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FISCAL IMPACT REPORT

ORIGINAL DATE 02/01/22
SPONSOR Ortiz y Pino/Hickey **LAST UPDATED** _____ **HB** _____
SHORT TITLE Health Care Preceptor Tax Credit **SB** 173
ANALYST Faubion

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY22	FY23	FY24	FY25	FY26		
-	(\$2,700.0)	(\$2,700.0)	(\$2,700.0)	(\$2,700.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

FY22	FY23	FY24	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
-	\$15.5	--	\$15.5	Non-Recurring	TRD/ITD-staff workload
-	\$60.0	\$60.0	\$120.0	Recurring	TRD/RPD-FTE
-	\$12.5	--	\$12.5	Non-Recurring	TRD/RPD-staff workload
-	\$1.0	\$1.0	\$2.0	Recurring	TRD/RPD-Phone line
-	\$3.3	--	\$3.3	Non-Recurring	TRD/RPD-Equipment

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

University of New Mexico Health Sciences Center (UNMHSC)

No Response Received¹

Burrell College of Osteopathic Medicine (BCO)
Department of Health (DOH)
Higher Education Department (HED)

SUMMARY

Synopsis of Bill

Senate Bill 173 (SB173) creates the Health Care Preceptor Income Tax Credit and would grant a tax credit to health care providers, defined as licensed medical doctors, osteopathic physicians, advanced practice nurses, physician assistants, dentists, pharmacists, psychiatrists, or psychologists who provide uncompensated preceptorships of at least four weeks duration under the (uncompensated) “employment” of an accredited New Mexico college or university. In order to be eligible for the tax credit, the preceptorship must be provided to a graduate student in these professions but not to those already having advance degrees, such as interns or residents.

The amount of the tax credit would be \$1,000 for each preceptorship of up to five preceptorships in a given year. Preceptors would claim that credit on forms to be provided by the Taxation and Revenue Department (TRD).

The tax credit would be available in tax years beginning January 1, 2022.

FISCAL IMPLICATIONS

TRD gathered graduate enrollment counts from the University of New Mexico (UNM) Health Sciences Center. In the fall 2021 enrollment reports, there were approximately 1,200 graduate students who meet the eligibility requirements for the preceptorship program. From a New Mexico State enrollment report, there were 118 graduate level nurses enrolled in the fall 2021. TRD estimates another 40 graduate level students would be participating in preceptorships programs through other state educational institutions. The UNM summer clinical rotations were a minimum of six weeks. TRD assumes two preceptorship rotations for every student each year of enrollment keeping the enrollment count flat. The medical professionals participating in preceptorships are assumed to have personal income tax (PIT) liability amounts that can absorb their associated credit amounts (\$1,000 per preceptorship, maximum of \$5,000 per taxable year) leaving a minimal amount to be carried over.

In addition, TRD will need to make information system changes and update forms and publications. Audit procedures will need to be updated to verify the eligibility of the credit. These changes will be incorporated into annual tax year implementation and cost \$15,492 in staff workload costs for the Information Technology Division (ITD).

The Revenue Processing Division (RPD) will require a Tax Examiner-A as certifications must be entered manually. In addition, as returns with the credit are submitted, they will need to be manually reviewed. RPD will need to make information system changes and update forms and publications. These changes will be incorporated into annual tax year implementation and cost

¹ Analysis referenced by these agencies is adapted from an identical bill from the 2021 legislative session.

\$12,500 to RPD.

TRD expects to be able to absorb the impact of these changes as outlined in this standalone bill with one additional FTE. However, if several bills with similar effective dates become law there will be a greater impact to TRD and additional FTE or contract resources may be needed to complete the changes specified by the effective date(s) of each bill.

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 tax credit would be extended to preceptors, physicians, dentists, pharmacists, etc., whose income is generally high in comparison with other New Mexicans. TRD makes note of its concern that a tax credit for this group, which has been teaching graduate students without compensation, violates both the concepts of horizontal equity (similar taxes for people in similar situations, including incomes) and vertical equity (those at the top of the income structure can afford to and should pay more tax).

TRD points out that other side of this credit is the broader public good in subsidizing a valuable experience for future medical providers. Professionals who participate in a preceptorship are doing so voluntarily and suspend their own practice and income in order to do so. The credit could incentivize more professionals to participate in preceptorships.

HSD makes the same point, regarding the availability of practitioners to serve Medicaid patients in particular: "Any increase in healthcare providers available to treat Medicaid beneficiaries would result in better performance of the Medicaid program and improved healthcare access for New Mexicans. This increased workforce capacity is dependent, in part, upon existing providers electing to serve as preceptors and supervise students' training."

UNM HSC also comments on the likelihood that extending a tax credit in this way would likely increase the number of preceptors available to its advanced students: "A preceptorship is a time- limited, education-focused experience in which a practicing clinician volunteers to give personal instruction, training, and supervision to a student in a clinical setting. Preceptorship is a critical component of clinical education. New Mexico has a limited supply of preceptors. A tax incentive may encourage more clinicians to become preceptors."

BCO appears to support this measure as an effective use of state expenditures to augment health professions workforce in New Mexico: "the return on investment and the type of return, is of a higher calling than most other state incentive programs."

Physicians and others serving as preceptors are in part responding to the Hippocratic oath,

which includes the following words: “to teach them this art, if they shall wish to learn it, without fee or contract; and that by the set rules, lectures, and every other mode of instruction, I will impart a knowledge of the art to my own sons, and those of my teachers, and to students bound by this contract and having sworn this Oath to the law of medicine.”

TRD also comments that PIT revenue represents a 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 42 states along with the District of Columbia that 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.

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.

TECHNICAL ISSUES

TRD notes that it is unclear from the bill language whether the \$1,000 maximum credit amount is per preceptorship for up to five preceptorships or \$1,000 for a combination of up to five preceptorships therefore \$200 per preceptorship. For the fiscal impact, TRD assumed \$1,000 per preceptorship for a maximum of five preceptorships per taxable year.

Per Section 1(D), the credit may be carried forward without limit until exhausted. This is administratively difficult for TRD, and TRD recommends the credit expire after three consecutive tax years.

Applications for the credit will include certifications by various institutions that employ the taxpayer. TRD suggests that the bill require the development of a uniform certification document for efficiency in administering the credit.

TRD notes that this new proposed credit does not include a sunset date. TRD supports sunset dates for policymakers to review the impact of a credit before extending them, if a sufficient timeframe is allotted for tax incentives to be measured. Given the cost to the state, a sunset date would force an examination of the benefit of this credit versus the cost.

UNM HSD points out that line 19 says “employed by any accredited New Mexico institution of higher education”. To ensure that preceptors receive the tax credit line 19 should say: “not employed by any accredited New Mexico institution of higher education”. The current bill would not result in employed preceptors being able to receive the credit because preceptors who are employed by an accredited New Mexico institution of higher education are *already compensated as part of their faculty salary* to provide personalized on-the-job instruction.