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

	ORIGINAL DATE 1/22/21		
SPONSOR Garcia	**LAST UPDATED**	**HB**	45
SHORT TITLE Change Rural Health Practitioner Tax Credit		**SB**	
		ANALYST	Iglesias

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY21	**FY22**	**FY23**	**FY24**	**FY25**		
--	($5,300.0)	($5,300.0)	($5,300.0)	($5,300.0)	Recurring	General Fund

Parenthesis ( ) indicate revenue decreases

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

FY21	FY22	FY23	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
$29.4	$58.8	$58.8	$147.0	Recurring	TRD (Revenue Processing Division)
-	$117.6	$117.6	$235.3	Recurring	DOH (Public Health Division)

Parenthesis ( ) indicate expenditure decreases

Relates to HB104

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 45 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, clinical mental health practitioners, marriage and family therapists, and professional art therapists to the list of 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, 2021. There is no delayed repeal date but LFC recommends adding one.

FISCAL IMPLICATIONS

The total estimated cost of both provisions of this bill is about $5 million annually.

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.

Removing the Lower Tier Credit. Based on data from the Taxation and Revenue Department (TRD) on the number of practitioners claiming the $3,000 credit, the estimated cost of making all current claimants eligible for a $5,000 credit is about $1.8 million. TRD estimated this cost using the average salary for each respective from the Department of Workforce Solutions'[1] occupation and wage data. TRD also assumed a percentage share of the credit that taxpayers may apply to annual tax year liability given the associated average salaries for the current practitioners eligible for the $3,000 maximum credit. Credit amounts are also based on the number of hours worked in a rural practice site such that there are full-time credits and part-time credits, which are half the maximum amount. Based on a sample of taxpayer credits, TRD calculated the distribution of credits among the current population of practitioners claiming the credit.

Adding Occupations to Credit Eligibility. TRD estimates the expansion population to cost an additional $3.5 million per year. TRD assumed no growth in the number of professionals eligible for the credit each year. Given the presumed intent to improve access to health care, this credit could see growth if more professionals provide services in qualified rural areas.

To estimate the cost of adding certain occupations to the credit eligibility, TRD used information in Tables 4.1 and D.1 to view the universe of behavioral health care providers by license category from the New Mexico Health Care Workforce Committee, 2019 Annual Report[2]. The report states that 80 percent of the behavioral health workforce are social workers and counselors. The remaining 20 percent are assumed to be psychologists and nurses currently eligible for the credit. This was consistent with Table D.1, which details the workforce by provider type. TRD then summed the eligible providers in Table D.1 excluding non-independently licensed social workers who, based on the eligibility criteria, would not qualify for

[1] https://www.dws.state.nm.us/en-us/Researchers/Data/Occupations-Wages
[2] Farnbach Pearson AW, Reno JR, New Mexico Health Care Workforce Committee. *2019 Annual Report.* Albuquerque NM: University of New Mexico Health Sciences Center, 2019.
TRD assumes a similar distribution of the proposed expansion population in the current 2020 Annual Report.

the credit. Finally, approximately 25 percent are practicing in non-metropolitan areas, given the report's geographical distribution, and are assumed eligible for this credit. Based on these calculations, approximately 1,300 health care professionals would be newly eligible for the credit. Some of the providers in metropolitan areas may qualify for part-time credits if they perform some of their practice in rural qualified areas; but such metropolitan providers are not assumed in this estimate.

The 2019 Annual Report from the New Mexico Health Care Workforce Committee does not contain a revised estimate of pharmacists working in the state; however, the Board of Pharmacy has implemented a new survey system, which is still in the process of collecting data. Given that, TRD took reported distributions of pharmacists from the 2018 annual report. From 2014 to 2017, an average 1,960 pharmacists worked across the state. Of pharmacists, an average of 18 percent are assumed to work in rural areas given the report's geographical distribution; therefore, TRD assumed approximately 345 pharmacists would become eligible for the credit.

TRD applied the same distribution of full-time and part-time credits to the new population and the percentage share of the credit that taxpayers may apply to annual tax year liability given their annual average salaries. Based on Department of Workforce occupation and wage data, the new population of social workers and therapists would not have a tax liability reaching the $5,000 credit amount. For pharmacists, their average salary is assumed to reach the $5,000 credit amount.

SIGNIFICANT ISSUES

Existing Credit. 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 2020 Tax Expenditure Report shows a five-year history of the claims for the existing credit.

Credit, Rural Healthcare Practitioner	Tax Year (Calendar)	2015	2016	2017	2018	2019
	Claims	2,059	2,095	2,191	2,204	1,818
	Expenditure (thousands)	$6,776	$7,006	$7,274	$7,471	$6,150

Credit Exapansion. The NM Department of Health (DOH) notes that, geographically, New Mexico is a largely rural state. Of New Mexico's 33 counties, 26 non-metropolitan counties are considered rural or frontier in nature.[3] There are also locations within the Metropolitan Statistical

[3] https://www.nmhealth.org/publication/view/report/5676/

Area counties that are largely rural or frontier. Under current healthcare reimbursement systems, communities with a large proportion of low-income residents and rural communities may not generate sufficient paying demand to assure that providers will practice in these locations.[4] The rural to urban migration of health professionals inevitably leaves poor, rural, and remote areas underserved and disadvantaged. Skilled health professionals are increasingly taking job opportunities in the labor market in high-income areas as the demand for their expertise rises.

DOH also notes that, since the demands for health care services and providers continues to increase, providing incentives to health care providers who work in rural and underserved areas may help stabilize and improve health care services.[5] The agency believes this bill could encourage more health care providers to provide services in rural and underserved areas of the state.

TRD states 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 residents' quality of life in those areas. There are health, social, and environmental benefits gained 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.

Additionally, LFC's tax expenditure policy principles promote expiration dates on tax expenditures unless legislative action is taken to revenue the tax expenditure and extend the expiration date. The state currents spends over $1 billion annually on various tax expenditures.[6] The current credit does not include a sunset date or a cap on the total amount of credit that can be claimed in a taxable year. TRD supports sunset dates for policymakers to review the impact of a credit before extending it, if a sufficient timeframe is allotted for tax incentives to be measured. Given the expansion of this credit and the additional cost to the state, a sunset date would force an examination of the benefit of this credit versus the cost. TRD suggests a cap for the credit may also be considered for budgetary reasons. Notably, this credit can currently be carried forward for three consecutive years if the credit amount exceeds the taxpayer's tax liability.

ADMINISTRATIVE IMPLICATIONS

[4] 2020-2022 New Mexico State Health Improvement Plan: https://www.nmhealth.org/publication/view/plan/5311
[5] 2020-2022 New Mexico State Health Improvement Plan
[6] Taxation and Revenue Department, New Mexico Tax Expenditure Report 2019-2020

TRD states the department's ability to increase efficiency and accuracy of credit claims would be greatly enhanced by a requirement for the Department of Health (DOH) to upload certified taxpayer applications to TRD and include the full taxpayer social security number for taxpayer identification, the credit amount awarded, and the first year that the credit can be claimed. Currently, TRD is working on memoranda of understanding (MOUs) with different agencies that issue certificates for business credits. However, many times the information that can be shared between state agencies concerning the credits is brought into question. If agencies that issue credits are permitted to share the certificate data electronically with TRD then TRD will have complete data that can quickly be verified with information provided by taxpayers, which in turn will allow faster processing and verification of credits awarded by other state agencies.

TRD also states the department will need to make information system changes and update forms and publications. These changes will be incorporated into annual tax year implementation. Currently, all certifications must be entered manually, so increasing the number of claims with an expanded population of practitioners would increase the administrative workload for TRD. The department is currently in discussion with DOH to share certification information electronically, but there are technical and legal issues (see paragraph above). TRD assumes that electronic transfer of credit information will not occur before the effective date of the bill and thus one additional full-time employee (FTE) will be required to process additional credit claims. The recurring budget estimate for the Revenue Processing Division (RPD) of $58.8 thousand annually is based on a Tax Examiner-A classification. TRD expects to be able to absorb the impact of these changes, as outlined in this standalone bill, with one additional FTE. However, if several bills with similar effective dates become law there will be a greater impact to TRD and the agency believes additional FTE or contract resources may be needed in order to complete the changes specified by the effective date(s) of each bill.

DOH states the department does not have adequate staff to process to increase in applications for the credit expected from the eligibility expansion. The department states 1 FTE would be needed to process the anticipated increase in tax credit applications. The agency notes it does not receive specific funding to process applications for this credit – funding is taken out of the current Public Health Division budget.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

House Bill 104 expands the rural health care practitioner tax credit for the $3,000 tier to apply to essential health care workers who provided assistance to other health care professionals during Covid-19 pandemic, defined as individuals who conducted operations or services that are typically essential to continue critical infrastructure operations, including custodial and security staff.

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 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	✘	None.
Measurable targets	✘	None.
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 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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