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FISCAL IMPACT REPORT

ORIGINAL DATE 1/26/18

SPONSOR Garcia, M P LAST UPDATED _____ HB 104

SHORT TITLE Rural Health Care Tax Credit Changes SB _____

ANALYST Clark

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY18	FY19	FY20	FY21	FY22		
\$0	(\$2,400.0) – (\$9,900.0)	(\$2,400.0) – (\$9,900.0)	(\$2,400.0) – (\$9,900.0)	(\$2,400.0) – (\$9,900.0)	Recurring	General Fund

Parenthesis () indicate revenue decreases

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY18	FY19	FY20	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
	Minimal	Minimal	Minimal	Minimal	Recurring	Taxation and Revenue Department
	\$14.5	\$58.0	\$58.0	\$130.5	Recurring	Department of Health

Parenthesis () indicate expenditure decreases

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)
 Regulation and Licensing Department (RLD)
 Department of Health (DOH)
 Human Services Department (HSD)
 Office of Superintendent of Insurance (OSI)

SUMMARY

Synopsis of Bill

House Bill 104 amends the rural health care practitioner tax credit against income tax to apply the existing, higher amount of \$5 thousand to all practitioners, removing the second amount of

\$3 thousand that currently applies to some practitioners. It also adds to the list of approved practitioners the following licensed professionals: counselors and therapists, pharmacists, and social workers. The bill also performs minor language cleanup.

There is no effective date of this bill, but the provisions apply to taxable years beginning on or after January 1, 2018.

FISCAL IMPLICATIONS

Under current law, the credit amount per claimant is one of two amounts, with physicians and similar professionals able to claim \$5 thousand, but technicians, nurses and others able to claim only \$3 thousand. The Taxation and Revenue Department (TRD) reports the minimum amount shown in the fiscal impact range is due to raising all claimants to the \$5 thousand level. The upper amount shown in the fiscal impact range is due to adding additional qualifying positions. Below is additional analysis from TRD.

The legislation proposes two mechanics that increase the tax expenditure for this tax credit: elimination of the credit tiers and expansion of qualifying healthcare practitioners.

Health care practitioners fall into three occupational groups: community and social service occupations, healthcare practitioners and technical occupations, and healthcare support occupations. The federal Bureau of Labor Statistics reports that there are approximately 52 thousand New Mexicans employed in these occupation groups. However, only approximately 6 thousand are employed in occupations that qualify for the existing credit.

Approximately 70 percent of employed New Mexicans are located in a metropolitan statistical area: Albuquerque, Las Cruces, Santa Fe, or Farmington. The remainder are employed in nonmetropolitan areas; the number of taxpayers currently claiming the credit is approximately 30 percent of those employed in a qualifying occupation. Applying this ratio to the number of persons employed in the expanded group of qualifying occupations, TRD estimates that an additional 1,500 taxpayers will become eligible.

To incur a New Mexico tax liability of \$5 thousand or more, a taxpayer must have New Mexico taxable income greater than \$106 thousand (the actual amount varies slightly by filing status). For the majority of the qualifying occupations, the gross mean salary is significantly less than \$100 thousand (the average of the mean salaries is approximately \$57,000)¹. In fact, only 13 of the 49 occupational codes included in the data set had salaries that could produce a taxable income equal or greater than the threshold. Thus, most taxpayers who receive the credit will require the carryover period to realize the full value of the credit.

This bill may be counter to the LFC tax policy principle of adequacy, efficiency, and equity. Due to the increasing cost of tax expenditures, revenues may be insufficient to cover growing recurring appropriations.

¹ It is unusual to calculate an average of an average. In this case, the economist calculated the average of the mean salaries reported by BLS to estimate the carryforward period for credit utilization.

Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for a tax expenditure may be ambiguous, further complicating the initial cost estimate of the expenditure's fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures.

SIGNIFICANT ISSUES

The existing statute allows health care practitioners who have worked at least 2,080 hours at a practice located in an approved rural health care underserved area during a taxable year to claim the credit. Thirty-two of New Mexico's 33 counties are designated, entirely or partially, as primary medical care shortage areas by the federal government (<http://hpsafind.hrsa.gov/HPSASearch.aspx>).

The Department of Health (DOH) provided the following analysis.

Skilled health professionals are increasingly taking job opportunities in the labor market in high-income areas as the demand for their expertise rises. The rural to urban migration of health professionals inevitably leaves poor, rural, and remote areas underserved and disadvantaged.

The demand for health care services in New Mexico has grown as the number of insured individuals has increased due to Medicaid expansion and implementation of the Patient Protection and Affordable Care Act. Twenty-six of New Mexico's 33 counties showed a 10 percent or more increase in health insurance coverage between 2013 and 2014. Therefore, demand for providers has increased, making incentives to maintain and attract providers critical.

Along these same lines, the Human Services Department reported that in 2015, the New Mexico Health Care Workforce Committee issued a report and noted the misdistribution of mental health professionals. It noted that 80 percent of psychiatrists, 69 percent of psychologists, 60 percent of social workers, and 68 percent of professional counselors practice in the state's three largest metropolitan counties.² In its strategic plan, the Behavioral Health Collaborative identified workforce shortages as a key challenge for the behavioral health system in New Mexico.³ To the degree that tax credits encourage more practitioners to practice in rural areas of New Mexico, this bill may help address this workforce challenge.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is not met since TRD is not required in the bill to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the deduction and other information to determine whether the deduction is meeting its purpose.

²2015 Annual Report, New Mexico health Care Workforce Committee, October 1, 2015.

³ A Behavioral Health Strategic Plan for System Improvement, New Mexico Behavioral Health Collaborative January 14, 2016. http://newmexico.networkofcare.org/content/client/1446/FINAL_BHC_StrategicPlan01.14.16.pdf

ADMINISTRATIVE IMPLICATIONS

DOH reports the eligibility expansion would increase the number of applications submitted to the agency without adequate staff to process the increased applications. An FTE would be needed to process the anticipated increase in tax credit applications, but the proposed legislation contains no appropriation for administrative support needed to carry out the requirements. DOH does not receive specific funding to process these applications. Funding is taken out of the current Public Health Division budget.

There would be a minimal administrative burden for TRD due to the increase in credit claims and possible associated audits.

TECHNICAL ISSUES

This bill does not contain a delayed repeal date. LFC recommends adding a delayed repeal date.

OTHER SUBSTANTIVE ISSUES

Thirty-two of New Mexico's 33 counties are designated, entirely or partially, as primary medical care shortage areas by the federal government (<http://hpsafind.hrsa.gov/HPSASearch.aspx>).

Does the bill meet the Legislative Finance Committee tax policy principles?

- 1. Adequacy:** Revenue should be adequate to fund needed government services.
- 2. Efficiency:** Tax base should be as broad as possible and avoid excess reliance on one tax.
- 3. Equity:** Different taxpayers should be treated fairly.
- 4. Simplicity:** Collection should be simple and easily understood.
- 5. Accountability:** Preferences should be easy to monitor and evaluate

Does the bill meet the Legislative Finance Committee tax expenditure policy principles?

1. **Vetted:** The proposed new or expanded tax expenditure was vetted through interim legislative committees, such as LFC and the Revenue Stabilization and Tax Policy Committee, to review fiscal, legal, and general policy parameters.
2. **Targeted:** The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals.
3. **Transparent:** The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies.
4. **Accountable:** The required reporting allows for analysis by members of the public to determine progress toward annual targets and determination of effectiveness and efficiency. The tax expenditure is set to expire unless legislative action is taken to review the tax expenditure and extend the expiration date.
5. **Effective:** The tax expenditure fulfills the stated purpose. If the tax expenditure is designed to alter behavior – for example, economic development incentives intended to increase economic growth – there are indicators the recipients would not have performed the desired actions “but for” the existence of the tax expenditure.
6. **Efficient:** The tax expenditure is the most cost-effective way to achieve the desired results.

LFC Tax Expenditure Policy Principle	Met?	Comments
Vetted	?	
Targeted		
Clearly stated purpose	✓	No, but seems evident.
Long-term goals	✗	
Measurable targets	✗	
Transparent	✗	
Accountable		
Public analysis	✗	
Expiration date	✗	
Effective		
Fulfills stated purpose	?	
Passes “but for” test	?	
Efficient	?	
Key: ✓ Met ✗ Not Met ? Unclear		