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

**SPONSOR** Snyder **ORIGINAL DATE LAST UPDATED** 8/16/08 **HB**

**SHORT TITLE** Employer Health Insurance Premium Tax Credit **SB** 25

**ANALYST** Gutierrez

## REVENUE (dollars in thousands)

| Estimated Revenue | | | Recurring or Non-Rec | Fund Affected |
|---|---|---|---|---|
| FY09 | FY10 | FY11 | | |
| (92,396.0) | (68,695.0) | (75,338.0) | Recurring | General Fund |

(Parenthesis ( ) Indicate Revenue Decreases)

**SOURCES OF INFORMATION**
LFC Files
Taxation and Revenue Department

Responses Received From
Taxation and Revenue Department
Human Services Department (HSD) response to SB113 in 2008 Session

**SUMMARY**

Synopsis of Bill

Senate Bill 25 would allow personal and corporate income tax credits for individuals owning New Mexico businesses that provide health insurance to their employees. Premiums paid for long-term care and disability income insurance policies would also be eligible for the credit. The credit would total 50 percent of the cost of providing health insurance in each of the first five years during which taxpayers pay employee health insurance, and 35 percent of the cost of insurance premiums in a tax year that is not one of the first five years in which the employer pays employee health insurance premiums. To qualify for the credit, employers must employ an average of 50 or fewer employees during the tax year in which the credits are claimed. The credit would not be refundable, and would only be allowed for the tax year in which the credits are claimed, i.e., they could not be carried forward when taxpayers report insufficient tax obligations against which to claim them.

**FISCAL IMPLICATIONS**

According to TRD, impacts were estimated using information from the Medical Expenditure Panel Survey for New Mexico.  According to the data the employers contribute about 80% of health insurance premiums. The average premium per employee is estimated to be approximately $4,600 for FY 2005. We assume a premium growth rate of 8% to estimate the premiums for the subsequent years.

| Estimated Revenue Impact* | | | | | | R or NR** | Fund(s) Affected |
|---|---|---|---|---|---|---|---|
| FY2009 | FY2010 | FY2011 | FY2012 | FY2013 | FY 09-13 | | |
| (92,396) | (68,695) | (75,338) | (82,586) | (90,531) | (409,545) | R | General Fund |

* In thousands of dollars. Parentheses ( ) indicate a revenue loss.

** Recurring (R) or Non-Recurring (NR).

Source: Taxation and Revenue Department

The data indicates that 36.4% of the firms employing 50 or less employees provide health insurance. Out of the employees in these firms, 55.7% enroll in health insurance. Bureau of Business and Economic Research (BBER) at UNM forecasts the growth rates of employment used to calculate the fiscal impact. Credit allowed for currently participating employees is assumed to be at 35% rate and credit allowed for the employee uptake is assumed to be at 50% rate in order to estimate the calendar year impact shown in table below. To calculate the Fiscal Year impacts, the tax year 2008 liability changes were assumed to affect only FY2009 revenues. Tax year 2009 and subsequent year changes in liabilities were assumed to be evenly split across the two fiscal years included in the calendar year.

| Year | FY09 | FY10 | FY11 | FY12 | FY13 |
|---|---|---|---|---|---|
| Premium/employee | $6,275 | $6,777 | $7,319 | $7,904 | $8,536 |
| Number of Employees | 207,385 | 210,704 | 213,864 | 217,072 | 220,328 |
| Participating Employees | 41,931 | 42,602 | 43,241 | 43,890 | 44,548 |
| Employee Uptake | 12,409 | 12,608 | 12,797 | 12,989 | 13,183 |
| Credit Allowed (thousands) | $131,016 | $143,762 | $157,592 | $172,752 | $189,371 |
| Credit Taken (thousands) | $65,508 | $71,881 | $78,796 | $86,376 | $94,685 |
| Fiscal Year Estimates (thousands) | $92,396 | $68,695 | $75,338 | $82,586 | $90,531 |

Source: Taxation and Revenue Department

**TECHNICAL ISSUES**

TRD:

The rate of credit under the bill is made conditional on the time period during which an employer has been providing insurance to their employees. It is unclear from this language how the statute would apply to taxpayers currently paying employee health insurance premiums. The options are: the five-year period could begin with the effective date of the bill or with the point in time when an employer first provided insurance, even if that was at some time in the past. If employers currently offering insurance are not allowed the higher rate of credit, they have an incentive to cease paying premiums for some time period in order to qualify for credits during the first five years in which they resume paying premiums. Note that the revenue estimates assume that the rule is a five-year lock back period.

The portion of the premium that qualifies for the credit should be more clearly specified to be only the portion paid by the employer.

The bill would create an incentive for an employer with more than 50 employees to break up into several businesses in order to claim the credit. To limit tax avoidance through this mechanism, the proposal should contain additional language requiring that all related entities are to be counted as a single taxpayer for purposes of the bill.

The credit is not limited to New Mexico employees. Therefore, a qualifying business that purchases health insurance for employees in other states could receive a credit of up to 50 percent for the health insurance expenses of their out-of-state employees.

The bill should specify that the credit reduces the deductions allowed to the employer for their contributions to employer health insurance premium for employees.

## SIGNIFICANT ISSUES

The importance of health care coverage in New Mexico cannot be understated. Other than Texas, no other state has a higher percentage of uninsured than New Mexico. The chart below shows the state rankings.

## Number and Percentage of People Without Health Insurance Coverage by State Using 3-Year Average: 2004 to 2006

(Numbers in thousands. People as of March of the following year)

| State | 3-year average 2004–2006[1] | | | |
|---|---|---|---|---|
| | Number | | Percentage | |
| | Estimate | 90-percent confidence interval[2] (±) | Estimate | 90-percent confidence interval[2] (±) |
| **United States** | **45,102** | **358** | **15.3** | **0.1** |
| Alabama | 636 | 44 | 14.1 | 1.0 |
| Alaska | 110 | 7 | 16.7 | 1.1 |
| Arizona | 1,151 | 62 | 19.0 | 1.0 |
| Arkansas | 482 | 30 | 17.5 | 1.1 |
| California | 6,663 | 151 | 18.5 | 0.4 |
| Colorado | 772 | 51 | 16.6 | 1.1 |
| Connecticut | 362 | 31 | 10.4 | 0.9 |
| Delaware | 106 | 8 | 12.5 | 1.0 |
| District of Columbia | 68 | 6 | 12.4 | 1.1 |
| Florida | 3,609 | 104 | 20.3 | 0.6 |
| Georgia | 1,594 | 69 | 17.6 | 0.8 |
| Hawaii | 108 | 10 | 8.6 | 0.8 |
| Idaho | 213 | 15 | 14.9 | 1.0 |
| Illinois | 1,715 | 75 | 13.6 | 0.6 |
| Indiana | 809 | 50 | 13.1 | 0.8 |
| Iowa | 271 | 25 | 9.3 | 0.9 |
| Kansas | 300 | 25 | 11.1 | 0.9 |
| Kentucky | 564 | 41 | 13.8 | 1.0 |
| Louisiana | 784 | 47 | 18.5 | 1.1 |
| Maine | 124 | 12 | 9.5 | 0.9 |
| Maryland | 755 | 50 | 13.5 | 0.9 |
| Massachusetts | 653 | 45 | 10.3 | 0.7 |
| Michigan | 1,061 | 59 | 10.6 | 0.6 |
| Minnesota | 439 | 38 | 8.5 | 0.7 |
| Mississippi | 520 | 32 | 18.1 | 1.1 |
| Missouri | 703 | 48 | 12.3 | 0.8 |
| Montana | 157 | 10 | 17.0 | 1.1 |
| Nebraska | 194 | 16 | 11.1 | 0.9 |
| Nevada | 451 | 29 | 18.3 | 1.2 |
| New Hampshire | 136 | 12 | 10.4 | 0.9 |
| New Jersey | 1,269 | 64 | 14.6 | 0.7 |
| New Mexico | 405 | 25 | 21.0 | 1.3 |
| New York | 2,513 | 92 | 13.2 | 0.5 |
| North Carolina | 1,383 | 66 | 16.0 | 0.8 |
| North Dakota | 69 | 6 | 11.1 | 0.9 |
| Ohio | 1,206 | 63 | 10.7 | 0.6 |
| Oklahoma | 650 | 40 | 18.7 | 1.2 |
| Oregon | 604 | 41 | 16.6 | 1.1 |
| Pennsylvania | 1,255 | 64 | 10.2 | 0.5 |
| Rhode Island | 107 | 10 | 10.2 | 0.9 |
| South Carolina | 667 | 45 | 16.0 | 1.1 |
| South Dakota | 88 | 7 | 11.6 | 0.9 |
| Tennessee | 791 | 50 | 13.4 | 0.8 |
| Texas | 5,501 | 134 | 24.1 | 0.6 |
| Utah | 392 | 24 | 15.7 | 1.0 |
| Vermont | 67 | 6 | 10.8 | 1.0 |
| Virginia | 981 | 55 | 13.2 | 0.7 |
| Washington | 778 | 51 | 12.5 | 0.8 |
| West Virginia | 279 | 18 | 15.5 | 1.0 |
| Wisconsin | 514 | 41 | 9.4 | 0.8 |
| Wyoming | 71 | 6 | 14.0 | 1.1 |

[1] The 2004 and 2005 data have been revised since originally published. See <www.census.gov/hhes/www/hlthins/usernote/schedule.html>.
[2] A 90-percent confidence interval is a measure of an estimate's variability. The larger the confidence interval in relation to the size of the estimate, the less reliable the estimate. For more information, see "Standard Errors and Their Use" at <www.census.gov/hhes/www/p60_233sa.pdf>.

Source: U.S. Census Bureau, Current Population Survey, 2005 to 2007 Annual Social and Economic Supplements.

## ADMINISTRATIVE IMPLICATIONS

Provisions of the proposed legislation would generate moderate impacts on the Taxation and Revenue Department. The new non-refundable tax credit will require modifications to the personal income tax and corporate returns, instructions and publications. Depending on the population base, it might require 1/2 FTE to manually track the credit at a cost of $15,000. A claim form will need to be developed at a cost of approximately $1000. Audit procedures would also need to be developed. Most implementation needs can be accomplished during the annual revision of the PIT and CIT programs at minimal cost.

BLG/mt