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FISCAL IMPACT REPORT

ORIGINAL DATE 2/12/07

SPONSOR Snyder LAST UPDATED _____ HB _____

SHORT TITLE Employer Health Insurance Income Tax Credit SB 723

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	(\$70,000.0)		Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

Relates to SB976, SB871

SOURCES OF INFORMATION

LFC Files
Health Policy Commission (HPC)
Department of Labor (DOL)

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 723 establishes a new credit for employers with fewer than 50 employees for a percentage of the amount the employer pays for health insurance premiums, including long term care and disability. A 50 percent credit is available to the employer for the first five years of paying premiums and a 35 percent credit is available after five years. The credit is against either personal or corporate income tax liability, cannot exceed liability and is effective January 1, 2007.

FISCAL IMPLICATIONS

According to NM Department of Labor statistics, 95 percent of employers have fewer than 50 employees which make this credit available to most employers (Table 1). These firms have

286,000 employees. The Health Policy Commission has reported that 74 percent, or 208,000, of these employees have some form of employer sponsored health insurance which averages \$5,100 per year in employer paid premiums. According to analysis provided by the Taxation and Revenue Department, the total amount of premiums eligible, \$1.06 billion, would generate a maximum credit value of \$371 million at a 35 percent credit rate. TRD: “Actual credit claims would be limited by income tax liability of firm owners. Business operators in New Mexico pay a total of roughly \$400 million per year in corporate and personal income tax. Using the ratio of income tax paid to total wages and salaries, total income tax liability for the firms with less than 50 employees is estimated to be about \$70 million per year. This amount is the limit of the total credits that can be claimed assuming that the bill does not provide for refund ability or carry-forward of credits in excess of tax liability.”

Table 1: Employers by Firm Size in NM

Firm Size	# Employers		
100+	1,071	2%	
50-99	1,090	3%	
25-49	2,190	5%	95%
10-24	5,689	13%	
5-9	7,242	17%	
1-4	19,804	46%	
0	5,992	14%	
43,078			

Source: NMDOL

TECHNICAL ISSUES

TRD:

The rate of credit under the bill is made conditional on the time period during which an employer has been providing insurance to their employees. It is unclear from this language how the statute would apply to taxpayers currently paying employee health insurance premiums. The options are: the five-year period could begin with the effective date of the bill or with the point in time when an employer first provided insurance, even if that was at some time in the past. If employers currently offering insurance are not allowed the higher rate of credit, they have an incentive to cease paying premiums for some time period in order to qualify for credits during the first five years in which they resume paying premiums.

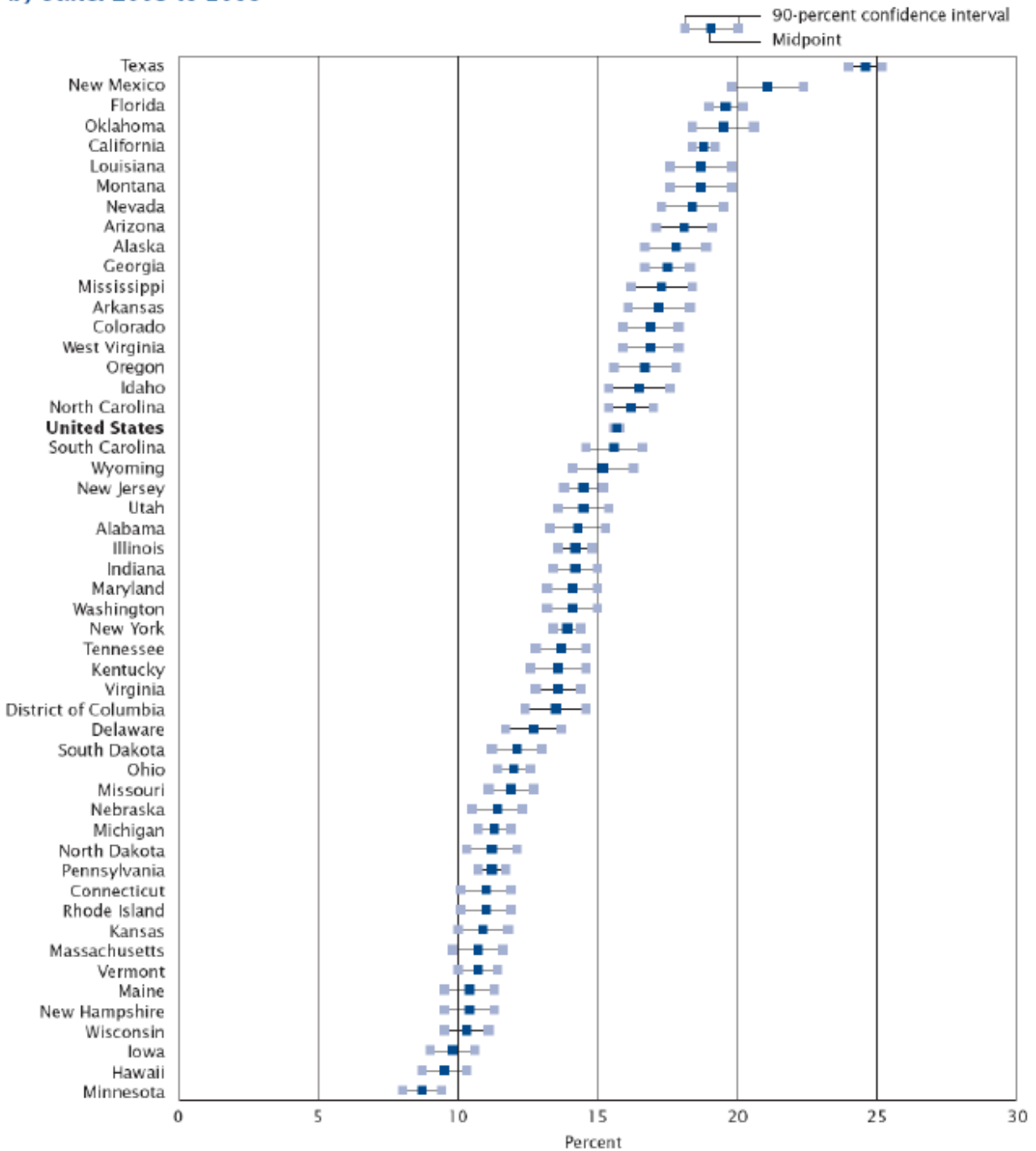
The bill would create an incentive for a “taxpayer” with more than 50 employees to break up into several “taxpayers” in order to claim the credit. To limit tax avoidance through this mechanism, the proposal should contain additional language requiring that all related entities are to be counted as part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

The credit is not limited to New Mexico employees. Therefore, a qualifying business that purchases health insurance for employees in other states could receive a credit of up to 50 percent for the health insurance expenses of their out-of-state employees,

SIGNIFICANT ISSUES

The importance of health care coverage in New Mexico cannot be understated. Other than Texas, no other state has a higher percentage of uninsured than New Mexico. The chart below shows the state rankings.

Three-Year Average Percentage of People Without Health Insurance Coverage by State: 2003 to 2005



Source: U.S. Census Bureau, Current Population Survey, 2004 to 2006 Annual Social and Economic Supplements.

ADMINISTRATIVE IMPLICATIONS

TRD reports that forms and instructions for personal income tax and corporate income tax will have to be revised but can be incorporated into the annual revisions and should not be a significant burden.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB976 creates a health care exchange where individuals can get access to information about health insurance plans.

SB871 provides an individual a credit for health insurance premiums based on the federal poverty level.

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