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## FISCAL IMPACT REPORT

**ORIGINAL DATE** 01/18/19  
**LAST UPDATED** 03/08/19    **HB** 41/aHHHC/aHTRC

**SPONSOR** Garcia, M. P.

**SHORT TITLE** Rural Health Practitioner Tax Credit Changes    **SB** \_\_\_\_\_

**ANALYST** Iglesias

### REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY19	FY20	FY21	FY22	FY23		
\$0.0	(\$8,050 to \$10,500)	(\$8,750 to \$10,800)	(\$9,000 to \$11,150)	(\$9,300 to \$11,450)	Recurring	General Fund

Parenthesis ( ) indicate revenue decreases

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

FY19	FY20	FY21	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Minimal	Minimal	Minimal	Minimal	Recurring	Taxation and Revenue Department
\$14.5	\$58.0	\$58.0	\$130.5	Recurring	Department of Health

Parenthesis ( ) indicate expenditure decreases

Relates to HB 161 and HB287

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Regulations and Licensing Department (RLD)  
 Office of the Superintendent of Insurance (OSI)  
 Department of Health (DOH)  
 Taxation and Revenue Department (TRD)  
 Human Services Department (HSD)

### SUMMARY

#### Synopsis of HTRC Amendment

The House Taxation and Revenue Committee Amendment to House Bill 41 adds a sunset date of January 1, 2029.

Synopsis of HHHC Amendment

The Health and Human Services Committee Amendment to HB41 removes the lower tier \$3,000 annual credit for some practitioners and instead uses the higher tier \$5,000 annual credit for all practitioners. Based on data from the Taxation and Revenue Department on the number of practitioners claiming the \$3,000 credit, the cost of the amendment is estimated at about \$1.8 million.

Synopsis of Original Bill

House Bill 41 amends the rural health care practitioner tax credit against income tax to add licensed pharmacists, independent social workers, and marriage and family therapists to the list of approved practitioners eligible to receive the \$5,000 credit. There is no effective date of this bill, but the provisions apply to taxable years beginning on or after January 1, 2019.

**FISCAL IMPLICATIONS**

The 2017 New Mexico Health Care Workforce Committee Report<sup>1</sup> provides county-level estimates of pharmacists and psychiatrists, and behavioral health providers – including independently licensed psychologists, social workers, counselors and marriage and family therapists – practicing in New Mexico. This data indicates there are 332 practicing psychiatrists in New Mexico and 2,013 practicing pharmacists. The report indicates 20 percent to 30 percent of these are practicing in rural areas, respectively. Additionally, data from the Regulation and Licensing Department (RLD) indicates there are 2,150 active licensed independent social workers and 4,063 active licensed counselors, of which about 25 percent are practicing in non-metropolitan areas according to data from the healthcare workforce committee report on behavioral health providers. Therefore, LFC staff estimate approximately 1,700 practitioners in rural areas would become eligible to receive the \$5,000 tax credit under this bill, resulting in an estimated cost of up to \$8.7 million annually, if all those newly eligible were able to claim the full amount of the credit.<sup>2</sup>

The analysis assumes the credit is an incentive for healthcare practitioners to remain in rural areas rather than an incentive for healthcare practitioners to migrate to rural areas. However, if the credit did provide an incentive to migrate to rural areas, it would increase the cost of the credit over time.

The Taxation and Revenue Department notes many eligible filers for this credit would not have sufficient tax liability to deplete the credit; therefore, the balance remaining would have three-year carry forward.

This bill may be counter to the LFC tax policy principle of adequacy, efficiency, and equity. Due to the increasing cost of tax expenditures, revenues may be insufficient to cover growing recurring appropriations.

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<sup>1</sup> 2017 New Mexico Health Care Workforce Committee Report , available at [http://www.hsd.state.nm.us/uploads/PressRelease/2f473c14ce654f868b5a25b3cfd15a6d/NMHCWF\\_2017Report\\_eDist\\_LoRes.pdf](http://www.hsd.state.nm.us/uploads/PressRelease/2f473c14ce654f868b5a25b3cfd15a6d/NMHCWF_2017Report_eDist_LoRes.pdf)

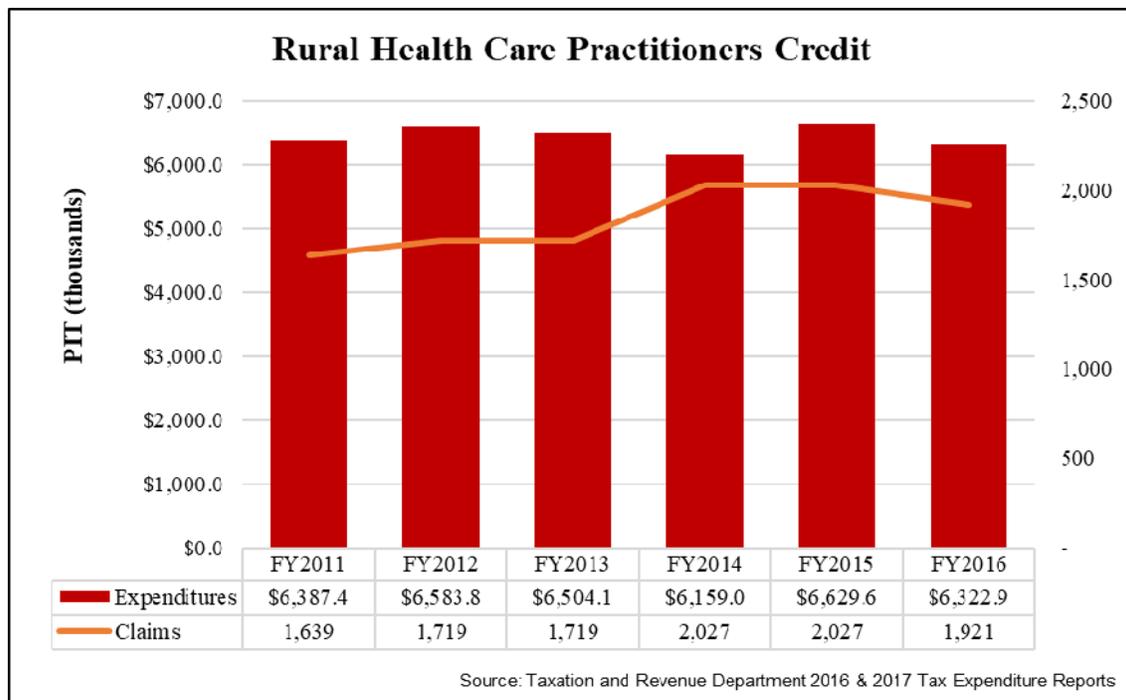
<sup>2</sup> TRD also provided an estimate for this bill; however, the analysis assumes an employment estimate for the additional professions (pharmacists, social workers, and counselors) that is significantly lower than the number of these licensed practitioners in the state.

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 expenditure’s 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.

**SIGNIFICANT ISSUES**

The existing statute allows health care practitioners who have worked at least 2,080 hours at a practice located in an approved rural health care underserved area during a taxable year to claim the credit. Under the current law, physicians, osteopathic physicians, dentists, clinical psychologists, podiatrists and optometrists are eligible for a \$5,000 tax credit. Dental hygienists, physician assistants, certified nurse midwives, certified registered nurse anesthetists, certified nurse practitioners and clinical nurse specialists are eligible for a \$3,000 tax credit. The proposed changes in this bill would increase the number of participating health care practitioners eligible for the tax credit.

As shown in the chart below, TRD’s tax expenditure reports show the cost of the current rural health practitioner’s tax credit averages about \$6.4 million annually.



According to the Department of Health (DOH), thirty-two of New Mexico’s 33 counties are designated, entirely or partially, as primary medical care shortage areas by the federal government (<http://hpsafind.hrsa.gov/HPSASearch.aspx>). DOH also notes New Mexico is a geographically large state with vast rural areas, creating difficulties for many citizens to easily access a wide variety of health care practitioners (<http://hpsafind.hrsa.gov/HPSASearch.aspx>).

Based on available tax data for tax years 2007-2014, DOH indicates “there has been an increase in claims for physician assistants, nurse practitioners, nurse anesthetists, dentists, and dental hygienists practicing in rural and underserved areas. In general, other practitioner types have

maintained a steady average in claims, which would suggest that those practitioners are being retained.”

According to the 2017 New Mexico Health Care Workforce Committee report, counselors and social workers make up nearly 80 percent of New Mexico’s behavioral health workforce. The Human Services Department (HSD) points out a recent survey of 80 behavioral health clinical directors across New Mexico identified the limitations of the behavioral health workforce as the biggest barrier to providing quality behavioral health care in the state. Additionally, HSD notes Health Care Workforce Committee’s report shows a misdistribution of pharmacists throughout the state – only five NM counties are at or above benchmark in their pharmacy workforce, with 55.6 percent of pharmacists practicing in Bernalillo County.

### **PERFORMANCE IMPLICATIONS**

The LFC tax policy of accountability is not met since TRD is not required in the bill to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the deduction and other information to determine whether the deduction is meeting its purpose.

### **ADMINISTRATIVE IMPLICATIONS**

The eligibility expansion of this credit would increase the number of applications submitted to DOH, and the agency states an additional FTE would be needed to process the anticipated increase in tax credit applications. DOH does not received specific funding to process these applications. Funding is taken out of the current Public Health Division budget.

There would be a minimal administrative burden for TRD due to the increase in credit claims and possible associated audits.

### **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

House Bill 161 adds physical therapists, occupational therapists, and physical therapists assistants to the rural health care practitioner tax credit.

House Bill 287 adds chiropractors to the rural health care practitioner tax credit.

### **TECHNICAL ISSUES**

This bill does not contain a delayed repeal date. LFC recommends adding a delayed repeal date.

### **OTHER SUBSTANTIVE ISSUES**

DOH is responsible for determining eligibility and issuing a certificate to a qualifying health care practitioner. The agency states the New Mexico Administrative Code will need to be updated to correspond to the new eligibility standards, and consideration should be made to determine how eligibility may be approved and revoked.

RLD notes the Social Work Board, Counseling Board, and Psychology Board, have cross-jurisdictional programs to allow for supervisors in rural areas, which helps alleviate shortages in areas where a fledgling practitioner may not otherwise find a supervisor, limiting that person’s

ability to serve patients in the area.

<p><b>Does the bill meet the Legislative Finance Committee tax policy principles?</b></p> <ol style="list-style-type: none"> <li><b>1. Adequacy:</b> Revenue should be adequate to fund needed government services.</li> <li><b>2. Efficiency:</b> Tax base should be as broad as possible and avoid excess reliance on one tax.</li> <li><b>3. Equity:</b> Different taxpayers should be treated fairly.</li> <li><b>4. Simplicity:</b> Collection should be simple and easily understood.</li> <li><b>5. Accountability:</b> Preferences should be easy to monitor and evaluate</li> </ol>		
<p><b>Does the bill meet the Legislative Finance Committee tax expenditure policy principles?</b></p> <ol style="list-style-type: none"> <li><b>1. Vetted:</b> 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.</li> <li><b>2. Targeted:</b> The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals.</li> <li><b>3. Transparent:</b> The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies.</li> <li><b>4. Accountable:</b> 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.</li> <li><b>5. Effective:</b> 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.</li> <li><b>6. Efficient:</b> The tax expenditure is the most cost-effective way to achieve the desired results.</li> </ol>		

LFC Tax Expenditure Policy Principle	Met?	Comments
<b>Vetted</b>	?	
<b>Targeted</b>		
Clearly stated purpose	✓	No, but seems evident.
Long-term goals	✗	None.
Measurable targets	✗	None.
<b>Transparent</b>	✗	No annual reporting required.
<b>Accountable</b>		
Public analysis	✗	No annual reporting required.
Expiration date	✗	There is not delayed repeal date.
<b>Effective</b>		
Fulfills stated purpose	?	Current data from TRD’s tax expenditure report only indicates the number of claimants and cost of the credit, making it difficult to determine whether rural practitioners would not move to or remain in rural areas “but for” the credit.
Passes “but for” test	?	
<b>Efficient</b>	?	
Key:    ✓ Met    ✗ Not Met    ? Unclear		