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## FISCAL IMPACT REPORT

SPONSOR: Larranaga DATE TYPED: 2/27/03 HB 698

SHORT TITLE: Employee Health Insurance Premium Tax Credit SB \_\_\_\_\_

ANALYST: Smith

### REVENUE

| Estimated Revenue |            | Subsequent<br>Years Impact | Recurring<br>or Non-Rec | Fund<br>Affected |
|-------------------|------------|----------------------------|-------------------------|------------------|
| FY03              | FY04       |                            |                         |                  |
|                   | (56,000.0) | (56,000.0)                 | Recurring               | General Fund     |
|                   |            |                            |                         |                  |

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

Responses Received From  
TRD

### SUMMARY

#### Synopsis of Bill

House Bill 698 provides a ten-percent credit for the aggregate amount of health insurance premiums paid by owners of small businesses on behalf of their employees. To qualify for the credits, employers must pay at least 60 percent of the health insurance premiums for one or more employees in the tax year for which tax returns claiming the credits are filed. The credits may be taken against personal or corporate income tax liability. The credits are not refundable.

The proposal defines “health insurance premium” as amounts paid by small businesses to insurers or other persons providing coverage for health care services, including preventive care, emergency care, inpatient and outpatient hospital and physician care, diagnostic laboratory and diagnostic and therapeutic radiological services, and that meets requirements of the New Mexico Insurance Code. A “small business” is defined as a person or legal entity employing 50 or fewer employees in New Mexico that files an income tax return under the Income Tax Act.

## FISCAL IMPLICATIONS

TRD relied on data contained in the 2000 Employer Survey by the New Mexico Health Policy Commission (“HPC”) reported the following results for private sector employers in New Mexico:

- Statewide, 58% of private employers offer a health insurance program to some or all of their employees. The likelihood that an employer offers a health program varies significantly across industries, from a high of 84% in mining to a low of 44% in agriculture;
- All establishments with 200 or more employees had a health program, but the smaller the establishment the less likely it was to offer a program. The lowest reported rate was 46% for establishments with less than 5 employees.
- In general, full-time employees are more likely to be eligible for health insurance than are part-time and temporary employees. The proportion of employees who are eligible for insurance increases with the size of the establishment, from 41% in establishments with less than 5 employees to 88% in those with more than 200.
- Take-up rates—the percentage of eligible employees who actually enroll in an establishment’s health plan—also vary with size of business, full-time status and other factors. Statewide, an average of 80% of fulltime workers eligible for insurance are actually enrolled in a plan. 36% of part-time and 52% of seasonal employees were enrolled.
- The statewide average reported premium paid was \$2,500 for an individual plan and \$5,200 for a family plan. On average, employers paid 79% of the cost of the individual plans and 69% of the cost of the family plans.

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## TECHNICAL ISSUES

TRD notes the following technical issues:

In Subsection A of the proposed amendment to the Income Tax Act (i.e., page 1, lines 20-25) and Subsection A of the proposed amendment to the Corporate Income and Franchise Tax Act (page 3, lines 11-17), it would be appropriate to add language making it clear that only premiums paid on behalf of NM employees are eligible for the credit.

As currently written, the two “A” subsections simply reference health insurance premiums paid for employees, but do not specify that these employees must be located in NM. Hence this language should be clarified despite the fact that small business is defined to mean a person/business that employs 50 or fewer employees in NM. The two Subsection A’s can be clarified by making the following changes:

- a) on page 1, line 23, insert “New Mexico” immediately after “more”;
- b) on page 2, line 1, insert “on behalf of New Mexico employee(s)” immediately after “taxpayer”;
- c) on page 3, line 14, insert “New Mexico” immediately after “more”; and
- d) at page 3, line 17, insert “on behalf of New Mexico employee(s)” immediately after “taxpayer”.

Both Subsection A’s use the phrase “engaged in a small business” (page 1, line 21; and page 3, line 12). Meaning of the term “engaged in a small business” is unclear. Perhaps it would be appropriate to say: “A taxpayer who is an employer and who files an individual New Mexico income tax return, and who paid at least 60% of the health insurance premiums for one or more NM employees of the taxpayer in the taxable year . . .” Then add a new subsection, which states substantially that: “The credit provided for in this section shall only be available to a taxpayer who is a small business.” The definition of “small business” on page 3, lines 4-6 and page 4, lines 5-8 would not need to be changed.

## OTHER SUBSTANTIVE ISSUES

TRD notes that insurance premiums paid by employers are treated as business expenses and therefore currently deductible in varying degrees against personal and corporate income obligations. The proposed measure provides credits in addition to the current deductions. Health insurance premiums are already a tax-advantaged means of compensating employees. Economists would argue that the proposal would further exaggerate the incentive to use this method of compensation, thereby distorting the labor market as well as the market for insurance.

SS/yr/njw