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### FISCAL IMPACT REPORT

SPONSOR:	Jennings	DATE TYPED:	02/10/00	HB	
SHORT TITLE:	Uncompensated Medical Care Tax Deduction			SB	373
				ANALYST:	Williams

### REVENUE

Estimated Revenue		Subsequent	Recurring	Fund
FY00	FY01	Years Impact	or Non-Rec	Affected
	\$ (26,000.0)	\$ (27,000.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates/Conflicts with/Companion to/Relates to SB 61, HB 371

### SOURCES OF INFORMATION

Taxation and Revenue Department (TRD)

Health Policy Commission

Department of Health

## SUMMARY

### Synopsis of Bill

The bill would provide a personal income tax deduction for the following unreimbursed or uncompensated medical care expenses beginning tax year 2000:

- Physician services
- Prescribed drugs or insulin
- Long term care
- Health insurance premiums including Medicare B that are included in AGI and not itemized as deductions
- Nursing services provided by a state-licensed nurse
- Specialized treatments, therapies, and therapeutic devices if prescribed by a physician for the treatment of physical or mental defects or illnesses
- Care in non-hospital institutions

Note that hospital care is excluded from deductible services.

Subsection B provides guidelines for the percentage of medical care expenses that may be deducted; percentages decrease from 75 percent to 25 percent as adjusted gross incomes increase. The TRD fiscal impact report outlines medical care and health insurance expense deductibility by filing status.

Subsection C includes in the definition of physicians:

- •Medical doctors
- •Osteopathic physicians
- •Dentists
- •Podiatrists
- •Chiropractic physicians
- •Psychologists

## **FISCAL IMPLICATIONS**

TRD estimates recurring general fund revenue loss of \$26,000.0 in FY01 and \$27,000.0 for a full year. The fiscal impact is based on New Mexico health expenditure survey data for 1998. Fifty percent of out-of-pocket health insurance premiums paid by employed persons are assumed to be counted in AGI and are not Schedule A deductible. Estimates of out-of-pocket expenditures were based on a sample of survey respondents who had not been hospitalized in 1998.

## **ADMINISTRATIVE IMPLICATIONS**

Because of the technical difficulty of this deduction, TRD indicates a significant sample of tax returns must be audited, an estimated 5 percent annually until the error rate stabilizes. This effort is expected to take 4 years. Each audit would cost approximately \$100, and with 35,000 returns audited, there would be an annual cost of \$3,500.0. One additional FTE is estimated to cost \$45.0.

## **OTHER SUBSTANTIVE ISSUES**

According to HPC, the 1999 HPC New Mexico household survey findings indicate that, for 1998, about 13.9 percent of survey adults (19 and over) reported no health care coverage of any kind. About 7 percent reported coverage for part of the year, while nearly 80 percent reported continuous coverage for the entire year. Over a third of the uninsured said the reason they were uninsured is because they could not afford coverage. Another 20 percent said their employer did not offer coverage. An analysis of those without coverage showed this group is disproportionately represented by those in households with lower incomes, predominantly less than 200 percent of the federal poverty level (\$33,400 for a family of four).

## **DISTRIBUTIONAL ISSUES**

See attached TRD analysis for information on distributional issues.

AW/jsp

Attachment