F I S C A L   I M P A C T   R E P O R T

		LAST UPDATED	
SPONSOR	Vincent/Terrazas/Dow	**ORIGINAL DATE**	02/05/2025
SHORT TITLE	Backup Power Generation Tax Credit	**BILL NUMBER**	House Bill 176
		ANALYST	Faubion

REVENUE*
(dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
PIT	**$0.0**	**Up to ($5,000.0)**	**Up to ($5,000.0)**	**Up to ($5,000.0)**	**Up to ($5,000.0)**	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	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
EMNRD	**$75.0**	**$0.0**	**$0.0**	**$75.0**	Nonrecurring	**General Fund**
EMNRD	**$75.0**	**$75.0**	**$75.0**	**$225.0**	Recurring	**General Fund**
TRD	**Indeterminate but minimal**	**Indeterminate but minimal**	**$0.0**	**Indeterminate but minimal**	Nonrecurring	**General Fund**
Total	**$150.0**	**$75.0**	**$75.0**	$300.0	Recurring	**General Fund**

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

Relates to House Bill 51.

Sources of Information

LFC Files

Agency Analysis Received From
Energy, Minerals, and Natural Resources Department (EMNRD)

Agency Analysis was Solicited but Not Received From
Taxation and Revenue Department

SUMMARY

Synopsis of House Bill 176

This bill establishes a backup power generator personal income tax credit for New Mexico taxpayers who purchase and permanently install a backup power generator on or after March 1, 2025. The credit provides a 50 percent credit of the total purchase and installation costs of the generator. The credit is refundable if it exceeds the taxpayer’s tax liability for the year in which it is claimed.

The credit is capped at $5 million annually for all applicants combined. Taxpayers must apply for certification of eligibility from the Energy, Minerals and Natural Resources Department (EMNRD), which will issue certificates stating the amount of credit allowed and the taxable year in which it can be claimed. Only one credit will be certified per taxpayer, with special provisions for business entities and married individuals filing separately.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns, or June 20, 2025, if enacted. The provisions of this act apply to taxable years 2025 through 2034.

FISCAL IMPLICATIONS

This bill creates or expands a tax expenditure. Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for a tax expenditure may be ambiguous, further complicating the initial cost estimate of the fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures.

Because of the annual cap on the aggregate amount of credit awards, the general fund revenue loss of this bill is up to $5 million per year. The costs could be less if total approved claims are lower than the cap.

The bill will require EMNRD to complete a new rule and set up a new application process, including online web application design and development, verification of eligibility for the credit, issuing certificates to approved taxpayers, tracking credit distribution and ensuring compliance with the $5 million cap.

This process will require modifications to existing systems and additional resources in the initial stages of implementation. EMNRD would need one additional FTE, and initial IT funds to meet these administrative needs. There will be a moderate fiscal impact on EMNRD as the department will be responsible for certifying eligibility and tracking the distribution of credits. At least one new FTE is expected to be needed, plus EMNRD IT will need to cover initial design of the online application and maintenance.

SIGNIFICANT ISSUES

EMNRD notes this bill could improve energy resilience for households in New Mexico by incentivizing backup power generation systems. Such backup power could help individuals maintain essential activities during power outages, such as food storage, medical care (e.g., power-operated home medical equipment), and communication. This is especially important in communities vulnerable to severe weather or natural disasters, where prolonged outages can hinder these and other essential activities. New Mexico has experienced numerous such power outages lasting several days and disrupting public health, safety, and the economy. Outages can complicate emergency response and recovery efforts, especially in rural areas where power restoration can take much longer. Backup generators play a vital role in keeping essential services running with the electricity people need to stay safe.

EMNRD reports the cost of a whole-house generator in New Mexico typically ranges from $5,500 to $10.5 thousand, including installation fees, depending on the generator's size and complexity. With $5 million allocated annually for the tax credit, the funding could potentially help 1,000 households per year (assuming an average cost of $10 thousand per generator) over a 10-year period. However, this credit helps only households that can afford the initial costs and then wait for a tax credit months later.

EMNRD comments that the bill's current definition of "back-up power generator" is broad. For instance, many New Mexicans either have or plan to install solar, storage, or solar-plus-storage systems. Some of these systems can automatically "island" and activate power savings, thus potentially meeting the definition of a back-up power generator under this bill. However, it is unclear whether these systems would be eligible for multiple tax credits, including this credit, the existing new solar market development tax credit, and the proposed energy storage tax credit.

The Legislature may wish to consider adding minimum and maximum requirements around power (wattage) and duration, to ensure adequate power while disallowing neighborhood- or community-scale "backup generators." It may also be prudent to place a cap on the credit per claim to limit oversized claims or larger-capacity systems using up much of the $5 million cap.

Providing tax credits for backup power generation systems would likely benefit higher-income households disproportionately because these systems—such as whole-home generators or solar batteries—require significant upfront investment. Wealthier homeowners are more likely to have the disposable income to afford these systems even with partial subsidies, while lower-income households may struggle to cover the remaining costs despite the tax incentives.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is met with the bill's requirement to report annually in the tax expenditure budget regarding the data compiled from the reports from taxpayers taking the credit.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

This bill relates to House Bill 51, an incentive for behind-the-meter battery energy storage, which can also serve as back-up power for a household during an outage event.

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 committee 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 are no stated purposes, 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 must be reported publicly in the TER.
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 credit does have 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	?	There are no stated purposes, goals, or targets with 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		

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