BILL ANALYSIS AND FISCAL IMPACT REPORT
Taxation and Revenue Department

February 7, 2025

Bill: HB-226 **Sponsor:** Representative Alan T. Martinez

Short Title: Increase Rural Health Care Tax Credit

Description: This bill amends Section 7-2-18.22 NMSA 1978 to increase the rural health care practitioner tax credit. For taxpayers who worked full-time and had been able to claim a maximum of $5,000, the credit would increase to $15,000, and for taxpayers who worked part-time and had been able to claim a maximum of $3,000, the credit would increase to $9,000. The credit may be carried forward for three (3) years, which does not represent a change.

Effective Date: Not specified; 90 days following adjournment (June 20, 2025). Applicable to taxable years beginning on or after January 1, 2025.

Taxation and Revenue Department Analyst: Sara Grubbs

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2025	FY2026	FY2027	FY2028	FY2029		
--	($9,840)	($9,840)	($9,840)	($9,840)	R	General Fund

* In thousands of dollars. Parentheses ( ) indicate a revenue loss. ** Recurring (R) or Non-Recurring (NR).

Methodology for Estimated Revenue Impact: The Taxation and Revenue Department (Tax & Rev) used the information provided in the New Mexico Health Care Workforce Committee (HCWC) annual report for 2023[1] and 2024[2] to determine how many practitioners in rural areas are currently covered by the credit[3]. Tax & Rev analyzed providers in non-metropolitan areas of the state for each current eligible practitioner group based on the report's geographic distribution. Some eligible professions are reported by county which allows Tax & Rev to estimate the percentage of rural jobs for these specific professions. If the number of practitioners is not reported by the county, Tax & Rev assumes that 23%, the state average, of the reported number of practitioners practiced in rural areas.

Using a sample of taxpayers that have claimed the credit between 2016 and 2020, Tax & Rev has calculated that the ratio of practitioners claiming the credit between full-time and part-time credits to be 60:40. Tax & Rev also assumed a percentage share of the credit that these eligible taxpayers may apply to their annual tax year liability, given the associated average salaries for the new categories of practitioners eligible for the respective maximum credit. The average salary for each respective practitioner category was taken from the Department of Workforce Solutions occupation and wage data[4]. Tax & Rev then calculated the additional tax liability that would be eligible under the increased credit caps.

Tax & Rev estimates that of all the eligible practitioners, they would receive on average an additional 30% of tax liability waived. This is the majority of the revenue impact above. Tax & Rev notes that no full-time practitioner on average would receive the full benefit of the $15,000 credit and very few for the part-time credit of $9,000. Although there is a 3-year carry forward, eligible practitioners would qualify

[1] New Mexico Health Care Workforce Committee. 2023 Annual Report. Albuquerque NM: University of New Mexico Health Sciences Center, 2023
[2] New Mexico Health Care Workforce Committee. 2024 Annual Report. Albuquerque NM: University of New Mexico Health Sciences Center, 2024
[3] New Mexico Regulation and Licensing Department (RLD) experienced a data breach in October 2022 and anticipates the absence of comprehensive data for the next one to two years. Some job numbers are form 2021.
[4] https://www.dws.state.nm.us/en-us/Researchers/Data/Occupations-Wages

for this tax credit every year until they left their practice. However, this may incentivize additional practitioners with higher incomes to work in rural areas to qualify for this credit. Tax & Rev used an elasticity of the number of nurses per capita spending as a proxy for all practitioners and arrived at a 1.18% increase in eligible practitioners[5]. Tax & Rev estimates this will increase the number of practitioners by 93.

Policy Issues: Personal income tax (PIT) represents a consistent source of revenue for many states. For New Mexico, PIT is approximately 25 percent of the state's recurring general fund revenue. While this revenue source is susceptible to economic downturns, it is also positively responsive to economic expansions. New Mexico is one of 41 states, along with the District of Columbia, that impose a broad-based PIT (New Hampshire and Washington do not tax wage and salary income). Like several states, New Mexico computes its income tax based on the federal definition of taxable income and ties to other statues in the federal tax code. This is referred to as "conformity" to the federal tax code. The PIT is an important tax policy tool that has the potential to further both horizontal equity 'by ensuring the same statutes apply to all taxpayers, and vertical equity, by ensuring the tax burden is based on taxpayers' ability to pay. By basing the credit on a profession, taxpayers in similar economic circumstances are no longer treated equally.

The proposed changes of the rural health care practitioner tax credit will continue to erode horizontal equity in 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 dentists 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 of subsidizing medical professional employment in rural areas for the betterment of New Mexico residents' quality of life in those areas. There are health, social, economic and environmental benefits gained 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.

The New Mexico Health Care Workforce Committee has routinely made recommendations for the rural health practitioner tax credit. Recommendation 10 from the New Mexico Health Care Workforce Committee, 2024 Annual Report recommends increasing the Rural Health Care Practitioner Tax Credit program rates to be commensurate with inflation. By increasing the cap of this credit, it could incentivize the recruitment and retention of professionals to work in rural areas of the state, where residents are currently medically underserved.

Although this bill triples the credit amounts, few eligible taxpayers have an average income and associated tax liability that exceeds the maximum credit amount for fulltime work. From tax year 2021 to 2023, 96% of approved taxpayers claimed this credit. As a taxpayer can carry this credit forward for three years, can qualify each tax year, and the credit is non-refundable, this bill may not incentivize additional eligible practitioners that are not already claiming this credit except for higher income practitioners as assumed in the revenue impact above.

The credit has no defined sunset date. Tax & Rev supports sunset dates for policymakers to review the impact of tax expenditures before extending them.

Technical Issues: None.

Other Issues: None.

Administrative & Compliance Impact: Tax and Rev will update forms, instructions and publications

[5] Measuring the relationship between income and NHEs: https://pmc.ncbi.nlm.nih.gov/articles/PMC4193321/#sec9

and make information system changes. Staff training to administer the credit will need to take place. This implementation will be included in the annual tax year changes.

Implementing this bill will have a low impact on Tax & Rev's Information Technology Division (ITD), approximately 220 hours or about 1½ months and $14,661 of staff workload costs.

Estimated Additional Operating Budget Impact*				**R or NR****	**Fund(s) or Agency Affected**
FY2025	**FY2026**	**FY2027**	**3 Year Total Cost**		
--	$14.6	--	$14.6	NR	Tax & Rev – ITD – Staff workload

* In thousands of dollars. Parentheses ( ) indicate a cost saving. ** Recurring (R) or Non-Recurring (NR).

Related Bills: HB-218 (2024 regular session), HB-163/HB-163A (2024 regular session)