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

ORIGINAL DATE 01/24/17
SPONSOR M. Garcia/T. Salazar **LAST UPDATED** ______ **HB** 68

SHORT TITLE Rural Health Care Practitioner Tax Credit **SB** ______

ANALYST Clark

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY17	FY18	FY19	FY20	FY21		
$0	($2,075) to ($18,575)	($3,112) to ($19,612)	($4,669) to ($21,169)	($7,003) to ($23,503)	Recurring	General Fund

Parenthesis ( ) indicate revenue decreases

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY17	FY18	FY19	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	$0.0	$20.0	$0.0	$20.0	Nonrecurring	Taxation and Revenue Department

Parenthesis ( ) indicate expenditure decreases

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
Regulation and Licensing Department (RLD)

SUMMARY

Synopsis of Bill

House Bill 68 amends the rural health care practitioner tax credit to remove the lower tier $3,000 annual credit for some practitioners and instead use the higher tier $5,000 annual credit for all practitioners. The bill also expands to the list of qualified practitioners to include licensed counselors, pharmacists, and social workers. Lastly, the bill changes the reference for licensing from chapter references to the name of the acts for osteopathic physicians and a physician or physician assistant.

There is no effective date of this bill. It is assumed that the effective date is 90 days after this session ends. However, the provisions of the act are applicable to tax years 2017 and beyond.

FISCAL IMPLICATIONS

The Taxation and Revenue Department (TRD) provided the following methodology for its analysis (shown as the lower of the two numbers for each year).

> This credit program has averaged approximately $6.4 million per year with an average of 1,900 taxpayers filing a claim. Approximately 48 percent of the claimants (approximately 860 taxpayers) cap the credit at $3,000. The number of claimants increased approximately 14 percent from tax years 2013 to 2014. Before 2014, the average growth rate of claimants was 5 percent per year.
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> In calculating the fiscal impact, TRD first estimated the expenditure increase from equalizing the credit for all practitioners. Then, assuming the incentive drives practitioners to participate in rural communities and accounting for the expansion of labor categories, added a growth factor of 50 percent to the number of claimants in later years. The expenditure estimate is the sum of the two estimates, adjusted for the mechanics of fiscal year collections.

The higher of the two estimates shown in each fiscal year adds the cost of extending the credit to the newly qualifying categories of practitioner, assuming 10 percent of the licensed practitioners operate in an underserved area. The Regulation and Licensing Department (RLD) reports there are currently 4,479 active social work licensees, 4,608 active counselor licensees, and 23,914 active pharmacy licensees.

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

The bill expands the credit in an attempt to influence health care practitioners to operate at least half time in rural and other underserved areas of the state. New Mexico is a geographically large state with vast rural areas, creating difficulties for many citizens to easily access a wide variety of health care practitioners. However, no reports appear to be available to demonstrate the existing credit had an impact on behavior and played a role in making these services more accessible. Those practitioners claiming the credit may have already been operating in rural and underserved areas, and new claimants may have made their location decision without consideration of the credit. (See "tax expenditure policy principles" at the end of this fiscal impact report.)

RLD provided the following analysis: While there is no direct impact on the Boards and Commissions Division of RLD, many of our health-care related boards have focused on policies that help under-served areas. For example, the Social Work Board, Counseling Board, and Psychology Board have cross-jurisdictional programs to allow for supervisors in rural areas. This program helps alleviate shortages in areas where a fledgling practitioner may not otherwise find a supervisor, limiting that person's ability to serve patients in the area. This tax credit is a significant part of an overall policy that seeks to increase access to health and behavioral health care for all New Mexicans.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is not met since 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.

ADMINISTRATIVE IMPLICATIONS

There is a minimal impact because GenTax software systems, forms, and instructions will need to be updated.

TECHNICAL ISSUES

This bill does not contain a sunset date for the credit. LFC recommends adding a sunset date. TRD provided the following additional recommendations.

> Amend the language of Subsection B [p.2, ll. 6, 7 and 15] to read "…shall not exceed five thousand dollars ($5,000) for each eligible health care practitioners." As written, using "all" and the plural "health care practitioners," the cap appears to be an aggregate, rather than a per-individual cap.
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> The purpose of the legislation is to allow "all practitioners" (page 1, line 13) to claim the rural health care practitioner tax credit. However, not "all practitioners" are included and this statement is misleading. Dieticians, clinical nurse specialists, licensed practical nurses, acupuncturists, physical therapists, chiropractors, to name a few, are not included and are not eligible for the credit.
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> The legislation provides that the Department of Health will determine eligibility and issue a certificate to the qualifying health care practitioner. The New Mexico Administrative Code will need to be updated to correspond to the new eligibility standards. Consideration should be made to determine how eligibility may be approved and specifically revoked.

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

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

1. **Vetted**: The proposed new or expanded tax expenditure was vetted through interim legislative committees, such as LFC and the Revenue Stabilization and Tax Policy Committee, to review fiscal, legal, and general policy parameters.
2. **Targeted**: The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals.
3. **Transparent**: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies.
4. **Accountable**: The required reporting allows for analysis by members of the public to determine progress toward annual targets and determination of effectiveness and efficiency. The tax expenditure is set to expire unless legislative action is taken to review the tax expenditure and extend the expiration date.
5. **Effective**: The tax expenditure fulfills the stated purpose. If the tax expenditure is designed to alter behavior – for example, economic development incentives intended to increase economic growth – there are indicators the recipients would not have performed the desired actions "but for" the existence of the tax expenditure.
6. **Efficient:** The tax expenditure is the most cost-effective way to achieve the desired results.

LFC Tax Expenditure Policy Principle	Met?	Comments
Vetted	✘	
Targeted		
Clearly stated purpose	?	No, but the purpose seems clear from the bill's actions
Long-term goals	✘	
Measurable targets	✘	
Transparent	✘	
Accountable		
Public analysis	✘	
Expiration date	✘	
Effective		
Fulfills stated purpose	?	
Passes "but for" test	?	
Efficient	?	
Key: ✓ Met ✘ Not Met ? Unclear		

JC/al