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FISCAL IMPACT REPORT

LAST UPDATED _____
ORIGINAL DATE 1/27/2025

SPONSOR García/Jones

BILL

SHORT TITLE Rural Health Care Tax Credit Eligibility **NUMBER** House Bill 52

ANALYST Gray/Rommel

REVENUE* (dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
	\$0	(At least \$2,210)	(At least \$2,210)	(At least \$2,210)	(At least \$2,210)	Recurring	General Fund

Parenttheses () 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
DOH	\$0	\$99.9	\$99.9	\$199.8	Recurring	General Fund

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

Sources of Information

LFC Files

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

SUMMARY

Synopsis of House Bill 52

House Bill 52 (HB52) adds the following practitioners to be eligible for the \$3,000 rural healthcare practitioner tax credit:

- Licensed practical nurses,
- Emergency medical technicians,
- Paramedics,
- Speech-language pathologists,
- Occupational therapists, and
- Chiropractic physicians.

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.

FISCAL IMPLICATIONS

This bill creates or expands a tax expenditure with a cost that is difficult to determine but likely significant. LFC has serious concerns about the substantial risk to state revenues from tax expenditures and the increase in revenue volatility from erosion of the revenue base. The committee recommends the bill adhere to the LFC tax expenditure policy principles for vetting, targeting, and reporting or action be postponed until the implications can be more fully studied.

The revenue impact presented in this analysis is based on a Taxation and Revenue Department (TRD) estimate. The department used information provided by the New Mexico Department of Workforce Solutions' Occupational Employment and Wages dataset for 2023 for the new occupations added by the bill. This data included the number of workers employed and the average associated annual salary. Additionally:

TRD...used the information provided by New Mexico Health Care Workforce Committee annual reports from 2023 and 2024 to estimate the percentage of these providers practicing in nonmetropolitan areas at 23%. Based on these calculations, approximately 1,343 health care professionals would be newly eligible for the credit.

The department used tax expenditure data over the last five years to estimate the share of full-time and part-time claims to have a ratio of 60:40. Other key assumptions include:

- Amount of credit claimed:
 - For speech-language pathologists, occupational therapists, and chiropractic physicians, the TRD assumed tax liability based on their average salary would reach the \$3,000 credit amount.
 - For the other categories of newly eligible practitioners, TRD assumed that, based on their average salaries, an average of 40% of the full credit amount and 79% of the half credit will be claimed
- No new growth of healthcare professionals.
- Changes are applicable to tax year 2025 as it is not specified in the bill. See technical issues.

The LFC fiscal analysis uses similar assumptions but a different assumed baseline of the eligible workforce, creating a slightly higher estimate. Because TRD has more information on the uptake of the current credits and tax liability of those taking the credit, their analysis is included in the table on page one, although it should be noted the fiscal impact could be higher.

LFC staff estimate approximately 1,700 new rural practitioners would be made eligible by the bill, for a total cost of \$3 million. The analysis uses license data from the 2023 New Mexico Health Care Workforce Committee annual report. This data indicates there are an estimated 900 occupational therapists, 2,000 speech-language pathologists, and 500 chiropractic physicians statewide. The report indicates 20 percent to 50 percent of these are practicing in rural areas. The report does not include reliable data on EMTs or paramedics; for these positions the LFC estimate uses TRD data.

The report does not provide an estimate of the licensed practical nurses. This analysis estimates

there are about 500 of these workers in rural areas, based on Bureau of Labor Statistics (BLS) data.

The analysis uses salary data from BLS to estimate the share of the credit claimed by practitioner type, which aligns with the assumptions made by TRD. All other assumptions made in this analysis match the TRD assumptions.

Operating Budget Impact

The Department of Health (DOH) notes that HB52 will require an additional FTE to administer the expanded tax credit program at a recurring annual cost of \$99.9 thousand.

SIGNIFICANT ISSUES

The Health Care Authority (HCA) notes that the credit may contribute to increasing the rural health care workforce, which is a key priority for the agency.

TRD notes that the bill will erode horizontal equity in the tax code.

Like several states, New Mexico computes its income tax based on the federal definition of taxable income and ties it to other statutes in the federal tax code. This is referred to as “conformity” to the federal tax code. The personal income tax 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. The proposed changes of the rural health care practitioner tax credit will 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 proposed changes to expand eligible occupations further erodes that horizontal equity by potentially increasing the pool of qualified taxpayers.

However, the department notes that the credit accomplishes a policy objective:

[By] subsidizing medical professional employment in rural areas for the betterment of New Mexico residents’ quality of life in those areas. There are health, social, 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.”

Benchmark Analysis

The 2023 New Mexico Health Care Workforce Committee annual report estimates the workforce gap for emergency medical technicians and occupational therapists based on benchmarks. This gap is summarized below.

Benchmark Analysis of EMTs, Occupational Therapists

Type	Statewide			Rural Counties		
	Count	Benchmark	Difference	Count	Benchmark	Difference
Emergency Medical Technicians ¹	4,967	6,763	(1,796)	2,070	2,760	(690)

Occupational Therapists	889	783	106	255	323	(68)
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¹Note the New Mexico Health Care Workforce Committee report notes that the number of EMTs includes all individuals licensed as EMTs, including first responders or dispatchers. First responders or dispatchers who hold an ancillary EMT license would not likely meet the 792-work-hour requirement and, accordingly, are not included in the fiscal impact estimate.

Source: LFC Analysis of 2023 New Mexico Health Care Workforce Committee Annual Report

Notably, statewide, New Mexico has an overall surplus of occupational therapists but a shortage of occupational therapists practicing in rural areas. Comparably, New Mexico has both a rural and statewide shortage of emergency medical technicians (EMTs). Authors of the 2023 New Mexico Health Care Workforce Committee annual report observe that having a number of providers above a benchmark does not mean a county has *too many* providers; rather, it indicates a county has above the national average or median. County-level estimates for the other health care categories added by HB52 are not available.

Take Home Pay Increase

The extended credit would subsidize a part or all of state personal income tax owed, effectively increasing take home pay for healthcare practitioners. The estimated increase in take home salary is summarized below by employment type.

Estimated Increase in Take Home Pay under HB52 by Profession Type

Type	Est. % Increase
Licensed practical nurses	2.6%
Emergency medical technicians	2.0%
Paramedics	2.5%
Speech-language pathologists	3.3%
Occupational therapists	3.0%
Chiropractic physicians	3.3%

Source: LFC Analysis

Many EMTs and paramedics are employed by local governments who may be able to directly increase paramedic and EMT salaries far greater than the amount contemplated by HB52.

In 2024, the Legislature earmarked 10 percent of the health insurance premium tax to the emergency medical services fund, which supports local emergency service providers. When it becomes effective in FY26, that legislation will increase funding for the emergency medical services fund approximately tenfold, from \$2 million per year to \$20 million per year.

Gaps

The 2023 New Mexico Health Care Workforce Committee annual report estimates that there are over 57 thousand licensed health professionals in New Mexico, with about 33 thousand of them practicing as of 2021. Between 20 percent and 30 percent—7 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. Last year’s amendment, coupled with the proposed change under HB52, brings the total number of practitioners eligible to 7,100. This is likely to cover 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 health care workforce. According to BLS, there were about 90 thousand people employed in health-related industries in 2024. About 30 percent are likely located in rural areas, amounting to a total rural health care workforce of about 27 thousand workers. This implies about 16 thousand people work in a healthcare role that does not require a license and, accordingly, will not benefit from the current credit or HB52’s expansion of the credit.

TECHNICAL ISSUES

TRD writes:

This bill does not specify an applicability date. Tax and Rev recommends the inclusion of an applicability date for clarity in the tax code to avoid confusion for both the taxpayer and the implementation by Tax and Rev. Tax & Rev suggests the following language:

“Section 2. APPLICABILITY. –The provisions of this act apply to taxable years beginning on or after January 1, 2025”

DOH identifies three issues with the healthcare professions covered by HB52:

1. **Chiropractic Physicians:** The key chiropractic licensing category within New Mexico is a Chiropractic Physician. This category is defined in 61-4-2 NMSA 1978 and further in 16.4.1.7 NMAC. As a physician level clinician, while other physician level clinicians receive a \$5,000 tax credit, the bill proposes chiropractors only receive a \$3,000 tax credit.
2. **EMT Eligible Hours:** Unlike other health care providers, EMTs may not easily be able to isolate the number of hours they are actively providing health care services and significant time of the work shift may be spent in a standby capacity. The major factors which are unclear under current proposed language include standby time and exclusive service as an EMT. Both paid and volunteer EMTs may spend a large portion of time ‘on-call.’ For example, on-call schedules might have EMTs at home, available to respond to a need on an as needed basis. Currently, the bill’s proposed language does not account for this reality and may limit the number of EMTs who are able to claim the tax credit.
3. **EMT License Types:** Additionally, the proposed language also does not address situations where an EMT license is required as an ancillary license for other, non-health professions. For example, some fire departments require firefighters to be licensed as EMT Basics. Similarly, some police departments require officers to be licensed as EMT-First Responders. These skills are only deployed on an as needed basis and are not normally part of work shifts.

DOH also notes there are five EMT license types:

1. EMT – Basic (EMT-B)
2. EMT – Intermediate (EMT-I)
3. EMT – Paramedic (EMT-P)
4. EMT – First Responder (EMT-FR)
5. EMT – Instructor/Coordinator (EMT-IC)

The first three license types provide the core set of emergency medical services required of personnel in organized service systems. EMT-FRs receive significantly less training and provide a more limited set of emergency medical services. EMT-ICs may not be directly providing emergency medical services.

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?	Comments
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		