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FISCAL IMPACT REPORT

SPONSOR Beffort **ORIGINAL DATE** 2/4/06
LAST UPDATED _____ **HB** _____
SHORT TITLE Employer-sponsored Insurance Tax Credit **SB** 544
ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
(7,000.0)	(14,500.0)	(15,000.0)	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

Conflicts with SB 345, SB 606

SOURCES OF INFORMATION

LFC Files

Taxation and Revenue Department (TRD)

Kaiser Family Foundation (KFF)

Response Received From

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 544 amends the Income Tax Act and the Corporate Income and Franchise Tax Act by providing a credit for employers with an average of 10 or fewer employees during the tax year for which the credit is claimed who provide health insurance to their employees. The credit is for 5 percent of the premiums paid by the employer for the employees' health care and is refundable meaning that if the credit exceeds tax liability, the remainder is refunded to the taxpayer.

The effective date is January 1, 2006.

FISCAL IMPLICATIONS

There are approximately 29,000 businesses in New Mexico with fewer than 10 employees. Using a calculator provided by TRD, the population expected to be covered is 70,000.

Average family health insurance costs \$5,100 per policy (this is a weighted average that includes singles, two person and family policies). Using these assumptions, a 5% credit on the employer's portion of the insurance premium, which ranges from 73 percent to 80 percent, is expected to reduce income tax revenues by \$14 million per year.

In FY06, the impact would be \$7 million assuming the tax year is evenly divided amongst fiscal years. In FY07, the reduction in general fund revenues would be \$14.5 million and in FY08 it would be \$15.0 million and increase in subsequent years.

SIGNIFICANT ISSUES

Nationally, health insurance premiums grew tremendously over the last decade and though the rate of growth has slowed in the last two years, it remains near 10 percent. That compares with inflation at approximately 3 percent and the economy which is also growing at about 3 percent. As the premiums increase, the number of employers offering health insurance decreases. According to the Kaiser Family Foundation, which tracks a host of health related issues, the percentage of employers offering health insurance has dropped from 69 percent to 60 percent in the last few years.

In NM, affordable health insurance is more of a problem than nationally. The burden of providing health care access has shifted from the employer to the government, particularly for children whose parents cannot get health insurance at work. States have recently been trying to reverse that and one way is to offer tax incentives that encourage employers to provide access to health insurance. However, the cost of health insurance is still an insurmountable obstacle for many smaller businesses and if they provide it they have to pass on a significant share of the premium to the employee.

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