue Department (TRD) does not appear to provide any additional rulemaking regarding this definition, and there is limited case law on the subject. Accordingly, this analysis applies a broad understanding of the types of expenditures that would qualify.

Timing Impact

HB27/HCEDCS changes both the carryforward time period (from three years to seven years) and the refundability allowance, shifting from fully refundable only for small businesses to fully transferable for all businesses until December 31, 2028. In addition to making the credit more generous for larger businesses, these provisions introduce uncertainty to the timing of state expenditures. This analysis assumes that state expenditures will occur shortly after the associated business activity. However, because of the timing uncertainty, costs to the state could stack into a single year, creating significant exposure greater than the annual costs represented in the tables on page one.

SIGNIFICANT ISSUES

According to economic development literature, tax incentives have the lowest return on

investment (ROI) of many economic development investments[2] because they subsidize all eligible businesses, not just those who otherwise would not have chosen to relocate, expand, or continue business in New Mexico. Cost-effective approaches support only those businesses who would not have engaged in a business activity but for an intervention or investment.

This analysis suggests that 99 percent of the expenditure increase associated with HB27/HCEDCS will subsidize businesses already located—or already committed to locating—in New Mexico. Accordingly, HB27/HCEDCS is unlikely to pass the "but for" test, which asks if subsidized activity would not have happened *but for* the subsidy.

New Mexico's existing assets—such as two national laboratories, research universities, and federal funding opportunities—may already make it an attractive location for research and development activity. If companies are likely to invest due to these factors alone, the credit may not be the decisive factor in their decision-making.

HB27/HCEDCS represents a policy shift in the treatment of IRB-financed projects within New Mexico's tax credit framework. IRBs already provide a substantial incentive by allowing projects to avoid property and gross receipts taxation through public ownership. Allowing R&D credits to be claimed on expenditures for publicly owned IRB property layers an additional state tax subsidy onto projects that are already receiving preferential treatment, raising equity and tax-expenditure stacking concerns.

Transferability introduces the secondary market for credits, which may improve liquidity but also increases the likelihood that credits function as an indirect state expense. While transferability can help small or early-stage firms monetize credits, it may also shift the primary beneficiaries toward larger, profitable firms purchasing credits at a discount. This means for every dollar paid by the state through a credit, the impact on the targeted economic activity is less than the dollar paid by the state because the target group sells the benefit at a discount. This reduces the economic efficiency of the public policy intervention and increases the cost greatly.

The seven-year carryforward further amplifies the long-term fiscal exposure of the state by committing future revenue capacity without clear visibility into the volume of credits that may be outstanding at any given time.

Finally, the bill does not include a sunset date or aggregate cap, which limits legislative ability to reassess the credit's effectiveness relative to its fiscal cost.

Tax Expenditure Assessment

In 2025, LFC began a review of economic development tax expenditures to estimate the economic and fiscal impacts of tax deductions and credits. In its review of the technology jobs and research and development tax credit, LFC estimated the economic return on investment (ROI) was 92 percent, meaning for every $1 spent on the credit, the New Mexico economy grows by 92 cents. The estimated annual return in revenue is negative 81 percent, meaning that

[2] For example, Bartik (2022) finds that the cost per job of business tax incentives was an estimate $296 thousand, compared with $97 thousand for infrastructure investments, $54 thousand for customized job training, and $50 thousand for manufacturing extension services.

for every $1 spent, the state forgoes 81 cents and recaptures 19 cents of state tax revenue.

In addition, the assessments consider whether tax expenditures meet LFC tax policy principles. The credit does not have an expenditure cap or an expiration date. While targeting rural businesses may help distressed areas, the credit could be more effective by differentiating based on need, demographics, or economic activity. The credit targets export-based industries.

The report and methodology can be accessed online.

Bonds Issuance Timing

HB27/HCEDCS limits the credit to supporting businesses with IRBs that were issued after January 1, 2025. This raises several issues.

First, this provision is inequitable. Horizontal equity is a core tenet of tax policy that holds that similar taxpayers should be treated similarly under the tax code. The forward applicability provision in HB27/HCEDCS erodes that principle by favoring some businesses over others. For example, on September 16, 2024, the Albuquerque City Council approved a $300 million IRB for Kairos Power, a commercial energy company, whose facility may have qualified for the expanded credit under HB27/HCEDCS. One year later, the Albuquerque City Council approved a $776 million IRB for Pacific Fusion, a commercial energy company, which would qualify for the expanded credit under HB27/HCEDCS. Under the principles of horizontal equity, these two taxpayers should be treated equally. Under HB27/HCEDCS, Kairos Power would not qualify for the TJRDC but Pacific Fusion would.

This also highlights the distortionary impacts of economic development tax incentives. It may be that Kairos Power's activity would not have occurred without the incentive stacking provided by HB27/HCEDCS, while Pacific Fusion's activity would have occurred regardless. It could also be the case that Kairos Power will eventually produce a larger economic benefit than Pacific Fusion, and that the state investment should be targeted toward IRBs created *before* 2025, not *after.*

Instead of distorting market dynamics and decreasing overall economic efficiency, the economic development literature suggests that New Mexico should focus investment on infrastructure, education, and training and ensure that government does not pick winners and losers but benefits all taxpayers equally.

Second, the provision is unlikely to constrain activity. In 2024, Intel extended its lease agreement with Sandoval County through 2034 to ensure that the IRB issued in 2004 would continue. Instead, the county could have chosen to simply issue a new IRB to ensure that Intel would benefit from HB27/HCEDCS's incentive stacking provision. On enactment of this legislation, Intel could choose to modify and receive new IRB issuance. While the corporation would take on additional costs, the benefits would be significantly greater. This analysis assumes that all businesses are profit maximizers and would pursue additional, new, or updated IRB issuance that would satisfy the requirements of HB27/HCEDCS to minimize tax liability. Accordingly, the 2025 applicability provision is not expected to reduce general fund risks to the state.

Transferability Cap

While agency analysis for the HCEDC substitute for HB27 has not been received, this analysis notes that the transferability cap may present administrative issues. Page 7 line 8 provides that a taxpayer shall apply for the credit within one year following the reporting period in which the expenditure was made. Page 7, line 14, provides that TRD shall issue a certificate "for the appropriate taxable year," and that the certificate shall declare its "date of issuance." The bill goes on to limit transferability to tax years from January 1, 2026, to December 31, 2028, on page 7, lines 18 and 19. It is unclear whether the transferability time limit (page 7, line 18 and 19) applies to the "appropriate taxable year" (page 7, line 14) or the "date of issuance" (page 7, line 14). This may be updated on receipt of agency analysis.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

The original bill duplicated Senate Bill 97.

OTHER SUBSTANTIVE ISSUES

In assessing all tax legislation, LFC staff considers whether the proposal is aligned with committee-adopted tax policy principles. Those five principles:

- **Adequacy**: Revenue should be adequate to fund needed government services.
- **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
- **Equity**: Different taxpayers should be treated fairly.
- **Simplicity**: Collection should be simple and easily understood.
- **Accountability**: Preferences should be easy to monitor and evaluate.

In addition, staff reviews whether the bill meets principles specific to tax expenditures. Those policies and how this bill addresses those issues:

Tax Expenditure Policy Principle	Met?	Comments
Vetted: The proposed new or expanded tax expenditure was vetted through interim legislative committees, such as LFC and the Revenue Stabilization and Tax Policy Committee, to review fiscal, legal, and general policy parameters.	✗	**No records were found indicating the bill meets the vetted standard.**
Targeted: The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals. Clearly stated purpose Long-term goals Measurable targets	✓	
Transparent: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies	✓	
Accountable: The required reporting allows for analysis by members of the public to determine progress toward annual targets and determination of effectiveness and efficiency. The tax expenditure is set to expire unless legislative action is taken to review the tax expenditure and extend the expiration date. Public analysis Expiration date	✗	The bill lacks an expiration date.

Effective: The tax expenditure fulfills the stated purpose. If the tax expenditure is designed to alter behavior – for example, economic development incentives intended to increase economic growth – there are indicators the recipients would not have performed the desired actions "but for" the existence of the tax expenditure. Fulfills stated purpose Passes "but for" test	 ? ✘	The 2025 LFC tax expenditure assessment on the credit found it had met the stated purpose, but it is unclear whether or to what extent the extension fulfills the stated purpose or passes the but for test.
Efficient: The tax expenditure is the most cost-effective way to achieve the desired results.	?	
Key: ✓ Met ✘ Not Met ? Unclear		

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