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FISCAL IMPACT REPORT

BILL NUMBER: Senate Bill 55

SHORT TITLE: Solar Market Income Tax Credit

SPONSOR: Sen. Stewart/Rep. Szczepanski

LAST UPDATE: ______ **ORIGINAL DATE:** 1/26/2026 **ANALYST:** Faubion

REVENUE*
(dollars in thousands)

Type	FY26	FY27	FY28	FY29	FY30	Recurring or Nonrecurring	Fund Affected
PIT	$0.0	Up to ($21,000.0)	Up to ($21,000.0)	Up to ($21,000.0)	Up to ($21,000.0)	Recurring	General Fund

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

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY26	FY27	FY28	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
TRD	No fiscal impact	$2.4	No fiscal impact	$2.4	Nonrecurring	General Fund
Total	No fiscal impact	$2.4	No fiscal impact	$2.4	Nonrecurring	General Fund

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files
TRD Tax Expenditure Report

Agency or Agencies Providing Analysis
Taxation and Revenue Department

Agency or Agencies That Were Asked for Analysis but did not Respond
Energy, Minerals, and Natural Resources Department

SUMMARY

Synopsis of Senate Bill 55

Senate Bill 55 (SB55) increases the new solar market development income tax credit from 10 percent to 30 percent of the costs of eligible purchase and installation of a solar thermal or photovoltaic system and raises the per-taxpayer annual cap from $6 thousand to $15 thousand. The bill maintains the existing annual aggregate certification cap of $30 million.

The bill applies to taxable years beginning on or after January 1, 2026, and allows the expanded credit only for solar systems purchased and installed on or after March 1, 2026. The credit is available for taxable years ending prior to January 1, 2032.

FISCAL IMPLICATIONS

For fiscal impact purposes, the estimate would reasonably assume the expanded New Mexico credit is more likely to reach the annual certification cap because the bill materially increases the value of the incentive relative to current law and more closely matches the size of the previously available federal benefit. While the existing state credit resulted in only about $9 million claimed in FY25 with roughly 3,500 claims on average over the last three years, the substantially larger level of prior federal participation—about 12,500 federal claims totaling nearly $60 million in tax year 2023—suggests a much larger pool of households and businesses have recently demonstrated demand for a solar incentive at or near a 30 percent credit rate. Because this bill increases the state credit to 30 percent and raises the per-taxpayer cap, the fiscal impact model can assume higher uptake than under the prior, lower-value state credit, including the possibility that demand grows enough for certifications to reach the annual cap as taxpayers and installers respond to the stronger state-level incentive following expiration of the federal residential credit.

TRD estimates the fiscal impact by applying the proposed increase in the credit rate from 10 percent to 30 percent to historical usage patterns. Based on FY2021–FY2025 data, the average credit under current law was $2,533 per taxpayer; TRD estimates this would rise to approximately $7,600 under the proposed 30 percent credit, an incremental increase of $5,067 per claim and still below the new $15,000 per-taxpayer cap. TRD assumes the number of annual claims remains constant at approximately 3,430 taxpayers, reflecting the view that the higher state credit may partially offset the loss of the federal credit repealed under H.R. 1, while assuming average system costs remain stable. Applying the incremental increase to the historical number of claims results in an estimated annual revenue impact of more than $17 million, with credits assumed to be claimed in the tax year in which the system is purchased and installed.

This bill creates or expands a tax expenditure with a cost that is difficult to determine but likely significant. LFC has serious concerns about the substantial risk to state revenues from tax expenditures and the increase in revenue volatility from erosion of the revenue base. The committee recommends the bill adhere to the LFC tax expenditure policy principles for vetting, targeting, and reporting or action be postponed until the implications can be more fully studied.

SIGNIFICANT ISSUES

Under federal law as amended by H.R. 1, the residential federal solar tax credit provides a credit equal to 30 percent of qualified solar installation costs for systems placed in service on or before December 31, 2025, and eliminates the credit for residential installations placed in service after that date. As a result, no federal residential solar tax credit is available for installations occurring in tax years beginning in 2026 or later, increasing the after-tax cost of residential solar investments.

The New Mexico solar market development income tax credit stacked with the federal credit by allowing taxpayers to claim a state income tax credit in addition to any federal benefit for the same qualifying system. Under this bill, the increase in the state credit rate and cap partially

offsets the loss of the federal incentive by reducing state tax liability for solar installations beginning in 2026, thereby preserving a portion of the overall incentive structure that previously existed when both federal and state credits were available.

TRD notes the following policy issues:

> Personal income tax (PIT) represents a consistent source of revenue for many states. For New Mexico, PIT is approximately 16 percent 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 TRD. 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. TRD supports sunset dates for policymakers to review the impact of tax expenditures before extending them.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is met with the bill's requirement to report annually regarding the data compiled from the reports from taxpayers taking the credit and other information to determine whether the credit is meeting its purpose.

ADMINISTRATIVE IMPLICATIONS

TRD 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 TRD's Administrative Services Division (ASD). The testing effort will consist of 40 hours with one existing FTE at a pay-band level 10.

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 record of an interim hearing can be found.
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	?	There is a clear purpose statement but stated goals or targets.
Transparent: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies	✓	The credit is required to be included in the public Tax Expenditure Report. There is a sunset.
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	✓	
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	?	There are no stated goals or targets by which to measure effectiveness or efficiency.
Efficient: The tax expenditure is the most cost-effective way to achieve the desired results.	?	
Key: ✓ Met × Not Met ? Unclear		

JF/rl/dw