FISCAL IMPACT REPORT

		LAST UPDATED	
SPONSOR	Martinez	**ORIGINAL DATE**	2/7/2025
SHORT TITLE	Increase Rural Health Care Tax Credit	**BILL NUMBER**	House Bill 226
		ANALYST	Gray

REVENUE*
(dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
PIT	$0	($9,850)	($10,300.0)	($10,700.0)	($11,100.0)	Recurring	General Fund

Parentheses ( ) indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
TRD	$0	$14.6	$0	$14.6	Nonrecurring	General Fund
DOH	$0	$95.9	$95.9	$191.8	Recurring	General Fund
Total		$110.5	$95.9			

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

Conflicts with House Bill 52

Sources of Information

LFC Files

<u>Agency Analysis Received From</u>
Taxation and Revenue Department (TRD)
Health Care Authority (HCA)
Department of Health (DOH)

SUMMARY

Synopsis of House Bill 226

House Bill 226 (HB226) triples the value of the rural healthcare practitioner tax credit, increasing the credit from $5,000 to $15 thousand for physicians, dentists, psychologists, podiatric physicians, and optometrists and from $3,000 to $9,000 for many other types of medical practitioners practicing in rural areas. This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns, or June 20, 2025, if enacted. The legislation applies to tax years beginning 2025.

FISCAL IMPLICATIONS

The bill is estimated to decrease recurring general fund revenue by $9.8 million in FY26. The Taxation and Revenue Department (TRD) estimated a recurring general fund decrease of $9.8 million through FY29. This analysis increases the agency's estimated FY26 general fund impact by the University of New Mexico's Bureau of Business and Economic Research January 2025 estimate of statewide wages and salary growth through FY29. This analysis draws this distinction because the credit cap is larger than the average practitioner's tax liability and will grow proportionately with a practitioner's wages.

Taxation and Revenue Department Estimated Revenue Impact
(dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
PIT	$0	($9,850)	($9,850)	($9,850)	($9,850)	Recurring	General Fund

Parentheses ( ) indicate revenue decreases.

The actual impact may be greater because the bill increases the incentive of claiming the credit, potentially inducing a behavioral change that would increase the credit take-up rate. TRD analysis made an estimate of this behavior change, but the actual inducement may be significantly higher.

This bill creates or expands a tax expenditure. 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 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.

Methods. TRD estimated the average salary for each practitioner category using Workforce Solutions Department occupation and wage data and calculated the additional tax liability that would be eligible under the increased credit amounts. On average, the agency estimates a practitioner would receive an additional 30 percent of tax liability waived.

Note LFC and TRD expect that very few practitioners, on average, would receive the full benefit of the $15 thousand credit or the $9,000 credit. The agency notes, on one hand, this change may incentivize additional practitioners with higher incomes to work in rural areas to qualify for the credit. The agency notes, on the other hand, that it may not incentivize additional eligible practitioners who are not already claiming this credit.

Operating Budget. TRD estimates this bill will have a small impact on its IT costs, adding $14.6 thousand of nonrecurring expenses in FY26. The Department of Health (DOH) estimates the bill would have an operating budget impact of $95 thousand per year because the department would need one additional staff.

SIGNIFICANT ISSUES

DOH analysis notes that New Mexico has a significant shortage of healthcare providers and asserts the bill "could retain the number of current healthcare practitioners and could encourage more healthcare providers" to work in New Mexico, especially in underserved areas.

HCA notes telehealth is an important means of accessing healthcare in rural areas, but the bill does not address telehealth services.

The 2023 New Mexico Health Care Workforce Committee annual report estimates over 57 thousand licensed health professionals are in New Mexico, with about 33 thousand of them practicing as of 2021. Between 20 percent and 30 percent—7,000 to 10 thousand individuals—are likely in practicing in rural areas. In 2021, 2,049 taxpayers claimed the rural healthcare practitioner tax credit. The 2024 amendment to the rural healthcare practitioner tax credit added an estimated 5,372 additional healthcare professionals, likely meaning the rural healthcare practitioner tax credit covers a large share of rural healthcare practitioners practicing in a field that requires state licensing.

However, this is only a portion of the total rural healthcare workforce. According to the U.S. Bureau of Labor Statistics, there were about 90 thousand people employed in health-related industries in 2024. About 30 percent are likely in rural areas, amounting to a total rural health care workforce of about 27 thousand workers. This implies about 19 thousand people work in a rural healthcare role that does not require a license and, accordingly, will not benefit from the current credit or the bill's expansion of the credit.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

This bill conflicts with House Bill 52, which expands the eligibility of the credit but does not increase the value of the credit.

OTHER SUBSTANTIVE ISSUES

In assessing all tax legislation, LFC staff considers whether the proposal is aligned with committee-adopted tax policy principles. Those five principles:

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

In addition, staff reviews whether the bill meets principles specific to tax expenditures. Those policies and how this bill addresses those issues:

Tax Expenditure Policy Principle	Met?
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.	✗
Targeted: The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals.	

Clearly stated purpose	×
Long-term goals	×
Measurable targets	×
Transparent: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies	✓
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.	
Public analysis	×
Expiration date	×
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.	
Fulfills stated purpose	?
Passes "but for" test	?
Efficient: The tax expenditure is the most cost-effective way to achieve the desired results.	?
Key: ✓ Met × Not Met ? Unclear	

BG/hj/hg/rl