FISCAL IMPACT REPORT

		ORIGINAL DATE	02/05/14		
SPONSOR	Trujillo, CH	**LAST UPDATED**	02/18/14	**HB**	322
SHORT TITLE	Long-Term Care Insurance Tax Credit			**SB**	
				ANALYST	Dorbecker

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY14	**FY15**	**FY16**	**FY17**	**FY18**		
	($168,000.0)	($181,000.0)	($194,000.0)	($209,000.0)	Recurring	General Fund

Parenthesis ( ) indicate revenue decreases

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 322 adds a new section to the Income Tax Act to create a new tax credit referred as the "long-term care insurance tax credit" for the purchase of a long-term care insurance policy. The credit is in an amount equal to the premiums paid for the policy. A taxpayer wishing to claim the credit must submit an application to the Human Services Department (HSD), and HSD will determine if the taxpayer is eligible for the tax credit. The credit is non-refundable and may not be carried forward or transferred to another taxpayer.

The bill requires taxpayers applying for the credit to provide information to HSD concerning the qualifying long-term care insurance policy, terms and any other relevant information to determine the taxpayer's eligibility for the tax credit.

The bill further requires HSD to promulgate rules establishing procedures to certify a taxpayer for the purposes of obtaining credit. HSD must issue a dated certificate of eligibility containing the taxpayer's information, the amount of the long-term care insurance tax credit for which the taxpayer is eligible and any other information required by the Taxation and Revenue Department (TRD).

The bill includes reporting requirements. HSD and TRD are required to periodically audit records of the credit to ensure the credit's effective administration. TRD must also compile an annual report that includes the number of taxpayers approved to receive the credit, the aggregate amount of credits approved and any other relevant information. The bill requires the appropriate legislative committees to review the effectiveness and cost of the tax credit every three years, beginning in 2019.

There is no effective date of this bill. It is assumed that the new effective date is 90 days after this session ends. The provisions of this bill apply to taxable years beginning on or after January 1, 2014.

FISCAL IMPLICATIONS

Between 7 and 9 million Americans (about 2.6 percent of the population according to the most recent decennial census) have private long-term care insurance. The same ratio was applied against the New Mexico population. TRD estimated there are about 53,700 long-term care insurance (LTCI) buyers in New Mexico and the average claim amount was assumed to be $2,343 (weighted average annual premium for LTCI in 2010[1]).

According to the American Health Insurance Plans (AHIP) report entitled "Who Buys Long-Term Care Insurance in 2010-2011?" between calendar years 2000 and 2009, the total long-term care expenditures grew by approximately 92 percent (7.5 percent per year). To estimate the fiscal impact, TRD used the annual growth rate of 7.5 percent and applied it to the number of New Mexicans with LTCI. It is highly likely that the number of households buying LTCI will grow faster the estimate, therefore increasing this cost according to TRD.

This bill may be counter to the 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 a 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

Without private insurance or public program coverage, the high cost of long-term care is unaffordable for many Americans. By purchasing long-term care insurance, taxpayers prevent imposing financial burdens on family members and other taxpayers.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is met with the bill's requirement 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.

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[1] AHIP, "Who Buys Long-Term Care Insurance in 2010-2011?" (Washington, DC: AHIP, March 2012).

ADMINISTRATIVE IMPLICATIONS

TRD estimates a moderate impact. TRD employees and taxpayers will need to be educated and coordination between HSD and TRD will be necessary. A claim form and instructions will need to be developed. The forms, instructions and modifications to the income tax forms and publications can be performed with existing resources as part of the annual revision of the tax forms and publications.

One FTE will be needed to record and monitor the credits and to audit the records of HSD and to compile the reports to provide to legislative committees according to TRD.

There would be also a moderate impact on TRD's Information Technology (IT) division since changes need to be made to the business credit manager in GenTax.

TECHNICAL ISSUES

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

OTHER SUBSTANTIVE ISSUES

Double dipping of tax credits, deductions and exemptions are allowed. A claimant may take multiple tax credits for the same expenditures, including the medical expense deduction, exemption, and credit.

Confidentiality conflicts may arise when reporting to the legislative committees depending upon the information needed to report the effectiveness of the credits, per Section 7-1-8 NMSA 1978.

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

HD/ds