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F I S C A L I M P A C T R E P O R T

SPONSOR Gallegos, DY/ Trujillo, J **ORIGINAL DATE** 01/22/19 **LAST UPDATED** 03/08/19 **HB** 161/aHTRC

SHORT TITLE Additions To Rural Health Care Practitioners **SB**

ANALYST Iglesias

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY19	FY20	FY21	FY22	FY23		
*	($1,260.0 to $3,300.0)	($1,298.0 to $3,400.0)	($1,337.0 to $3,500)	($1,377.0 to $3,600.0)	Recurring	General Fund

Parenthesis ( ) indicate revenue decreases

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY19	FY20	FY21	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	$0.0	$68.0	$68.0	$136.0	Recurring	Department of Health

Parenthesis ( ) indicate expenditure decreases

(*) Note, since the bill's provisions apply to TY19 income, there might be a small amount of impact in FY19. However, the bill becomes effective 90 days after adjournment and might only affect the June PIT estimated payments. If there is an impact in FY19, it would be negative to the general fund.

Relates to HB41

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
Regulation and Licensing Department (RLD)
Department of Health (DOH)

SUMMARY

Synopsis of HTRC Amendment

The House Taxation and Revenue Committee Amendment to House Bill 161 adds a sunset date of January 1, 2019. However, this appears to be a technical error, as this would retroactively expire the rural health care practitioner credit of the beginning of this year. A similar amendment to a related bill, HB41, added a sunset date to this credit of January 1, 2029. Based on discussion in the HTRC hearing in which this bill was passed, the intent was to establish the sunset date for 2029, not 2019.

Synopsis of Original Bill

This bill amends the rural health practitioner's tax credit to add occupational therapists, physical therapists, and physical therapist assistance as eligible physicians that qualify for this income tax credit. There is no effective date of this bill. It is assumed that the effective date is 90 days after this session ends. This bill applies to tax years on or after January 1, 2019.

FISCAL IMPLICATIONS

The cost to the general fund of adding of occupational therapists, physical therapists, and physical therapist assistants to the rural healthcare practitioner tax credit is estimated to range between $1.3 million and $3.3 million in FY20 and is expected to grow each year based on population growth.

The low end estimate represents an analysis by the Taxation and Revenue Department (TRD) employment data published by the New Mexico Department of Workforce Solutions (DWS) to estimate the fiscal impact of adding healthcare occupations to the existing rural healthcare practitioner tax credit. During 2017 DWS reports that there are: 690 Occupational Therapists; 1,350 Physical Therapists; and 480 Physical Therapist Assistants employed in the state. Considering the wage differential between metropolitan areas and rural areas, TRD used this DWS data to calculate the average metropolitan wage and the average rural wage for the enumerated occupations. Although occupational compensation varies by specialty, on average, healthcare practitioners earn higher wages in metropolitan statistical areas and lower wages in rural areas. Thus, the TRD economist's assumption is that the credit is not an incentive for healthcare practitioners to migrate to rural areas; rather, it is an incentive for healthcare practitioners to remain in rural areas.

The lower end TRD estimate also considered the value of the credit relative to average earnings. The average gross salary for all healthcare practitioners in New Mexico is $78,730. While the actual tax liability for each taxpayer varies – and New Mexico Taxable Income, in general, is less than gross earnings – the average tax liability for healthcare practitioners is approximately $3,500. Thus, the tax credit exceeds the average liability, and taxpayers will have a carry forward that grows each year. This is consistent with the history and mechanics of the current program.

The higher-end estimate by LFC staff uses current data from the Regulation and Licensing Department (RLD) showing there are currently 1,890 licensed physical therapists in New Mexico and 786 licensed physical therapist assistants. LFC also used information from the New Mexico Health Care Workforce Committee Annual report showing 942 licensed occupational therapists practicing in the state. Assuming about 20 percent of persons employed in these professions live a qualified rural area for this tax credit, about 725 practitioners would become eligible for this credit – 567 persons for the $5,000 credit and 158 persons for the $3,000 credit. If each of these practitioners were able to claim the full value of the credit, the total cost of the bill would be $3.3 million in FY20. However, this would represent a cap since, as TRD's analysis states above, the value of the tax credit will likely exceed average liability.

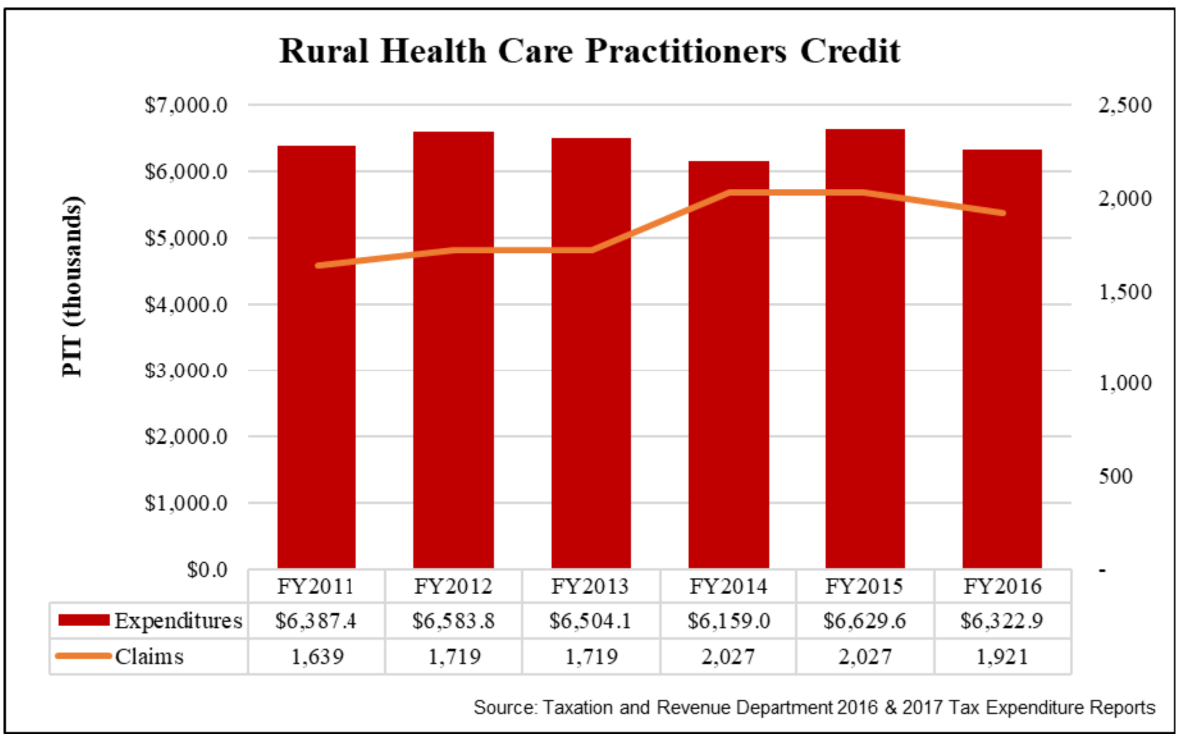
The fiscal impact estimates assume the credit is not an incentive for healthcare practitioners to migrate to rural areas; rather, it is an incentive for healthcare practitioners to remain in rural areas. Additionally, it is not clear that rural healthcare facilities infrastructure is robust enough to support additional healthcare occupations.

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.

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. Under the current law, physicians, osteopathic physicians, dentists, clinical psychologists, podiatrists and optometrists are eligible for a $5,000 tax credit. Dental hygienists, physician assistants, certified nurse midwives, certified registered nurse anesthetists, certified nurse practitioners and clinical nurse specialists are eligible for a $3,000 tax credit. The proposed changes in this bill would increase the number of participating health care practitioners eligible for the tax credit. As shown in the chart below, TRD's tax expenditure reports show the cost of the current rural health practitioner's tax credit averages about $6.4 million annually.



	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Expenditures	$6,387.4	$6,583.8	$6,504.1	$6,159.0	$6,629.6	$6,322.9
Claims	1,639	1,719	1,719	2,027	2,027	1,921

The Department of Health (DOH) indicates 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). DOH also notes New Mexico is a geographically large state with vast rural areas, creating difficulties for many citizens to easily access a wide variety of health care practitioners. Based on available tax data for tax years 2007-2014, DOH indicates "there has been an increase in tax credit claims by physician assistants, nurse practitioners, nurse anesthetists, dentists, and dental hygienists practicing in rural and underserved areas. In general, other practitioner types have maintained a steady average in claims, which would suggest that those practitioners are being retained."

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.

ADMINISTRATIVE IMPLICATIONS

TRD recommends the following metrics to standardize the administration of business credits: 1) credits should not be refundable, thereby limiting the State's investment to the economic value created by the taxpayer; 2) credit programs should sunset within five years so the efficacy of the incentive can be evaluated; 3) credits should have carry forward periods not exceeding three years to limit the fiscal expenditure and the term of the program; 4) programs requiring administration through multiple agencies other than TRD should employ E-Systems; 5) applications for business credits shall be submitted electronically in a form prescribed by the department; and 6) application for business credits shall be made within one tax year of eligibility to limit the administrative and fiscal impacts of the expenditure.

The eligibility expansion of this credit would increase the number of applications submitted to DOH, and an additional FTE would potentially be needed to process the anticipated increase in tax credit applications. DOH does not received specific funding to process these applications. Funding is taken out of the current Public Health Division budget.

RELATIONSHIP

House Bill 41 amends the rural healthcare practitioner tax credit to include pharmacists, independent social workers, clinical mental health practitioners, marriage and family therapists and professional art therapists.

TECHNICAL ISSUES

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

OTHER SUBSTANTIVE ISSUES

DOH is responsible for determining eligibility and issuing a certificate to a qualifying health care practitioner. The agency states the New Mexico Administrative Code will need to be updated to correspond to the new eligibility standards, and consideration should be made to determine how eligibility may be approved and revoked.

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	✗	The rural health care practitioner tax credit statute does not include long-term goals or measurable targets
Measurable targets	✗	
Transparent	✗	No required reporting to interim committees
Accountable		
Public analysis	✗	No required reporting to interim committees
Expiration date	✗	Does not contain a delayed repeal date
Effective		
Fulfills stated purpose	?	
Passes “but for” test	?	
Efficient	?	
Key: ✓ Met ✗ Not Met ? Unclear		

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