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FISCAL IMPACT REPORT

SPONSOR Snyder DATE TYPED 3-2-2005 HB _____

SHORT TITLE Long Term Care Premium Payments Tax Credit SB 896

ANALYST Taylor

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
(\$9,500)	(\$19,000)	Similar	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files
 Taxation and Revenue Department (TRD)
 Aging and Long Term Services Department (ALTSD)

SUMMARY

Senate Bill 896 would allow a taxpayer to claim an income tax credit for long-term care insurance premiums, if the premiums were not claimed in the taxpayer's itemized deductions or as a deduction for unreimbursed or uncompensated medical care expenses (section 7-2-35 NMSA 1978). The amount of the credit varies with the taxpayers age, and is equal to: 25 percent for taxpayers at least 45 years old but under 50; 37.5 percent for taxpayers at least 50 years old but under 55; 50 percent for taxpayers at least 55 years old but under 60; 62 percent for taxpayers at least 60 years old but under 65; and 75 percent for taxpayers at least 65 years old.

The provisions of the bill are applicable to tax years beginning on or after January 1, 2005.

FISCAL IMPLICATIONS

TRD estimates that the deduction provided in this bill would reduce state general fund revenues by \$9.5 million in FY05 and \$19 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 credit. They also assume an average premium of \$3 thousand and an average credit rate of 50 percent, and thus an average credit of \$1,500. Multiplying 12,600 taxpayers by \$1500 thousand yields the \$19 million full-year revenue impact.

Note: The TRD analysis may be looked at as a minimum impact. If the credit is successful in encouraging more taxpayers to purchase long-term care insurance (as it should: the credit effectively reduces the price of insurance), the impact will grow.

ADMINISTRATIVE IMPLICATIONS

TRD indicates that they could administer the provisions of the bill with existing resources.

TECHNICAL ISSUES

TRD's analysis included this technical issue:

The bill is silent on what rules should be followed if the credits allowed in a given year exceed the taxpayer's liability. The usual approach is to specify a limited carry-forward period, like three years.

OTHER SUBSTANTIVE ISSUES

The Agency and Long Term Services Department writes to say that the fiscal impact related to the tax credit may be partially offset by lower Medicaid expenditures. They note however that it is not known to what degree this incentive would induce people to buy insurance. (Note—it is also unknown how many of these would end up qualifying for Medicaid).

TRD submitted this policy analysis:

By purchasing long-term care coverage, taxpayers avoid imposing financial burdens on family members and other taxpayers. Industry representatives say typical purchasers of long term care insurance are middle to high-income. Hence the proposal would tend to benefit primarily mid- to high-income taxpayers.

As shown below, approximately 677,000 New Mexicans fall within the age groups that would be allowed to claim deductions as a result of the proposed measure's enactment. They constitute about 36% of New Mexico's total population.

Estimated New Mexico Population Aged 65 and Over, 2003

Age Group	Number of People	% of Total
45 to 49 years	138,724	20.49
50 to 54 years	127,110	18.77
55 to 59 years	105,027	15.51
60 to 64 years	81,013	11.96
65 and above	225,266	33.27
Total:	677,140	100.00

Source: University of New Mexico Bureau of Business and
Economic Research :

http://www.unm.edu/~bber/demo/NM00_03agesex.xls