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## FISCAL IMPACT REPORT

**SPONSOR** Martinez, R. **ORIGINAL DATE** 01/21/10 **LAST UPDATED** \_\_\_\_\_ **HB** 36  
**SHORT TITLE** Expand Rural Health Practitioner Tax Credit **SB** \_\_\_\_\_  
**ANALYST** Clifford

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY10	FY11	FY12		
	(\$562.0)	(\$2,280.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Department of Health (DOH)

NM Health Policy Commission (HPC)

Taxation & Revenue Department (TRD)

### SUMMARY

#### Synopsis of Bill

House Bill 36 modifies the Rural Health Care Practitioner tax credit to make the following practitioners eligible for the annual \$3,000 credit: licensed occupational therapists, physical therapists, social workers and speech-language pathologists. The definition of a clinical psychologist for purposes of the credit is modified. The expanded credit will be applicable beginning with tax year 2011.

### FISCAL IMPLICATIONS

Data from DOH and HPC indicate about 7,400 licensed practitioners statewide in the eligible specialties. Experience with the present law credit suggests about 14% of this population, or 1,000 persons, will be eligible for credit. At \$3,000 per taxpayer this causes a \$3 million potential annual fiscal impact. TRD notes that some taxpayers will not be eligible for a full year's worth of credits, and also that some taxpayers will not face a sufficiently large tax liability to be able to utilize the full credit amount. The estimated fiscal impact was reduced by 25% to account for these factors. Timing of the fiscal impacts is difficult to predict. Some taxpayers

may wait until they file their tax returns to claim the credit. In the case of tax year 2011 returns, this would occur in FY12. However, given the large value of the credit – enough to eliminate all liability for taxpayers making as much as \$70,000 – some taxpayers will probably modify their withholding and estimated payments. For tax year 2011, this would occur as soon as the spring of 2011, or in FY11. The impacts in the table assume that 50 percent of the credit is recognized as reduced withholding and estimated payments each year and therefore that 25% of the tax year 2011 impact occurs in FY11.

## **SIGNIFICANT ISSUES**

The rural health care practitioner tax credit provides a credit against personal income in the amount of \$5,000 for physicians and dentists and \$3,000 for nurses, dental hygienists, and physician assistants practicing full time in rural health care underserved areas, as defined by DOH. TRD reports that \$4.8 million in credits were claimed on 1,200 tax returns in tax year 2007, the first year of the credit.

DOH reports that the expanded scope of the credit will encourage more practitioners to serve rural areas. According to a DOH report on the first six months of the current credit, 1,356 practitioners qualified for the credit, almost half of them physicians. The geographic distribution was evenly spread through four regions: 394 in the northwest, 230 in the northeast, 297 in the southwest, 418 in the southeast, and 17 in Bernalillo County. Most of the professionals lived and worked in rural areas and about half of them travel more than one hour each way to their practice site. DOH also reports that the targeted specialties are among those for which the state faces an inadequate supply according to the State's 2008 Comprehensive Strategic Health Plan. DOH notes that the proposed definition of clinical psychologist is somewhat more restrictive than that in present law and may reduce to some extent the number of eligible parties.

It is unclear from DOH information if any of the physicians that are qualifying for the credit are new to rural areas or existing physicians. According to the Health Policy Commission "Quick Facts" publications, the supply of physicians in NM grew from 4,010 to 4,220, or 5.2 percent, from 2005 to 2007. The growth was higher in urban counties than in rural counties.

## **OTHER SUBSTANTIVE ISSUES**

The rural practitioner tax credit is an example of a "tax expenditure," i.e. the use of public funds through foregone taxes to achieve a public purpose. Total tax expenditures have increased significantly over the last several years, raising concerns because these monies are not subject to direct appropriation and oversight, and because they are difficult to control during a period of financial distress like the current economy.

## **ALTERNATIVES**

Rather than increasing credits, State funds could be spent to directly employ practitioners in targeted areas and specialties thus potentially generating matching federal Medicaid funds.

## POSSIBLE QUESTIONS

Is the credit really attracting additional professionals to rural areas or is the state merely subsidizing the practices of those already working in rural areas?

TC/mew

***The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:***

- 1. Adequacy:*** revenue should be adequate to fund government services.
- 2. Efficiency:*** tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.
- 3. Equity:*** taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.
- 4. Simplicity:*** taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.
- 5. Accountability/Transparency:*** Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.

***More information about the LFC tax policy principles will soon be available on the LFC website at [www.nmlegis.gov/lcs/lfc](http://www.nmlegis.gov/lcs/lfc)***