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

SPONSOR Trujillo, CH **ORIGINAL DATE** 03/01/13 **LAST UPDATED** 03/06/13 **HB** 583/aHBIC

SHORT TITLE Long-Term Care Insurance Tax Credit **SB**

ANALYST Smith

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY13	**FY14**	**FY15**	**FY16**	**FY17**		
	($124,710.0)	($9,350.0)	($10,050.0)	($10,810.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of HBIC Amendment

The House Business and Industry Committee amendment to House Bill 583 removes the effective date of January 1, 2014 in the original bill and changes the applicability to taxable years beginning on or after January 1, 2013. The HBIC amendment also clarifies that a taxpayer's ability to claim the credit is based on when they pay premiums for the insurance policy.

Synopsis of Original Bill

House Bill 583 adds a new section to the Income Tax Act to provide a credit for the purchase of a long-term care insurance policy. The credit is available to taxpayers who purchase a long-term care insurance policy after January 1, 2014 and prior to January 1, 2018. The credit is in an amount equal to the premiums paid for the policy. The credit is non-refundable and may not be carried forward or transferred to another taxpayer.

Effective Date: January 1, 2014

FISCAL IMPLICATIONS

The TRD found that U.S. annual premiums for newly-issued long-term care insurance policies were $2,283 in 2010. Approximately 26 percent of the population in New Mexico, 529,191, consists of people who are 55 years of age or older based on U.S. 2010 Census.

Between 7 and 9 million (about 2.6 percent) Americans have private long-term care insurance currently. The same ratio was applied against the New Mexico population and the average claim amount was assumed to be approximately $1,875 (due to not all taxpayers having enough tax liability to claim this credit). According to an AHIP report “Who Buys Long-Term Care Insurance in 2010-2011?” between 2000 and 2009, total long-term care expenditures grew by about 92 percent, roughly 7.5 percent per year. This annual growth rate of 7.5 percent was applied to the number of New Mexicans with long-term care insurance to estimate the fiscal impact.

The credit would be granted only once per individual long-term care insurance policy. Thus, only new buyers would be eligible for this credit.

This bill may be counter to the Legislative Finance Committee (LFC) tax policy principle of adequacy, efficiency and equity. Due to the increasing cost of tax expenditures revenues may be insufficient to cover growing recurring appropriations.

Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for tax expenditure may be ambiguous, further complicating the initial cost estimate of the expenditure’s fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures.

SIGNIFICANT ISSUES

The TRD notes that, without private insurance or public program coverage, the high cost of long-term care is unaffordable for most Americans. Justification for the proposed measure is probably that by purchasing long-term care insurance, taxpayers prevent imposing financial burdens on family members and other taxpayers. It should be noted that most purchasers of this insurance are mid-to-high income clients. According to Long-Term Care Insurance: 2012 Update by AARP Public Policy Institute, in 2010, the typical purchaser had fairly substantial income and assets. More than half (57 percent) of purchasers had incomes over $75,000 per year, and 79 percent had more than $100,000 in liquid assets. By comparison, only 44 percent of the general population had liquid assets in excess of $100,000. Hence, the proposal would tend to benefit mid-to-high income taxpayers.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is not met since the TRD is not required in the bill to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the deduction and other information to determine whether the deduction is meeting its purpose.

TECHNICAL ISSUES

The TRD notes the following:

- The language does not specify that the taxpayer needs to be a New Mexico resident. Page 1, Subsection A should state "A taxpayer who is a NM resident…"

- The bill does not address the fact that premiums are usually paid annually, semi-annually, quarterly, and monthly. The bill could further define "the premiums paid" and the amount of the credit allowed by indicating whether the credit is based on the annual premiums paid during a calendar year that the policy is purchased.

This bill does not contain a sunset date. The LFC recommends adding a sunset date.

Does the bill meet the Legislative Finance Committee tax policy principles?

1. **Adequacy**: Revenue should be adequate to fund needed government services.
2. **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity**: Different taxpayers should be treated fairly.
4. **Simplicity**: Collection should be simple and easily understood.
5. **Accountability**: Preferences should be easy to monitor and evaluate

SS/svb