F I S C A L   I M P A C T   R E P O R T

ORIGINAL DATE 2/12/07
SPONSOR Snyder **LAST UPDATED** **HB**

SHORT TITLE Certain Home Care Providers Tax Credit **SB** 727

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	($20,000.0)	($20,000.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
Aging and Long Term Services Department (ALTSD)
Human Services Department (HSD)
Department of Health (DOH)

SUMMARY

Synopsis of Bill

Senate bill 727 provides a credit against personal income tax liability for a taxpayer who provides home care to an ill or disabled family member over the age of 65. The credit is a refundable credit which means that if the credit exceeds tax liability the excess will be returned to the taxpayer. The credit cannot exceed 50 percent of unreimbursed home care expenditures. Home care expenditures include:

- Costs incurred providing food, clothing and medical care
- Additional rent or utilities paid as the result of providing space

The credit is effective January 1, 2007, so would be eligible for the 2007 tax year.

FISCAL IMPLICATIONS

The fiscal impact for providing this credit is enormous for two reasons: the definition of care is expansive and the level of care needed is not defined. As reported by the Family Caregiver Alliance, 20 percent of adults over the age of 65 live with their children. This does not mean that all of these seniors need additional or comprehensive care. In fact, many of the households may be the parents household that the child has never left or returned for economic or other reasons. Since the scope of allowable expenditures is so large—the scope includes clothing, food, medical care, shelter, and utilities explicitly—the credit will cover virtually all costs associated with the care of a parent.

Taxation and Revenue Department:

> Approximately 15 percent of people aged 65 and over in the U.S. live with their children.[1] Approximately 12 percent of New Mexico's population currently consists of individuals aged 65 and over – roughly 228,000 of the state's current 1.9 million residents. Hence approximately 34,000 New Mexico elderly residents currently reside with their children. The estimate above assumes credits would be claimed on approximately 20,000 returns at an average of $1,000 per return. A more precise definition of "unreimbursed expenditures" (see the "TECHNICAL ISSUES" section below) would reduce the estimated impact.

SIGNIFICANT ISSUES

The Aging and Long Term Care Department (ALTCD) reports:

> According to the Family Caregiver Alliance approximately 20% of adults over the age of 65 are receiving care from family, friends or neighbors. According to the 2000 census New Mexico had 206,000 people over 65 who were not institutionalized. Thus, approximately 40,000 New Mexicans were receiving care from family, friends or neighbors in 2000.
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> This bill would give some tax relief to those caring for their relatives who could otherwise be using Medicare and Medicaid funds for nursing home care.

Department of Health:

> Persons with developmental disabilities are living longer lives due to advances in medical technology and the health services. Older persons with developmental disabilities are living in the community with family members or through supported living situations instead of in public institutions as they did in the past. Aging persons with developmental and other disabilities require many of the same services and supports that older persons without developmental disabilities receive.
>
> SB727 would specifically address issues related to the provision of home care to ill or disabled family members over the age of sixty-five. Most developmental disabled individuals falling into this age range would qualify for services provided by the Developmental Disabilities Waiver. For a very small number of individuals with a developmental disability SB727 would possibly help a family keep them living at home longer.

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[1] http://www.nationmaster.com/graph-T/peo_eld_liv_wit_chi

TECHNICAL ISSUES

The Human Services Department reports the word "home care" as defined in the proposed legislation does not indicate if a specific or defined level of disability is required.

TRD:

1) Wording on page 2, Section D of the proposal contains the phrase "included in the taxpayer's itemized deductions". This may cause some interpretation problems since the allowable amount on Schedule A is only the medical expenses exceeding 7.5% of adjusted gross income. It is therefore unclear whether the proposed deduction is for the portion of the expenses included in the amount over 7.5% of AGI or the entire expenses included on Line 1 of Schedule A.

2) The bill's provision allowing a credit for the extra utility service required by the family member would be difficult to audit.

ADMINISTRATIVE IMPACT

TRD reports that verifying eligibility for the proposed credits would present significant challenges.

NF/nt