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

ORIGINAL DATE 2/4/2020
SPONSOR Padilla **LAST UPDATED** **HB**

SHORT TITLE Chiropractors In Rural Health Tax Credit **SB** 203

ANALYST Iglesias

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY20	FY21	FY22	FY23	FY24		
-	($58.1)	($58.1)	($58.1)	($58.1)	Recurring	General Fund

Parenthesis ( ) indicate revenue decreases

Duplicates, Relates to, and/or Conflicts with HB74, HB228, HB270, HB275

SOURCES OF INFORMATION
LFC Files

No Response Received
Taxation and Revenue Department

SUMMARY

Synopsis of Bill

Senate Bill 203 adds chiropractic physicians to the $5,000 rural health care practitioner tax credit against income tax. There is no effective date of this bill, but the provisions apply to taxable years beginning on or after January 1, 2020. There is no delayed repeal date but LFC recommends adding one.

FISCAL IMPLICATIONS

The 2018 Bureau of Labor Statistics (BLS) State Occupational Employment and Wage estimates there are 150 chiropractors working in New Mexico. The fiscal estimate assumes 10 percent are working in rural locations. Based on TRD analysis, LFC staff applied the same distribution of full-time and part-time credits to the new population and the percentage share of the credit that taxpayers are able to apply to annual tax year liability given their annual average salaries. This results in a total estimated cost of about $58 thousand 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 – therefore, the analysis assumes no growth in the number of professionals eligible for the credit each year.

However, if the credit did provide an incentive to migrate to rural areas, it would increase the cost of the credit over time.

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.

The chart below from TRD's 2018 Tax Expenditure Report shows a five-year history of the claims for the existing credit.

Credit, Rural Healthcare Practitioner	Tax Year (Calendar)	2013	2014	2015	2016	2017
	Claims	1748	2042	1976	1971	1707
	Expenditure (thousands)	$6,572	$6,683	$6,500	$6,596	$5,597

TRD provided the following policy discussion regarding changes to this credit:

> By expanding the population of practitioners, this credit could further incentivize the recruitment and retention of professionals to work in rural areas of the state where residents are currently medically underserved.
>
> PIT revenue represents a fairly consistent source of revenue for many states. PIT revenue is susceptible to economic downturns but also positively responsive to economic expansion. New Mexico is one of forty-two states along with the District of Columbia which impose a broad-based personal income tax. The personal income tax is seen as both horizontally equitable; the same statutes apply to all taxpayers and vertically equitable, due to the progressive design of the personal income tax. Progressive, in this context, meaning taxes where the average tax rate increase as the taxable amount increases.

Thus, the expansion of the rural health care practitioner tax credit will continue to erode horizontal equity in the state income taxes. By basing the credit on profession and location of work, taxpayers in similar economic circumstances are no longer treated equally. Thus, two social workers who earn the same salary may have different tax liability given where they work. The other side of this credit is the broader public-good to subsidize medical professional employment in rural areas for the betterment of New Mexico resident's quality of life in those areas. There are health, social and environmental benefits by serving residents in their home communities versus those residents incurring travel costs, time commitment and other burdens to travel long distances or not receive care at all.

PERFORMANCE IMPLICATIONS

Credits are separately reported to TRD, which makes it easy for the department to determine the annual cost. However, the LFC tax policy of accountability is <u>not</u> met since TRD is <u>not</u> required in the bill to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the credit and other information to determine whether the credit is meeting its purpose.

ADMINISTRATIVE IMPLICATIONS

The eligibility expansion of this credit would increase the number of applications submitted to DOH, and an additional FTE may be needed to process the anticipated increase in tax credit applications.

There would be a minimal administrative burden for TRD due to the increase in credit claims and possible associated audits.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

House Bill 74 amends the rural health care practitioner tax credit against income tax to (a) remove the lower tier $3,000 annual credit for some practitioners and instead use the higher tier $5,000 annual credit for all eligible practitioners, and (b) add licensed pharmacists, independent social workers, and marriage and family therapists to the list of practitioners eligible to receive the $5,000 credit.

House Bill 228 adds occupational therapists and physical therapists to the $5,000 rural health care practitioner tax credit.

House Bill 270 remove the nursing specialties currently eligible for the $3,000 rural health care practitioner tax credit and instead adds all registered nurses to the $3,000 credit.

House Bill 275 expands the rural health care practitioner tax credit to new occupations, requires all credit claimants to be licensed, and adds annual reporting requirements for TRD and a delayed repeal date.

TECHNICAL ISSUES

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

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 (RSTP) 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	✗	Although variations of this bill have been introduced multiple times in the last few years, the bill has not been vetted through LFC or RSTP.
Targeted		
Clearly stated purpose	✓	No, but seems evident.
Long-term goals	✗	
Measurable targets	✗	
Transparent	✗	Credits are separately reported to TRD; however, no annual reporting from TRD to interim committees is required.
Accountable		
Public analysis	✗	No annual reporting required.
Expiration date	✗	There is no 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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