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Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (legis.state.nm.us). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

## FISCAL IMPACT REPORT

ORIGINAL DATE 2/23/09  
 LAST UPDATED 2/24/09      HB \_\_\_\_\_

SPONSOR Beffort

SHORT TITLE Military Medical Practitioner Tax Deduction      SB 558

ANALYST Francis

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
	(\$13.0)	(\$14.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Conflicts with HB276, HB277

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Taxation and Revenue Department (TRD)

Department of Health (DOH)

### SUMMARY

#### Synopsis of Bill

Senate Bill 558 creates a deduction from personal income tax for the military retirement pay of medical practitioners. To qualify, a taxpayer must be a medical practitioner who has provided medical services to a medically underserved area in New Mexico for at least 2,080 hours in the taxable year (or full time). The Department of Health will certify the practitioner's eligibility. Practitioner is defined as a physician or physician assistant, including osteopathy, or a registered nurse in advanced practice.

The deduction would be allowed for tax years 2009 and subsequent.

### FISCAL IMPLICATIONS

#### TRD:

The revenue impact is calculated as the product of the number of eligible military medical practitioners working in medically underserved areas, the average annual

retirement pay, and a 4% marginal tax rate. New Mexico is home to approximately 6,000 active “eligible medical practitioners”.<sup>1</sup> Because military retirees comprise roughly 1% of New Mexico’s population, we assume 1% of eligible medical practitioners are retired military.<sup>2</sup> The population of military retirees (and therefore those eligible to claim the credit) is assumed to grow at 1.5% annually.<sup>3</sup> We further assume that 20% of practitioners work in medically underserved areas. The average New Mexico military retirement pay (adjusted for inflation) was approximately \$23,000 in 2007.

## SIGNIFICANT ISSUES

SB 558 would provide an incentive to retired military doctors to continue practicing in underserved areas. The deduction combined with the rural practitioner income tax credit would mean that a significant share of income could be exempt from the NM personal income tax.

DOH:

SB558 would require that a taxpayer submit information to the Department of Health (DOH) establishing that the taxpayer is an eligible medical practitioner, documents the services provided in a medically underserved area and establishes other required information so that DOH can determine and issue a certificate of qualification. DOH would need to establish a new application review and certification process for program applicants. Unlike other bills, SB558 does not propose to expand the Rural Health Care Practitioner Tax Credit Program to cover this additional category but would establish a separate process for military retirees.

Medically underserved area, as defined in the bill, may not provide the most up-to-date assessment of areas with inadequate services. It is based largely on older primary care assessments, and may not be a reasonable assessment of where specialist physicians are needed. It may be preferable to use the definition currently used in the New Mexico Rural Health Care Practitioner Tax Credit Program, which directs DOH to define medically underserved areas using appropriate available data and Federal definitions.

## PERFORMANCE IMPLICATIONS

According to DOH, SB558 relates to the FY10 DOH Strategic Plan goal of Improving the Health System, Objective 9: Improve recruitment, retention and training of healthcare providers in rural and underserved areas.

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<sup>1</sup> New Mexico Medical Board 2008 Official List. <http://www.nmmb.state.nm.us/pdf/files/2008Roster.pdf>; <http://www.statehealthfacts.org/profileind.jsp?sub=103&rgn=33&cat=8>; Board of Nursing Annual Report FY 2008.

<sup>2</sup> Department of Defense. 2007. Statistical Report on the Military System.

<sup>3</sup> NMSU Arrowhead Center. 2009. The Economic Impact of Exempting Retired Military Service Payments from New Mexico Personal Income Tax.

**CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

61	H	Thomas C. Taylor	RURAL HEALTH CARE TAX CREDIT ELIGIBILITY
129	H	Joni Marie Gutierrez	EXPAND RURAL HEALTH PRACTITIONER TAX CREDIT
179	H	Jeff Steinborn	EXPAND RURAL HEALTH CARE TAX CREDIT
203	H	Rodolpho "Rudy" S. Martinez	EXPAND RURAL HEALTH CARE TAX CREDIT
655	H	Nathan P. Cote	MILITARY RETIREE RURAL HEALTH CARE TAX CREDIT
58	S	Richard C. Martinez	EXPAND RURAL HEALTH PRACTITIONER TAX CREDIT

NF/mc

***The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:***

- 1. Adequacy:*** revenue should be adequate to fund government services.
- 2. Efficiency:*** tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.
- 3. Equity:*** taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.
- 4. Simplicity:*** taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.
- 5. Accountability/Transparency:*** Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.

***More information about the LFC tax policy principles will soon be available on the LFC website at [www.nmlegis.gov/lcs/lfc](http://www.nmlegis.gov/lcs/lfc)***