F I S C A L I M P A C T R E P O R T

		ORIGINAL DATE	2/12/07		
SPONSOR	Snyder	**LAST UPDATED**		**HB**	
SHORT TITLE	Certain Long-Term Care Premiums Tax Credit			**SB**	726
				ANALYST	Francis

REVENUE (dollars in thousands)

Estimated Revenue			**Recurring or Non-Rec**	**Fund Affected**
FY07	**FY08**	**FY09**		
	(8,000.0)		Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
Agency on Aging

SUMMARY

Synopsis of Bill

Senate Bill 726 creates a credit for long-term care insurance premiums. The credit is a percentage based on age:

Age of Insuree	% Credit
45 to 50	25.0%
50 to 55	37.5%
55 to 60	50.0%
60 to 65	62.5%
65 and over	75.0%

The credit is against personal income tax liability and is not refundable meaning the amount of the credit cannot exceed liability. The credit is effective January 1, 2007.

FISCAL IMPLICATIONS

TRD:

Aggregate data on long-term care premiums is not readily available to allow a precise estimate of the proposed measure's impacts. However, assuming annual long-term health premiums average $3,000, the proposed measure would create credits ranging from $750 to $2,250 per return and averaging approximately $1,500. Approximately 727,000 New Mexicans – roughly half the adult population—consists of people who are 45 years of age or older. Approximately 175,000 or 20 percent of New Mexico's 890,000 personal income tax returns report tax obligations in excess of $1,500 and thus possess sufficient tax liability to claim the credits. The fraction of returns that would claim the proposed credits is uncertain. However, approximately 1.5 percent of the nation's population currently purchases long-term care insurance. Assuming the proposed measure resulted in credits claimed by 3 percent of the 175,000 returns that could benefit from it (i.e., 5,250 returns), and that they claim an average of $1,500 in credit suggests an annual total of approximately $7.9 million in credits. This is the basis for the $8 million estimate shown above. Because the number of individuals likely to purchase the insurance is uncertain, as are average tax obligations among people who purchase the insurance and average costs of premiums, the figure shown above should be viewed as a rough approximation.

SIGNIFICANT ISSUES

Agency on Aging:

Over the next thirty years, the number of people who will need long-term care is expected to increase by 30%. New Mexico is projected to grow from 39th to 4th in the nation in the percent of residents over the age of sixty-five. The state's percentage of people with disabilities also exceeds national averages. Long-term care is currently only covered through Medicaid for low-income individuals, and through private avenues, such as self funding or through insurance for those few people who purchase long-term care insurance. According to an AARP survey conducted in New Mexico in 2004, 80% of those surveyed stated they do not have long-term care insurance, with a majority claiming the high cost of premiums as a reason for not purchasing such a policy. A tax credit for the premium cost could encourage some people to buy long-term care insurance.

ADMINISTRATIVE IMPLICATIONS

TRD reports no significant administrative burden.

TECHNICAL ISSUES

TRD:

1) The state currently allows a deduction for long-term health care premiums which is means-tested and limited to a 10% deduction for those making over $70,000 under Section 7-2-35(c) NMSA 1978. This bill would allow a credit without regard to income levels. This means that the state could be subsidizing long-term health premiums for people with sufficiently high incomes to afford insurance without a subsidy.

2) Credits should not be allowed in all cases where federal tax advantages are provided for long-term health care premium payments. Examples include premiums paid out of health care savings accounts.

NF/csd