BILL ANALYSIS AND FISCAL IMPACT REPORT
Taxation and Revenue Department

January 29, 2024

Bill: HB-218 **Sponsor:** Representatives Jason C. Harper and Jenifer Jones

Short Title: Rural Health Care Tax Credit Definitions

Description: This bill amends Section 7-2-18.22 NMSA 1978 to reduce the amount of hours required for eligibility to claim the rural health care practitioner credit. 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 also amends 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.

Effective Date: Not specified; 90 days following adjournment (May 15, 2024). Applicable 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		
--	($1,430)	($1,430)	($1,430)	($1,430)	R	General Fund

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

Methodology for Estimated Revenue Impact: Using a sample of taxpayers that 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 sufficiently to qualify for the new full credit rather than the former reduced credit, 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 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

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

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 qualified professionals provide services in rural areas. However, Tax & Rev also recognizes that there can be unintended consequences that may reduce the number of qualified practitioners in rural areas (see Policy Issue below).

Policy Issues: Personal income tax (PIT) represents a consistent source of revenue for many states. For New Mexico, PIT is approximately 25 percent 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 to the rural health care practitioner tax credit will continue to 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. Dropping the hours down to 1,584 hours 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.

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 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 incentive 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.

Technical Issues: Page 5, lines 10 through 15 amends the definition of "rural" to mean "a rural county or an unincorporated area of a partially rural county, as designated by the Health Resources and Services Administration of the United States Department of Health and Human Services." This definition may exclude areas of the state that were previously eligible. For example, Edgewood is in Santa Fe County and based on the list of New Mexico rural counties and designated eligible census tracts in metropolitan counties Santa Fe is not a designated county.[4] Those practitioners who were deemed eligible in

[4] https://data.hrsa.gov/Content/Documents/tools/rural-health/forhpeligibleareas.pdf

Edgewood or other practitioners currently eligible for the credit based on the prior definition, are assumed ineligible for tax year 2024. Tax & Rev suggests an effective date of January 1, 2025, to recognize the work already completed for current eligible practitioners and to ensure they do not lose their qualification for tax year 2024.

Other Issues: To increase return processing efficiency and reduce internal risk, the Revenue Processing Division (RPD) recommends adding language which prescribes a method of electronic data sharing on agreed upon intervals to populate certification data in the system of record which would provide a secure method of exchanging data and improve the customer experience for tax credit claims. On page 3, line 13 after "claimed." Insert: the department of health shall provide the department with the certificates of eligibility issued pursuant to this subsection in an electronic format at regularly agreed upon intervals.

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

Related Bills: Conflicts with SB-163, SB-107 (2024 Session), Similar to HB-351 (2023 Session)