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## FISCAL IMPACT REPORT

ORIGINAL DATE 2/14/07  
 LAST UPDATED 3/09/07      HB \_\_\_\_\_

SPONSOR Beffort

SHORT TITLE Employer-Sponsored Insurance Tax Credits      SB 869/aSCORC

ANALYST Francis

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	(\$550.0)		Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Conflicts with S723  
 Relates to SB871

#### SOURCES OF INFORMATION

LFC Files  
 Taxation and Revenue Department (TRD)

#### SUMMARY

##### Synopsis of SCORC Amendment

The Senate Corporations and Transportation Committee amended Senate Bill 869 allowing the credit only to those employers who have not provided insurance in the past 12 months, removes the additional 5 percent credit and sunsets the credit effective January 1, 2010.

##### Synopsis of Bill

Senate Bill 869 provides an income tax credit to NM employers with fewer than ten employees for up to five percent of employer-sponsored health insurance. The credit can be claimed against either personal income tax liability or corporate income tax liability. If the employer has not provided health insurance in the past twelve months, the employer is entitled to an additional 5 percent credit. The credit is refundable which means that if the credit exceeds tax liability the excess is returned to the taxpayer.

The effective date is January 1, 2007.

## FISCAL IMPLICATIONS

**The fiscal impact was revised due to an inaccurate estimate of the number of new employees that would be covered.**

There are 29,000 employers with fewer than ten employees. Total employment for these employers is 97,000. The Health Policy Commission estimates, based on survey data of employers, that 46 percent of those employers who employ between 1 and 5 employees and 63% of those employers between 5 and 10 employees currently provide health insurance. Assuming the credit entices enough employers to show a 2 percent growth rate in coverage and an average health insurance premium of \$5,100 (weighted by family size), the five percent credit would reduce income tax collections by \$550 thousand in FY08. An estimated 2,000 employees would be newly covered by insurance. As noted below, the number of employers providing health insurance is declining and so a 2 percent increase in covered employees is a reasonable assumption.

**Table 1: Fiscal Impact**

	<b># Employees</b>	<b>5% Credit</b>
New Employees	2,000	550,000

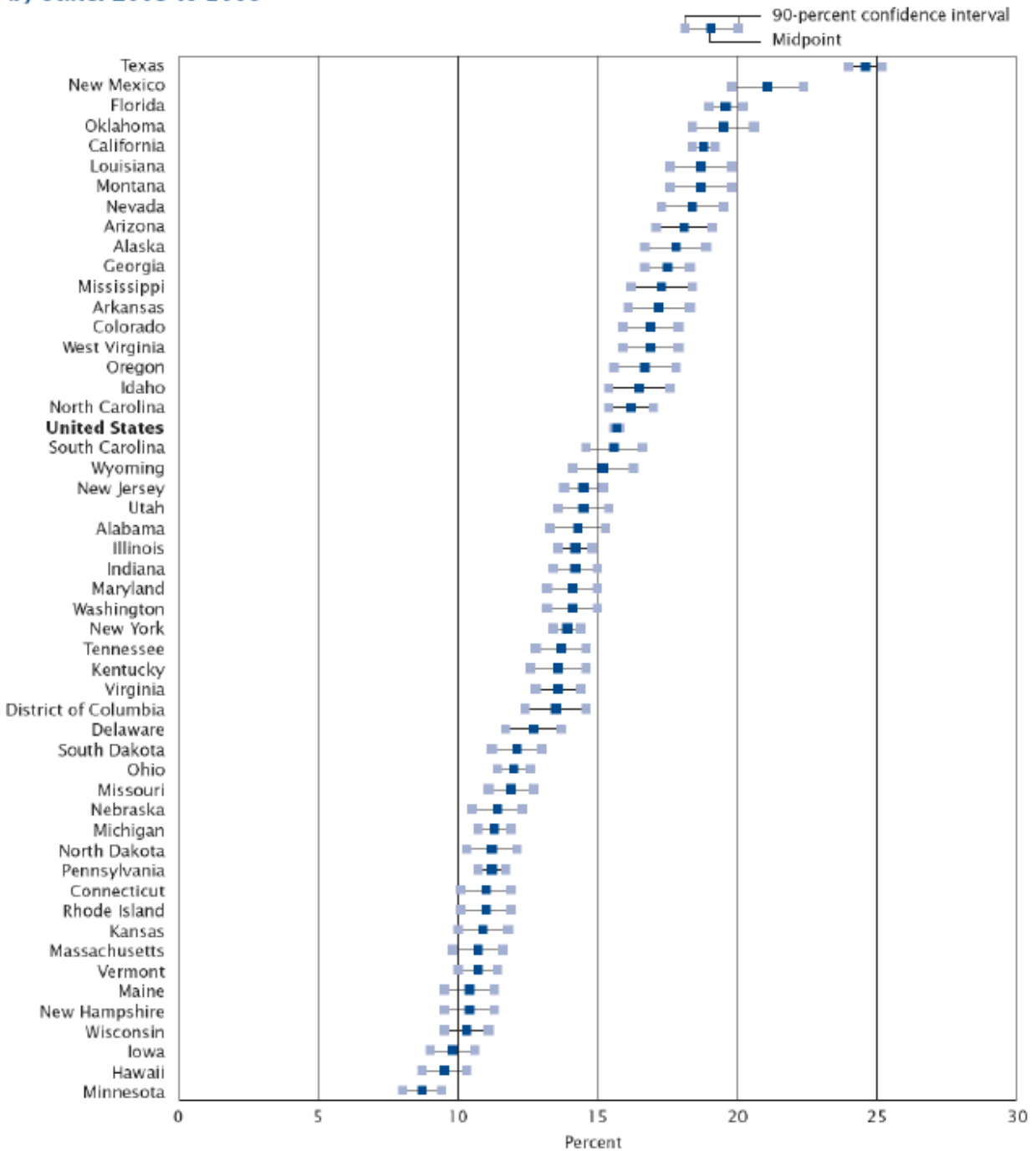
## SIGNIFICANT ISSUES

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.

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.

**CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

Senate Bill 723 offers a similar credit but the credit is between 35 and 50 percent and the firm size threshold is 50 employees. Senate Bill 871 provides a credit for the purchase of health insurance by an individual.