

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (legis.state.nm.us). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

SPONSOR Snyder DATE TYPED 02/23/05 HB _____

SHORT TITLE Employee Health Insurance Tax Credit SB 290

ANALYST Padilla-Jackson

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
(\$20,000.0)	(\$40,000.0)	Increasing	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

Relates to House Bill 284

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 290 creates new sections in the Income Tax Act and the Corporate Income and Franchise Tax Act to provide tax credits to small New Mexico employers (with 50 or fewer employees) for a portion of employee health insurance premiums paid. The tax credit would equal 50 percent of premiums paid for each of the first five years during which the taxpayer pays employee health insurance premiums and 35 percent in a year that is not one of the first five years. The tax credits are not refundable nor can they be rolled over into subsequent tax years.

PERFORMANCE IMPLICATIONS

According to comments from the Human Services Department regarding a similar bill, the provisions of Senate Bill 290 would address the Human Services Department goal of providing New Mexicans access to support and services so they may move toward self-sufficiency. HSD also made comments to suggest that a bill like Senate Bill 290 would target several performance measures the Governor has identified to reduce the uninsured population and increase the rate of employer-sponsored health insurance in New Mexico. The Governor is introducing a package of legislation aimed at decreasing the uninsured rate by 10 percent.

FISCAL IMPLICATIONS

The total fiscal impact, as estimated by TRD, is -\$40 million to the general fund in FY06.

According to the Labor Department, there are approximately 39,000 firms in the state with less than 50 employees. These firms have a total of approximately 286,000 thousand employees. Based on the HPC surveys, an average 55 percent (157,000) of these employees have some form of employer-sponsored insurance coverage, and the average employer-paid premium per employee is \$3,250 per year. The fiscal impact estimate assumes an increase of about 5 percent (or 7,850 covered employees) in tax year 2005, with a slower rate of increase thereafter. TRD impacts were estimated using information from the NM Department of Labor and from surveys on employment-based health insurance coverage in New Mexico conducted in 2000 and 2004 under the sponsorship of the New Mexico Health Policy Commission.

Using the above assumptions, TRD calculates that total premiums eligible for the credits would be about \$500 million, generating potential credits of \$250 million at the 50 percent rate. TRD notes that actual credit claims would be sharply limited by total income tax liability of firm owners. Using ratios derived from the I.R.S. Statistics of Income for corporate and personal income tax returns, TRD notes that total taxable income for the firms affected by the bill is estimated to be about \$800 million. At an average tax rate of approximately 5 percent, this yields total income tax of \$40 million per year. This amount is the limit of the total credits that can be claimed because the bill's proposed tax credit in excess of tax liability is not refundable or allowed to be carried forward.

ADMINISTRATIVE IMPLICATIONS

It is likely that the cost to the Department of Taxation and Revenue of administering the proposed measure would reportedly be relatively minor.

OTHER SUBSTANTIVE ISSUES

HSD provided the following comments on a similar bill being proposed :

According to the Census' 2003 Current Population Survey, New Mexico ranks second in the nation for the rate of uninsured at 22.1 percent or an estimated 414,000 individuals. The NM Health Policy Commission's recent survey of New Mexico employers reported that 70 percent of employers who currently do not offer health insurance want some form of tax relief from the state. Twenty six percent of the employers, who do not offer coverage, say they are likely to offer a plan in the near future to their employees. The employer survey findings indicate employers are very likely to support and utilize such a tax credit. Implementation of the tax credits contained in the bill could have a positive impact on the high rate of uninsured in New Mexico.

OPJ/lg