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

SPONSOR Armstrong, G./Gallegos, DY/Dow **ORIGINAL DATE** 2/04/2020 **LAST UPDATED** 2/11/2020 **HB** 275

SHORT TITLE Rural Health Care Tax Credit Changes **SB**

ANALYST Iglesias

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY20	FY21	FY22	FY23	FY24		
-	($6,950.0)	($6,950.0)	($6,950.0)	($6,950.0)	Recurring	General Fund

Parenthesis ( ) indicate revenue decreases

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

FY20	FY21	FY22	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
-	$68.0	$68.0	$136.0	Recurring	Department of Health
$29.3	$58.5	$58.5	$146.3	Recurring	Taxation and Revenue Department

Parenthesis ( ) indicate expenditure decreases

Duplicates, Relates to, and/or Conflicts with HB74, HB228, HB270, and SB203

SOURCES OF INFORMATION
LFC Files

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

SUMMARY

Synopsis of Bill

House Bill 275 expands the professions eligible to claim the rural health care practitioner tax credit against income tax to include chiropractors, counselors and therapists, nutritionists, naprapathy practitioners, naturopathic doctors, occupational therapists, pharmacists, physical therapists and physical therapist assistants, social workers, speech-language pathologists, acupuncturists, massage therapists, osteopathic physician assistants, and respiratory care practitioners. The bill also allows specialty nurses and physician assistants that can currently claim the $3,000 credit to be able to claim the $5,000 credit. The bill requires all claimants to be appropriately licensed.

Additionally, the bill adds a 5-year delayed repeal to the credit and requires annual reporting from the Taxation and Revenue Department (TRD).

There is no effective date of this bill, but the provisions apply to taxable years beginning on or after January 1, 2020.

FISCAL IMPLICATIONS

To estimate the bill's fiscal impacts, LFC staff use data from the 2018 Bureau of Labor Statistics (BLS) State Occupational Employment Statistics to determine the number of persons employed in the occupations this bill makes eligible for the credit. LFC staff then use data from the 2019 New Mexico Health Care Workforce Committee Report[1] and license data from the Regulation and Licensing Department to determine about 20 percent of these practitioners are working in rural locations. Therefore, approximately 2,760 practitioners in rural areas would become eligible to receive the tax credit under this bill. Some of the providers in metropolitan areas may qualify for part-time credits if they work some of their practice in rural qualified areas but are not assumed in this estimate.

Based on information provided by TRD, LFC staff applied the same distribution of full-time and part-time credits to the new population and the percentage share of the credit that taxpayers are able to apply to annual tax year liability given their annual average salaries. Staff also apportion the credits based on assumed tax liabilities, as not all claimants will have a tax liability high enough to claim the entire credit. The total cost estimate of the provisions of this bill is about $7 million per year. TRD provided a similar cost estimate for this bill.

The analysis assumes the credit is an incentive for healthcare practitioners to remain in rural areas rather than an incentive for healthcare practitioners to migrate to rural areas – therefore, the analysis assumes no growth in the number of professionals eligible for the credit each year. However, if the credit did provide an incentive to migrate to rural areas, it would increase the cost of the credit over time.

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.

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[1] 2019 New Mexico Health Care Workforce Committee Report , available at https://www.nmhanet.org/files/NMHCWF_2019Report_FINAL.pdf

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.

The chart below from TRD's 2018 Tax Expenditure Report shows a five-year history of the claims for the existing credit.

Credit, Rural Healthcare Practitioner	Tax Year (Calendar)	2013	2014	2015	2016	2017
	Claims	1748	2042	1976	1971	1707
	Expenditure (thousands)	$6,572	$6,683	$6,500	$6,596	$5,597

TRD provided the following policy discussion regarding changes to this credit:

> By expanding the population of practitioners, this credit could further incentivize the recruitment and retention of professionals to work in rural areas of the state where residents are currently medically underserved.
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> PIT revenue represents a fairly consistent source of revenue for many states. PIT revenue is susceptible to economic downturns but also positively responsive to economic expansion. New Mexico is one of forty-two states along with the District of Columbia which impose a broad-based personal income tax. The personal income tax is seen as both horizontally equitable; the same statutes apply to all taxpayers and vertically equitable, due to the progressive design of the personal income tax. Progressive, in this context, meaning taxes where the average tax rate increase as the taxable amount increases.
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> Thus, the expansion of the rural health care practitioner tax credit will continue to erode horizontal equity in the state income taxes. By basing the credit on profession and location of work, taxpayers in similar economic circumstances are no longer treated equally. Thus, two social workers who earn the same salary may have different tax liability given where they work. The other side of this credit is the broader public-good to subsidize medical professional employment in rural areas for the betterment of New Mexico resident's quality of life in those areas. There are health, social and environmental benefits by serving residents in their home communities versus those residents incurring travel costs, time commitment and other burdens to travel long distances or not receive care at all.

DOH notes that geographically, New Mexico is a largely rural state. Of New Mexico's 33 counties, seven contain predominantly urban areas defined as part of Metropolitan Statistical Areas (MSAs) (New Mexico Rural Health Plan, June 2019). The remaining 26 Non-Metropolitan counties are considered rural or frontier in nature. There are also locations within

MSA counties that are largely rural or frontier. The very large size of New Mexico counties creates this situation (New Mexico Rural Health Plan, June 2019).

Also, DOH provides the following policy discussion:

> "Under current healthcare reimbursement mechanisms, rural communities and those with a large proportion of low-income residents may not generate sufficient paying demand to assure that providers will practice in these locations (2020-2022 New Mexico State Health Improvement Plan). The rural to urban migration of health professionals inevitably leaves poor, rural, and remote areas underserved and disadvantaged. Skilled health professionals are increasingly taking job opportunities in the labor market in high-income areas as the demand for their expertise rises.
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> Since the demands for health care services and providers continues to increase, providing incentives to health care providers who work in rural and underserved areas may help stabilize and improve health care services (2020-2022 New Mexico State Health Improvement Plan). [This bill] could encourage more health care providers to provide services in rural and underserved areas of the state."

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is met with the bill's requirement to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the credit and other information to determine whether the credit is meeting its purpose.

ADMINISTRATIVE IMPLICATIONS

The eligibility expansion of this credit would increase the number of applications submitted to DOH, and an additional FTE may be needed to process the anticipated increase in tax credit applications.

TRD will need to make information system changes and update forms and publications. Audit procedures will need to be updated in order to verify the eligibility of the credit with an extended population of practitioners. These changes will be incorporated into annual tax year implementation. Currently, all certifications must be entered manually and thus increasing the number of claims with an expanded population of practitioners would increase the administration workload for TRD. TRD is currently in discussion with DOH to share certification information electronically but there are technical and legal issues to address. TRD assumes that electronic transfer of credit information will not occur before the effective date of the bill and thus an additional FTE will be required to process additional credit claims. The recurring budget estimate for TRD is based on a Tax Examiner-A.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

House Bill 74 amends the rural health care practitioner tax credit against income tax to (a) remove the lower tier $3,000 annual credit for some practitioners and instead use the higher tier $5,000 annual credit for all eligible practitioners, and (b) add licensed pharmacists, independent social workers, and marriage and family therapists to the list of practitioners eligible to receive the $5,000 credit.

House Bill 228 adds occupational therapists and physical therapists to the $5,000 rural health care practitioner tax credit.

House Bill 270 remove the nursing specialties currently eligible for the $3,000 rural health care practitioner tax credit and instead adds all registered nurses to the $3,000 credit.

Senate Bill 203 adds chiropractic physicians to the $5,000 rural health care practitioner tax credit.

OTHER SUBSTANTIVE ISSUES

According to the New Mexico Health Care Workforce Committee (HCWC), about 82 percent of counties in New Mexico were below the national benchmark pharmacist to population ratio. The report found the counties most below benchmark were Doña Ana, San Juan, McKinley, Rio Arriba and Otero, and together would require 143 pharmacists to achieve benchmark pharmacist to population ratios. For the state as a whole, and assuming no redistribution of the current workforce, an additional 258 pharmacists would be needed to meet the national benchmark in all counties.

HCWC also finds that Chaves, De Baca, Doña Ana, Eddy, Hidalgo, Lea, Luna, Mora, Quay, Roosevelt, Sandoval, San Juan, Sierra, Union and Valencia counties have fewer independently licensed behavioral health providers than non-independently licensed clinicians. This pattern suggests that non-independently licensed behavioral health clinicians in these counties may have difficulty obtaining the necessary supervision to reach independent licensure.

Included in the HCWC's 2019 recommendations were an expansion of the rural healthcare practitioner tax credit to include pharmacists, social workers and counselors and directing TRD and the NM Department of Health to examine the effectiveness of the rural health tax credit in recruiting and retaining providers in rural areas.

DOH is responsible for determining eligibility and issuing a certificate to a qualifying health care practitioner. The New Mexico Administrative Code may 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.

The Social Work Board, Counseling Board, and Psychology Board, have cross-jurisdictional programs to allow for supervisors in rural areas, which helps alleviate shortages in areas where a fledgling practitioner may not otherwise find a supervisor, limiting that person's ability to serve patients in the area.

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	✗	Although variations of this bill have been introduced multiple times in the last few years, the bill has not been vetted through LFC or RSTP.
Targeted		No, but seems evident.
Clearly stated purpose	✓	
Long-term goals	✗	
Measurable targets	✗	
Transparent	✓	Annual reporting from TRD on number of claimants and aggregate cost of the credit is required.
Accountable		
Public analysis	?	It is unclear whether the required reporting from TRD would provide sufficient information to determine the effectiveness and efficiency of this credit.
Expiration date	✓	This bill adds a delayed repeal date of January 1, 2025.
Effective		Current data from TRD's tax expenditure report only indicates the number of claimants and cost of the credit, making it difficult to determine whether rural practitioners would not move to or remain in rural areas "but for" the credit.
Fulfills stated purpose	?	
Passes "but for" test	?	
Efficient	?	

Key: ✓ Met ✗ Not Met ? Unclear

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