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

SPONSOR Taylor **ORIGINAL DATE** 1/25/09 **LAST UPDATED** 1/30/09 **HB** 61

SHORT TITLE Rural Health Care Tax Credit Eligibility **SB**

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
	($1,200.0)		Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Conflicts with HB 179 and SB 58

SOURCES OF INFORMATION
LFC Files

Responses Received From
Health Policy Commission (HPC)
Department of Health (DOH)
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House bill 61 expands the definitions of “health care underserved area” and “rural” as they apply to the rural health care practitioner tax credit. Under current law, DOH determines the geographic area both in terms of the provision of health care services and the rural nature that qualifies a practitioner to receive the credit against personal income tax. HB 61 would also allow areas where there is a physician shortage of 15 percent or more documented by a needs assessment. HB61 also allows municipalities with a population of less than 50,000 to be considered rural.

The change would be effective for tax year 2009.

FISCAL IMPLICATIONS

TRD:

Including municipalities with populations of less than fifty thousand adds Farmington to the list of rural areas eligible for the credit. The Department of Health estimates that approximately 300 healthcare practitioners would consequently become eligible for the credit. In rural areas the growth in medical profession employment is assumed to be half of that projected for the state by the Bureau of Business and Economic Research. Two-thirds are assumed to be eligible for the $5,000 credit, while one-third is assumed to be eligible for the $3,000 credit. Adjustments are made to account for the following:

(1) Some health practitioners practice only part-time and thus would not be eligible for the full credit amount. Because 22% of last year's claimants of the credit were employed part-time, it is assumed that 22% of the newly eligible practitioners will also work part-time.

(2) The $3,000 credit could offset income tax on approximately $60,000 of taxable income ($75,000 of total income). The $5,000 credit could offset income tax on approximately $100,000 of taxable income ($125,000 of total income). Some practitioners may not have sufficiently high income to fully utilize the credit. It is assumed that 10% of eligible practitioners have insufficiently high income and are only able to utilize half of the credit.

Additional revenue impacts may occur due to change in the definition of "health care underserved area"; the size of such potential impacts is difficult to ascertain.

SIGNIFICANT ISSUES

The rural health care practitioner tax credit provides a credit against personal income in the amount of $5,000 for physicians and dentists and $3,000 for nurses, dental hygienists, and physician assistants practicing full time in rural health care underserved areas, as defined by DOH.

Every single county in New Mexico except Los Alamos has an area or a population identified by the US Department of Health and Human Services including Bernalillo County. Only Bernalillo County has a population of more than 300,000.

DOH:

The proposed change in the definition of "rural" would only identify one location not currently considered rural for purposes of the RHCPTCP – Farmington. Farmington was recently reclassified as an urban area by the Census Bureau. The proposed change in HB61 would permit the Department of Health (DOH) to consider Farmington to be a rural area for purposes of the RHCPTCP.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

HB 179 also changes these definitions.

TECHNICAL ISSUES

DOH:

The proposed change in the definition of "health care underserved area" may create several problems. The language of HB61 does not delineate who would be eligible to submit a needs assessment to DOH and what criteria would be used for calculating a physician shortage. More importantly, the language would substitute a *physician* shortage criterion as an eligibility basis for all professions, including non-physician professions. As written, HB61 might not limit the use of physician needs assessments for defining a "health care underserved area" to just physician eligibility. This could permit an area with physician shortages to be defined as an eligible area for dentists, whether or not there was a dentist shortage.

NF/mc

The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:

1. ***Adequacy:*** *revenue should be adequate to fund government services.*
2. ***Efficiency:*** *tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.*
3. ***Equity****: taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.*
4. ***Simplicity****: taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.*
5. ***Accountability/Transparency:*** *Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.*

More information about the LFC tax policy principles will soon be available on the LFC website at www.nmlegis.gov/lcs/lfc