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## FISCAL IMPACT REPORT

ORIGINAL DATE 2/17/09

SPONSOR Ortiz y Pino LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Expand Rural Health Care Tax Credit SB 374

ANALYST Gutierrez

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
		(\$1,400)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to HB61, HB116, HB129, HB179, HB203 and SB58

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Taxation and Revenue Department (TRD)

Department of Health (DOH)

Health Policy Commission (HPC)

### SUMMARY

#### Synopsis of Bill

Senate Bill 374 expands the rural health care practitioner tax credit to include pharmacists and pharmacist clinicians licensed pursuant to the Pharmacy Act. Pharmacists and pharmacist clinicians would be eligible for an income tax credit of up to \$3,000 per year.

This bill is applicable to tax years beginning on or after January 1, 2010.

This effective date of this bill's provisions is January 1, 2010.

### FISCAL IMPLICATIONS

TRD:

The Department of Health estimates that in 2007 approximately 600 pharmacists and pharmacist clinicians worked in rural areas of New Mexico. Growth in medical profession employment in rural areas is assumed to be half of that projected for the state by the Bureau of Business and

Economic Research. If all the newly eligible practitioners were able to claim the full \$3,000 credit amount, the potential revenue loss would be \$1.9 million. However, downward adjustment is appropriate for the following reasons:

- (1) Some health practitioners may practice only part-time, and thus they would not be eligible for the full credit amount. It is estimated that 40% of the newly eligible practitioners work part-time.
- (2) The \$3,000 credit could offset income tax on approximately \$60,000 of taxable income (\$75,000 of total income). Some practitioners may not have sufficiently high income to fully utilize the credit. It is assumed that 10% of eligible practitioners have insufficiently high income and are only able to utilize half of the credit.

## SIGNIFICANT ISSUES

LFC notes that while individual deductions from the gross receipts tax may have small fiscal impacts, their cumulative effect significantly narrows the gross receipts tax base. Narrowing the gross receipts tax base increases revenue volatility and requires a higher tax rate to generate the same amount of revenue.

LFC notes that receipts of health practitioners have historically grown faster than receipts of other industries. Removing receipts from high-growth sectors from the gross receipts tax base makes it more difficult for tax revenue to keep pace with inflation.

## ADMINISTRATIVE IMPLICATIONS

This bill will have a moderate impact to the Taxation and Revenue Department. Minor changes to existing forms, instructions, and publications will be needed. Minor changes to the income tax forms and instructions for 2010 will also be needed. However, with the increase in the number of qualifying taxpayers, additional FTE (depending upon how many additional taxpayers will qualify) would be needed to accommodate the manual processes related to tracking, auditing, and monitoring claims.

This bill would increase the number of applications submitted to the Department of Health for this Program. The increased number of applications would impact the administrative resources of the Department.

## RELATIONSHIP

***The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:***

- 1. Adequacy:*** revenue should be adequate to fund government services.
- 2. Efficiency:*** tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.
- 3. Equity:*** taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.
- 4. Simplicity:*** taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.
- 5. Accountability/Transparency:*** Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.

***More information about the LFC tax policy principles will soon be available on the LFC website at [www.nmlegis.gov/lcs/lfc](http://www.nmlegis.gov/lcs/lfc)***

Senate Bill 374 relates to:

- SB58, HB116, HB129, and HB203 which would modify Section 7-2-18.22 NMSA 1978, the statute authorizing the Rural Health Care Practitioner Tax Credit Program (RHCPTCP) to expand the type of practitioner eligible for qualification under the Program.
- HB61 and HB179 expand the definition of “health care underserved area” and “rural”.

BLG/mc