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

		LAST UPDATED	
SPONSOR	Jones/Jaramillo	**ORIGINAL DATE**	2/28/23
SHORT TITLE	Rural Health Tax Credit Eligibility	**BILL NUMBER**	House Bill 351
		ANALYST	Faubion

REVENUE*
(dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY23	**FY24**	**FY25**	**FY26**	**FY27**		
	($1,400.0)	($1,400.0)	($1,400.0)	($1,400.0)	Recurring	General Fund

Parenthesis ( ) indicate revenue decreases
*Amounts reflect most recent version of this legislation.

Conflicts with HB38 and HB437.

Sources of Information
LFC Files

Responses Received From
Department of Finance and Administration (DFA)

No Response Received
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of House Bill 351

House Bill 351 (HB351) reduces the number of hours that a practitioner is required to provide service in a rural area to be eligible for the rural health care practitioner tax credit. The bill also amends the definition of “rural” for the rural health care practitioner credit, tying it to U.S. Department of Health and Human Services definitions instead of as identified by the NM Department of Health.

This bill does not contain an effective date, and as a result, would go into effect June 16, 2023, (90 days after the Legislature adjourns) if signed. The provisions of this bill apply to taxable years beginning on or after January 1, 2023.

FISCAL IMPLICATIONS

LFC does not have access to granular claims data on this tax credit. Analysis from TRD is required for a more precise estimate of the fiscal impacts from this bill.

In analysis for HB38, which also amends the rural health care practitioner tax credit, TRD reported the following:

> Using a sample of taxpayers that have claimed the credit between 2016 and 2020, TRD assumed the distribution of the new population of practitioners claiming the credit between full-time and part-time credits to be 60:40. TRD also assumed a percentage share of the credit that these newly eligible taxpayers may apply to their annual tax year liability, given the associated average salaries […] it was assumed that, based on their average salaries, only 68 percent of the credit amount will be claimed.

Given these assumptions by TRD, LFC assumed of the 40 percent of credit claims that currently claim half the credit amount, a quarter of them will now be eligible to claim the full amount, resulting in approximately 200 more full-time claims, a 10 percent increase. LFC assumes an additional 200 practitioners become eligible to claim a partial credit that were not previously eligible for any credit amount, resulting in a 20 percent increase in total claims. LFC maintains that 68 percent of the credit amount will be claimed for the lower credit amount and the full credit will be claimed for the higher credit amount given the average salaries and tax liability for those different types of practitioners.

This bill creates or expands a tax expenditure with a cost that is difficult to determine but likely significant. LFC has serious concerns about the significant risk to state revenues from tax expenditures and the increase in revenue volatility from erosion of the revenue base. The committee recommends the bill adhere to the LFC tax expenditure policy principles for vetting, targeting, and reporting or action be postponed until the implications can be more fully studied.

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

Many nurses and other health care practitioners do not work a traditional 40-hour work week, but instead may work three 12-hour shifts per week or some other non-traditional schedule. This amendment to the rural practitioner health care credit aligns the hours worked with this non-traditional, but common, schedule. This bill proposes a 24 percent decrease in the number of hours required to claim the credit.

Since the rural healthcare practitioner tax credit program inception in 2007, an average of 2,000 rural healthcare providers have participated each year, according to DOH. In FY22, approximately 2,000 rural healthcare providers claimed the credit, costing approximately $7.1 million, according to the 2022 New Mexico Tax Expenditure Report.

The Office of Superintendent of Insurance (OSI) notes the federal government's Health Resources and Services Administration (HRSA) designates 22 of New Mexico's rural counties as health professional shortage areas (HPSAs) for mental health providers, 17 rural counties are HPSAs for primary care, and six rural counties are dental health HPSAs.

The proposed definition of rural is tied to the U.S. Department of Health and Human Services designation of a rural county or an unincorporated area of a partially rural county instead of determined by the NM Department of Health. This will likely lead to more consistent determination of rural but is unlikely to change the number or scale of eligible areas in any given year.

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 credit and other information to determine whether the credit is meeting its purpose.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

HB351 conflicts with HB38 and HB437 which expand the types of health care practitioners eligible to claim the rural health care practitioner credit.

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	?	This bill was not vetted through an interim legislative committee, but similar bills have been introduced and debated in the past.
Targeted Clearly stated purpose Long-term goals Measurable targets	 ✘ ✘ ✘	 No stated purpose. No stated long-term goals. No measurable targets.
Transparent	?	This bill does not require annual reporting by HSD or TRD to interim legislative committees. It is included in TRD's tax expenditure report.
Accountable Public analysis Expiration date	 ? ✘	As there are no stated annual targets or goals, there is nothing from which to determine progress, effectiveness, or efficiency. There is no expiration date.
Effective Fulfills stated purpose Passes "but for" test	 ? ?	As there are no stated annual targets or goals, there is nothing from which to determine effectiveness or passing of the "but for" test.
Efficient	✘	No desired results.
Key: ✓ Met ✘ Not Met ? Unclear		

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