

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

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

SPONSOR Cravens DATE TYPED 3-01-2005 HB _____

SHORT TITLE Long Term Care Insurance Tax Deduction SB 809

ANALYST Taylor

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
(\$1,000)	(\$1,900)	(\$2,000)	Non-Rec	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files
Taxation and Revenue Department

SUMMARY

Senate Bill 809 would allow a taxpayer to deduct premiums for long-term care insurance from net income, if the premiums were not claimed in the taxpayer's itemized deductions. The amount of the deduction would be equal to the amount paid in the taxable year.

FISCAL IMPLICATIONS

TRD estimates that the deduction provided in this bill would reduce state general fund revenues by \$1 million in FY05 and \$1.9 million in FY06.

Based on national purchases of long-term care, TRD assumes that 1.5 percent of New Mexicans—12,600 taxpayers—would claim the deduction. They also assume an average premium of \$3 thousand and income tax rate of 5 percent. Multiplying 12,600 taxpayers by \$3 thousand by the 5 percent tax rate yields the \$1.9 million full-year revenue impact.

Note: The TRD analysis may be looked at as a minimum impact. If the deduction is successful in encouraging more taxpayers to purchase long-term care insurance, the impact will grow.

ADMINISTRATIVE IMPLICATIONS

TRD reports that the administrative impacts of this bill would be modest and could be absorbed with existing resources.

TECHNICAL ISSUES

TRD's FIR included this technical issue:

The state currently allows a deduction for long term health care premiums which is means-tested and limited to a 10% deduction for those making over \$70,000 (7-2-35(c) NMSA 1978). SB 809 would allow a 100% deduction without regard to income level. Thus, unless SB 809 is amended to delete the language in 7-2-35(c) allowing a partial deduction, 110 percent of long term care premiums will be deductible for purposes of New Mexico income tax.

OTHER SUBSTANTIVE ISSUES

TRD's report included this policy issue:

The purchase of long-term care coverage helps prevent taxpayers from imposing financial burdens on family members and other taxpayers. However, industry representatives report that the typical purchaser of long-term care insurance is middle to high-income. Hence the proposal would tend to benefit primarily middle and upper income taxpayers

BT/lg