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## FISCAL IMPACT REPORT

ORIGINAL DATE 2/4/06  
 LAST UPDATED 2/6/06      HB \_\_\_\_\_

SPONSOR    Sharer \_\_\_\_\_

SHORT TITLE    Employer-sponsored Insurance Tax Credit      SB 606 \_\_\_\_\_

ANALYST Francis \_\_\_\_\_

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
(35,000.0)	(70,000.0)	(70,000.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Conflicts with SB 544, SB 345, SB 746

### SOURCES OF INFORMATION

LFC Files  
 Taxation and Revenue Department (TRD)  
 Kaiser Family Foundation (KFF)

Response Received From  
 Taxation and Revenue Department (TRD)

### SUMMARY

#### Synopsis of Bill

Senate Bill 606 amends the Income Tax Act and the Corporate Income and Franchise Tax Act by providing a credit for employers with 50 or less employees who provide health insurance to their employees. The credit is for 30 percent of the premiums paid by the employer for the employees' health care.

### FISCAL IMPLICATIONS

There are approximately 39,000 businesses in New Mexico with fewer than 50 employees. Using a calculator provided by TRD, the population expected to be covered is 225,074.

Average family health insurance costs \$9,299 per year per family, \$6,401 for a couple and \$3,361 for a single. Using these assumptions, a 30% credit on the employer's portion of the insurance premium, which ranges from 73 percent to 80 percent, is expected to reduce personal

income tax revenues by \$350 million per year. However, the credit is not refundable and so is limited to actual liability.

TRD maximum tax liability to be approximately \$70 million per year using ratios derived from IRS Statistics of Income for personal and corporate income tax returns and a 5 percent effective tax rate. In FY06, the impact would be half of this amount assuming the tax year is evenly divided amongst fiscal years.

### **SIGNIFICANT ISSUES**

Nationally, health insurance premiums grew tremendously over the last decade and though the rate of growth has slowed in the last two years, it remains near 10 percent. That compares with inflation at approximately 3 percent and the economy which is also growing at about 3 percent. As the premiums increase, the number of employers offering health insurance decreases. According to the Kaiser Family Foundation, which tracks a host of health related issues, the percentage of employers offering health insurance has dropped from 69 percent to 60 percent in the last few years.

In NM, affordable health insurance is more of a problem than nationally. The burden of providing health care access has shifted from the employer to the government, particularly for children whose parents cannot get health insurance at work. States have recently been trying to reverse that and one way is to offer tax incentives that encourage employers to provide access to health insurance. However, the cost of health insurance is still an insurmountable obstacle for many smaller businesses and if they provide it they have to pass on a significant share of the premium to the employee.

### **TECHNICAL ISSUES**

TRD:

The bill would create an incentive for a “taxpayer” with more than 50 employees to break up into several “taxpayers” in order to claim the credit. To limit tax avoidance through this mechanism, the proposal should contain additional language requiring that all related entities are to be counted as part of the same “taxpayer” for purposes of the bill.

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