BILL ANALYSIS AND FISCAL IMPACT REPORT
Taxation and Revenue Department

February 5, 2024

Bill: HB-163, as amended by HHHC **Sponsor:** Representatives Miguel P. García and Jenifer Jones

Short Title: Rural Health Care Tax Credit Eligibility

Description: This bill amends the Rural Health Care Practitioner Tax Credit under Section 7-2-18.22 NMSA 1978. The amendment lowers the number of hours of health care that practitioners must provide in rural areas to receive the credit from 2,080 to 1,584 for the full amount of the credit, and from 1,040 to 792 to receive the reduced credit. The bill adds certain categories of health care practitioners to the list of those eligible to receive the credit. The bill changes the definition of "rural" from being an area designated by the Department of Health (DOH) to one designated as such by the health resources and services administration of the U.S. Department of Health and Human Services.

This credit adds a requirement for DOH to provide the certifications in a specified form and by an agreed upon manner and interval with the Taxation and Revenue Department (Tax & Rev).

This bill also adds a requirement for Tax & Rev to report on this credit to the Revenue Stabilization and Tax Policy Committee and the Legislative Finance Committee with an analysis of the cost of the credit.

The *Health & Human Services Committee* amendment makes clarification to the term midwives.

Effective Date: Not specified; 90 days following adjournment (May 15, 2024). Applicability – The provisions of this act apply to taxable years beginning on or after January 1, 2024.

Taxation and Revenue Department Analyst: Sara Grubbs

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2024	**FY2025**	**FY2026**	**FY2027**	**FY2028**		
--	($11,630)	($11,630)	($11,630)	($11,630)	R	General Fund

* In thousands of dollars. Parentheses ( ) indicate a revenue loss. ** Recurring (R) or Non-Recurring (NR).

Methodology for Estimated Revenue Impact: Section 1(b)(1): Section 1(b)(1) reduces the number of hours required to be worked in rural areas to qualify for the credit. Using a sample of taxpayers that have claimed the credit between 2016 and 2020, the Taxation and Revenue Department (Tax & Rev) calculated that the ratio of practitioners claiming the credit between full-time and part-time credits to be 60:40 and that part-time credit recipients represent about 850 taxpayers. Tax & Rev then assumes that 50% of the taxpayers receiving the part-time credit will increase their hours to obtain the full credit amount within their qualifying practitioner group. To increase their hours, they must work 9 months a year versus previously about 6 and ½ months a year.

Tax & Rev then estimated how many additional practitioners may now become eligible for the credit with the reduced hours or be incentivized to work additional hours in rural areas part of the year and receive a full-time or part-time credit. Tax & Rev used the information provided in the New Mexico Health Care Workforce Committee (HCWC) annual report for 2022[1] and 2023[2] to determine how many practitioners

[1] New Mexico Health Care Workforce Committee. 2022 Annual Report. Albuquerque NM: University of New Mexico Health Sciences Center, 2022

in rural areas may currently not be covered by the credit[3]. Tax & Rev analyzed providers in non-metropolitan areas of the state for each current eligible practitioner group based on the report's geographic distribution. In total, 189 healthcare practitioners are estimated to become newly eligible for the credit under the provisions of this bill. Tax & Rev assumed a 60:40 split for full-time versus part-time credit of the additional pool of practitioners. 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.

Tax & Rev assumes 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 as more professionals provide services in qualified rural areas.

Section 1(b)(1) amounts to $1.43 million of the total estimated revenue impact.

Section 1(b)(2): Section 1(b)(2) expands the list of persons eligible to receive the credit. To compute the fiscal impact, Tax & Rev used the information provided in the New Mexico Health Care Workforce Committee (HCWC) annual report for 2023. The largest component of the fiscal impact is from the inclusion of registered nurses (RNs) among the health care professionals eligible for the credit. Per the 2023 HCWC report's Table 5.6, there were 16,181 practicing RNs and Certified Nurse Specialists (CNS) in New Mexico. CNSs are advanced practice RNs that are already eligible for the credit. The Department assumed that 90% of the 16,181 were RNs. Of these, 20% are practicing in nonmetropolitan areas, given the report's geographic distribution, and are assumed to become eligible for this credit. Based on these calculations, approximately 2,914 RNs would be newly eligible for the credit.

The next largest component of the fiscal impact is from the inclusion of various types of behavioral healthcare providers to the list of eligible health care practitioners. Due to a lack of available data on some health care providers for the 2023 HCWC report, Tax & Rev uses the 2022 report. According to the 2022 HCWC report, there were approximately 8,434 classified behavioral health care providers. Of these, based on Table 6.2, which details the workforce by provider type in the 2022 HCWC report, 87% of providers are assumed to be classified as one of the newly added categories of eligible behavioral healthcare providers in this bill (clinical social workers, independent social workers, professional mental health counselors, professional clinical mental health counselors, marriage and family therapists, professional art therapists, alcohol and drug abuse counselors). Tax & Rev assumes approximately 25% of these providers are practicing in nonmetropolitan areas. Based on these calculations, approximately 1,677 health care professionals would be newly eligible for the credit.

The remaining components of the fiscal impact come from the addition of pharmacists and physical therapists (PTs) to the list of eligible health care practitioners. Based on the 2022 HCWC report, there were approximately 1,890 pharmacists and 1,536 PTs working in the state of New Mexico. Of these, 24% of pharmacists and 25% of PTs are practicing in non-metropolitan areas, given the report's geographic distribution, and are assumed eligible for this credit. Based on these calculations, approximately 460 pharmacists and 380 PTs would become eligible for the credit.

In total, 5,372 healthcare practitioners are estimated to become newly eligible for the credit under the provisions of this bill. Some of the providers in the newly eligible categories 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.

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[2] New Mexico Health Care Workforce Committee. 2023 Annual Report. Albuquerque NM: University of New Mexico Health Sciences Center, 2023

[3] New Mexico Regulation and Licensing Department (RLD) experienced a data breach in October 2022 and anticipates the absence of comprehensive data for the next two to three years.

Tax & Rev assumed the distribution of the new population of practitioners claiming the credit between full-time and part-time credits to be 60:40. Tax & Rev 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 for the new categories of practitioners eligible for the $3,000 maximum credit. The average salary for each respective practitioner category was taken from the Department of Workforce Solutions'[4] occupation and wage data. For pharmacists and PTs, the tax liability based on their average salary is assumed to reach the $3,000 credit amount. But for the other categories of newly eligible practitioners, it was assumed that, based on their average salaries, 75% of the credit amount will be claimed.

Section 1(b)2) amounts to $10.2 million of the total estimated revenue impact.

In total, based on the foregoing figures and assumptions, the reduction of eligible hours and expansions outlined in this bill are estimated to reduce PIT revenue by $11.63 million per year. Tax & Rev assumes 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 as more professionals provide services in qualified rural areas.

Policy Issues: Personal income tax (PIT) represents a consistent source of revenue for many states. For New Mexico, PIT is approximately 25% of the state's recurring general fund revenue. While this revenue source is susceptible to economic downturns, it is also positively responsive to economic expansions. New Mexico is one of 41 states, along with the District of Columbia, that impose a broad-based PIT (New Hampshire and Washington do not tax wage and salary income). Like several states, New Mexico computes its income tax based on the federal definition of taxable income and ties to other statues in the federal tax code. This is referred to as "conformity" to the federal tax code. The PIT is an important tax policy tool that has the potential to further both horizontal equity, by ensuring the same statutes apply to all taxpayers, and vertical equity, by ensuring the tax burden is based on taxpayers' ability to pay.

The proposed changes of the rural health care practitioner tax credit will erode horizontal equity in 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 dentists who earn the same salary may have different tax liability given where they work. The proposed changes to lower the required number of qualified hours further erodes that horizonal equity by potentially increasing the pool of qualified taxpayers. The other side of this credit is the broader public good of subsidizing 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.

Reducing the qualified hours may have unintended consequences. The current level of the full credit represents working full-time annually in a rural clinic. By dropping the hours down to 1,584, this represents working approximately 9 months of the year in a rural clinic. The population of taxpayers receiving the credit with higher hours may lower their hours working in rural areas and work for three months in a metropolitan area to receive a higher income for a fourth of the year. That said, requiring a practitioner to work 2,080 hours per year equates to that individual taking no time off in a year, whether for vacation or illness; this is likely not feasible.

The demand for health-care workers in the current market could facilitate an arrangement such as this. Thus, current practitioners receiving the higher credit amount working full-time in rural clinics may

[4] https://www.dws.state.nm.us/en-us/Researchers/Data/Occupations-Wages

decrease the time seeing patients in rural areas. This could potentially impact patients who have established care with certain healthcare practitioners. If the changes proposed in the bill do not incentivize more practitioners to serve rural areas or increase their service hours in rural areas that could put further strain on the healthcare infrastructure in rural areas.

The New Mexico Health Care Workforce Committee has routinely recommended for the expansion of the rural health practitioner tax credit, including listing it as Recommendation 7 from the New Mexico Health Care Workforce Committee, 2023 Annual Report. The annual report notes that pharmacists, physical therapists, social workers, and counselors who are included in the expansion of this credit are particularly needed in many areas of the state. By expanding the population of eligible 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.

The current credit does not include a sunset date. Tax & Rev 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.

Technical Issues: The bill adds language to require the practitioner taxpayer identification number on the certificate. Clarifying that this should be the social security number of the taxpayer and not the business tax ID number for those that are private practitioners would be beneficial to credit processing at Tax & Rev, and improve the customer experience by requiring fewer supplemental items to be submitted.

Other Issues: None.

Administrative & Compliance Impact: Tax & Rev will need to make information system changes and update forms, instructions, publications. These changes will be included in annual tax year changes.

Tax & Rev recommends an interface to allow the Department of Health (DOH) to send the certification information regularly and securely. The added requirement for DOH to provide the certifications in a specified form and by an agreed upon manner and interval with Tax & Rev will increase processing efficiency for the Revenue Processing Department (RPD) and reduce risks for certification data being shared from the source versus at the time of filing with the taxpayer. Tax and Rev may have some non-recurring costs to facilitate the data exchange with DOH but will have recurring savings which will aid in other reported impacts if several bills with new tax credits become law.

This bill will have a low impact on Tax & Rev Information Technology Division (ITD), approximately 300 hours or about 2 months for an estimated staff workload cost of $16,650 to expand the Health Care Practitioner Tax Credit.

Estimated Additional Operating Budget Impact*				R or NR**	Fund(s) or Agency Affected
FY2024	FY2025	FY2026	3 Year Total Cost		
--	$16.6	--	$16.6	NR	Tax & Rev - ITD

* In thousands of dollars. Parentheses ( ) indicate a cost saving. ** Recurring (R) or Non-Recurring (NR).

Related Bills: Similar to HB-74 (2020 Regular Session), HB-45 (2021 Regular Session), HB-17 (2022 Regular Session), HB-351 (2023 Regular Session), HB-38 (2023 Regular Session).