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FISCAL IMPACT REPORT

ORIGINAL DATE 01/18/16
SPONSOR Espinoza **LAST UPDATED** **HB** 54

SHORT TITLE Rural Health Tax Credit Rate & Eligibility **SB**

ANALYST Keyes

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY16	**FY17**	**FY18**	**FY19**	**FY20**		
($8,568.0)	($8,998.0)	($9,450.0)	($9,925.0)	($10,424.0)	Recurring	General Fund

Parenthesis ( ) indicate revenue decreases

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY15	FY16	FY17	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	---	$6.3	$3.8	$10.1	Recurring	Tax. & Rev. Dept.

Parenthesis ( ) indicate expenditure decreases

SOURCES OF INFORMATION
LFC Files

Response Received From:
Taxation and Revenue Department (TRD)

No Responses Received From:
Department of Health (DOH)
Children, Youth and Families Department (CYFD)

SUMMARY

Synopsis of Bill

House Bill 54, expands the rural health care practitioner income tax credit (Section 7-2-18.22 NMSA 1978) to allow the same amount of credit for all practitioners; making licensed counselors, pharmacists and social workers eligible for the rural health care practitioner tax credit. HB 54 raises the maximum credit for all eligible health care practitioners to $5,000 per taxable year. Under current law, doctors, dentists, and other doctorate-level medical providers have a $5,000 maximum annual credit cap, whereas nurses, physicians assistants, dental hygienists and other non-doctorate-level providers have a $3,000 annual credit cap.

The effective date of this bill is not specified. It is assumed that the new effective date is 90 days after the adjournment of the 2016 legislative session. There is no sunset date. The LFC recommends adding a sunset date.

FISCAL IMPLICATIONS

The Taxation and Revenue Department has estimated the fiscal impact of HB 54 by reviewing historical tax filing data. To account for the expansion of healthcare professions, a growth rate equivalent to the average positive growth rate of the existing credit was calculated. The calculated growth rate is 5.0 percent. The baseline number of claimants used for FY15 is the 5-year average of claimants (1,632 claims).

For FY16 through FY20, the impact is measured as the estimated number of claimants times the maximum per practitioner credit cap. This method includes the cap increase for previously included professions as well as the expansion of eligible healthcare professions.

The TRD economist's assumption is that the credit is not an incentive for healthcare practitioners to migrate to rural areas; rather, it is an incentive for healthcare practitioners to remain in rural areas. Based on this assumption, the growth rate is a proxy to capture existing healthcare practitioners not previously eligible for the credit. After an awareness period elapses, the growth rate will decline.

This bill may be counter to the LFC tax policy principle of adequacy, efficiency and equity. Due to the increasing cost of tax expenditures revenues may be insufficient to cover growing recurring appropriations.

Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for a tax expenditure may be ambiguous, further complicating the initial cost estimate of the expenditure's fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is not met since TRD is not required in the bill to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the deduction and other information to determine whether the deduction is meeting its purpose.

ADMINISTRATIVE IMPLICATIONS

Administrative implications are anticipated to have a minimal impact. Implementation costs will be absorbed as part of the new year changes process for TRD. Forms, instructions, and publications pertaining to the credit will need to be updated. Coordination with the Department of Health is required. A partial FTE (0.125) is included as a recurring cost for administration. IT Systems will need to be updated to reflect the new cap and broadening of eligible health care professionals.

TECHNICAL ISSUES

TRD recommends one minor amendment to the bill to promote statute clarity. Amending the language of Subsection B [p.2, ll. 6, 7 and 15] to read "…shall not exceed five thousand dollars ($5,000) for each eligible health care practitioners." As written, using "all" and the plural "health care practitioners," the cap appears to be an aggregate, rather than a per-individual cap.

This bill does not contain a sunset date. The LFC recommends adding a sunset date.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

If HB 54 is not enacted, a gap may develop in the range of healthcare services provided to rural populations in New Mexico. Healthcare providers may be attracted to positions of employment in urban areas which provide higher compensation. The shift to urban areas could contribute to a shortage of services provided in rural areas.

Does the bill meet the Legislative Finance Committee tax policy principles?

1. **Adequacy**: Revenue should be adequate to fund needed government services.
2. **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity**: Different taxpayers should be treated fairly.
4. **Simplicity**: Collection should be simple and easily understood.
5. **Accountability**: Preferences should be easy to monitor and evaluate

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