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

ORIGINAL DATE 2/11/19
SPONSOR Baldonado **LAST UPDATED** **HB** 387

SHORT TITLE Add Chiropractors To Rural Health Tax Credit **SB**

ANALYST Iglesias

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY19	**FY20**	**FY21**	**FY22**	**FY23**		
$0.0	($930.0)	($960.0)	($990.0)	($1,020.0)	Recurring	General Fund

Parenthesis ( ) indicate revenue decreases

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY19	FY20	FY21	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	$14.5	$58.0	$58.0	$130.5	Recurring	Department of Health

Parenthesis ( ) indicate expenditure decreases

Relates to HB41 and HB161

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
Human Services Department (HSD)
Regulation and Licensing Department (RLD)

SUMMARY

Synopsis of Bill

House Bill 387 amends the rural health care practitioner tax credit against income tax to add chiropractors to the list of approved practitioners eligible to receive the $5,000 credit. There is no effective date of this bill, but the provisions apply to taxable years beginning on or after January 1, 2019.

FISCAL IMPLICATIONS

The Regulation and Licensing Department (RLD) reports there are 660 active licensed chiropractors in New Mexico. Using this as a starting point, LFC staff estimate about 25 percent of these practitioners operate in a rural health professional shortage area (HPSA), based on distributions of physicians and other specialty healthcare positions in the 2018 New Mexico Health Care Workforce Committee Report[1] and information on HPSAs from the Health Resources and Services Administration.[2] The estimated cost to the general fund for the adding chiropractors to the rural health care practitioner tax credit is about $1 million annually.

The analysis assumes the credit is an incentive for healthcare practitioners to remain in rural areas rather than an incentive for healthcare practitioners to migrate to rural areas. However, if the credit did provide an incentive to migrate to rural areas, it would increase the cost of the credit over time.

The fiscal impact assumes those qualifying for the credit will claim the full $5,000; however, the Taxation and Revenue Department (TRD) notes many eligible filers for this credit would not have sufficient tax liability to deplete the credit; therefore, the balance remaining would have three-year carry forward.

The Human Services Department (HSD) indicates the bill would have no fiscal impact to the Medicaid program since chiropractic services are not a covered benefit.

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.

SIGNIFICANT ISSUES

The existing statute allows health care practitioners who have worked at least 2,080 hours at a practice located in an approved rural health care underserved area during a taxable year to claim the credit. Under the current law, physicians, osteopathic physicians, dentists, clinical psychologists, podiatrists and optometrists are eligible for a $5,000 tax credit. Dental hygienists, physician assistants, certified nurse midwives, certified registered nurse anesthetists, certified nurse practitioners and clinical nurse specialists are eligible for a $3,000 tax credit. The proposed changes in this bill would increase the number of participating health care practitioners eligible for the tax credit.

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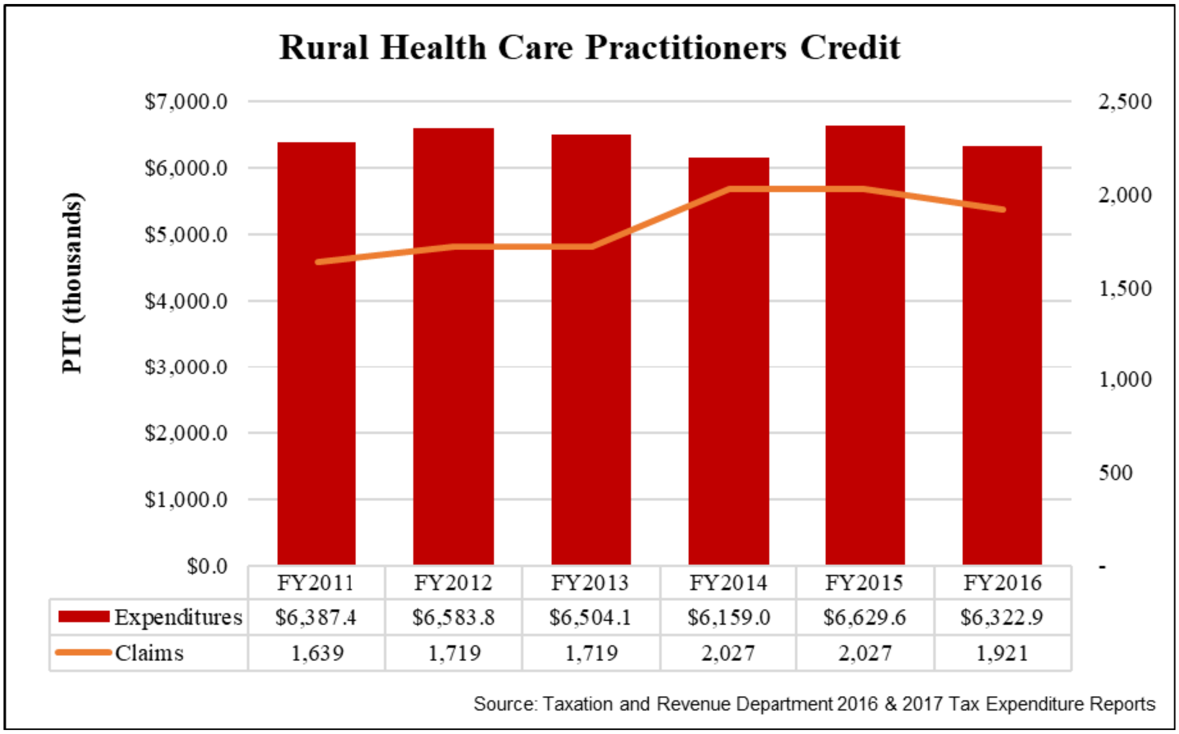
[1] https://www.nmhanet.org/files/NMHCWF_2018Report.pdf
[2] https://data.hrsa.gov/tools/shortage-area/hpsa-find

As shown in the chart below, TRD's tax expenditure reports show the cost of the current rural health practitioner's tax credit averages about $6.4 million annually.



According to the Department of Health (DOH), thirty-two of New Mexico's 33 counties are designated, entirely or partially, as primary medical care shortage areas by the federal government (http://hpsafind.hrsa.gov/HPSASearch.aspx). DOH also notes New Mexico is a geographically large state with vast rural areas, creating difficulties for many citizens to easily access a wide variety of health care practitioners (http://hpsafind.hrsa.gov/HPSASearch.aspx).

Based on available tax data for tax years 2007-2014, DOH indicates "there has been an increase in claims for physician assistants, nurse practitioners, nurse anesthetists, dentists, and dental hygienists practicing in rural and underserved areas. In general, other practitioner types have maintained a steady average in claims, which would suggest that those practitioners are being retained."

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

The eligibility expansion of this credit would increase the number of applications submitted to DOH, and the agency may indicate an additional FTE would be needed to process the anticipated increase in tax credit applications. DOH does not received specific funding to process these applications. Funding is taken out of the current Public Health Division budget.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Relates to House Bill 41, which adds licensed pharmacists, independent social workers, and marriage and family therapists to the rural health care practitioner tax credit.

Relates to House Bill 161, which adds physical therapists, occupational therapists, and physical therapists assistants to the rural health care practitioner tax credit.

TECHNICAL ISSUES

This bill does not contain a delayed repeal date. LFC recommends adding a delayed repeal date.

OTHER SUBSTANTIVE ISSUES

DOH is responsible for determining eligibility and issuing a certificate to a qualifying health care practitioner. The New Mexico Administrative Code will need to be updated to correspond to the new eligibility standards, and consideration should be made to determine how eligibility may be approved and revoked.

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

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

1. **Vetted**: The proposed new or expanded tax expenditure was vetted through interim legislative committees, such as LFC and the Revenue Stabilization and Tax Policy Committee, to review fiscal, legal, and general policy parameters.
2. **Targeted**: The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals.
3. **Transparent**: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies.
4. **Accountable**: The required reporting allows for analysis by members of the public to determine progress toward annual targets and determination of effectiveness and efficiency. The tax expenditure is set to expire unless legislative action is taken to review the tax expenditure and extend the expiration date.
5. **Effective**: The tax expenditure fulfills the stated purpose. If the tax expenditure is designed to alter behavior – for example, economic development incentives intended to increase economic growth – there are indicators the recipients would not have performed the desired actions “but for” the existence of the tax expenditure.
6. **Efficient:** The tax expenditure is the most cost-effective way to achieve the desired results.

LFC Tax Expenditure Policy Principle	**Met?**	**Comments**
Vetted	?	
Targeted		
Clearly stated purpose	✓	No, but seems evident.
Long-term goals	✘	None.
Measurable targets	✘	None.
Transparent	✘	No annual reporting required. Although credits are separately reported to TRD, the bill does not required the department to report this information to the public or to interim committees. Currently, TRD releases an annual Tax Expenditure Report in compliance with Executive Order 2011-071 under Governor Martinez. The last report was issued in 2017.
Accountable		
Public analysis	✘	No annual reporting required.
Expiration date	✘	There is not delayed repeal date.
Effective		Current data from TRD's tax expenditure report only indicates the number of claimants and cost of the credit, making it difficult to determine whether rural practitioners would not move to or remain in rural areas "but for" the credit.
Fulfills stated purpose	?	
Passes "but for" test	?	
Efficient	?	
Key: ✓ Met ✘ Not Met ? Unclear		

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