FISCAL IMPACT REPORT

	ORIGINAL DATE	1/31/2020		
SPONSOR Allison	**LAST UPDATED**		**HB**	270

SHORT TITLE Rural Health Care Tax Credit For All Nurses **SB**

ANALYST Iglesias

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY20	**FY21**	**FY22**	**FY23**	**FY24**		
-	-	($8,400.0)	($8,400.0)	($8,400.0)	Recurring	General Fund

Parenthesis ( ) indicate revenue decreases

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

FY20	**FY21**	**FY22**	**3 Year Total Cost**	**Recurring or Nonrecurring**	**Fund Affected**
-	Moderate	Moderate	Moderate	Recurring	TRD and DOH Operating Budgets

Parenthesis ( ) indicate expenditure decreases

Duplicates, Relates to, and/or Conflicts with HB74, HB228, HB275, and SB203

SOURCES OF INFORMATION
LFC Files

No Response Received
Taxation and Revenue Department (TRD)
Department of Health (DOH)

SUMMARY

Synopsis of Bill

House Bill 270 amends the rural health care practitioner tax credit against income tax to remove the nursing specialties currently eligible for the credit and instead adds all registered nurses to the list of practitioners eligible to receive the $3,000 credit.

There is no effective date of this bill, but the provisions apply to taxable years beginning on or after January 1, 2021. There is no delayed repeal date but LFC recommends adding one.

FISCAL IMPLICATIONS

To estimate the cost of adding certain occupations to the credit eligibility, LFC staff use data from the Bureau of Labor Statistics (BLS) State Occupational Employment and Wage estimates for New Mexico to determine the number of registered nurses working in New Mexico. The estimates also use BLS data to determine the number of nurses working in the state already eligible for the credit and backs them out of the calculation. Based on the New Mexico Health Care Workforce Committee, 2019 Annual Report[1], about 23 percent of New Mexico nurses are practicing in rural areas. LFC staff applied the same distribution of full-time and part-time credits to the new population and the percentage share of the credit that taxpayers are able to apply to annual tax year liability, as determined by the Taxation and Revenue Department (TRD).

The estimated annual cost of the credit is about $8.4 million per year. The analysis assumes the credit is an incentive for these registered nurses to remain in rural areas rather than an incentive to migrate to rural areas. However, if the credit did incentivize nurses to migrate to rural areas, it would increase the cost of the credit over time.

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

This bill defines "registered nurse" as those licensed pursuant to the Nursing Practice Act. Each of the nursing specialties removed from credit eligibility would fall under the umbrella of a "registered nurse" pursuant to the definitions in the Act. Therefore, certified nurse-midwives, certified registered nurse anesthetists, certified nurse practitioners, and clinical nurse specialists would remain eligible to receive this credit. The bill would also expand eligibility to other registered nurses.

The proposed changes in this bill would increase the number of participating health care practitioners eligible for the tax credit. The existing statute allows health care practitioners who have worked at least 2,080 hours at a practice located in an approved rural health care underserved area during a taxable year to claim the credit. Under the current law, physicians, osteopathic physicians, dentists, clinical psychologists, podiatrists and optometrists are eligible for a $5,000 tax credit. Dental hygienists, physician assistants, certified nurse midwives, certified registered nurse anesthetists, certified nurse practitioners and clinical nurse specialists are

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[1] Farnbach Pearson AW, Reno JR, New Mexico Health Care Workforce Committee. *2019 Annual Report.* Albuquerque NM: University of New Mexico Health Sciences Center, 2019.

eligible for a $3,000 tax credit. Practitioners working part-time at rural practice sites may claim half the amount of the credit.

The chart below from TRD's 2018 Tax Expenditure Report shows a five-year history of the claims for the existing credit.

Credit, Rural Healthcare Practitioner	Tax Year (Calendar)	2013	2014	2015	2016	2017
	Claims	1748	2042	1976	1971	1707
	Expenditure (thousands)	$6,572	$6,683	$6,500	$6,596	$5,597

The New Mexico Health Care Workforce Committee's 2019 annual report recommended TRD and the NM Department of Health to examine the effectiveness of the rural health tax credit in recruiting and retaining providers in rural areas.

PERFORMANCE IMPLICATIONS

Credits are separately reported to TRD, which makes it easy for the department to determine the annual cost. However, 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 credit and other information to determine whether the credit is meeting its purpose.

TRD notes the agency's ability to increase efficiency and accuracy of credit claims would be greatly enhanced by a requirement for DOH to upload certified taxpayer applications to TRD and include the full taxpayer social security number for taxpayer identification.

ADMINISTRATIVE IMPLICATIONS

The eligibility expansion of this credit would increase the number of applications submitted to DOH, and an additional FTE may be needed to process the anticipated increase in tax credit applications.

TRD will need to make information system changes and update forms and publications. Currently, all certifications must be entered manually and thus increasing the number of claims with an expanded population of practitioners would increase the administration workload for TRD.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

House Bill 78 adds social workers, counselors, and pharmacists to the rural health care practitioner tax credit and removes the tiered credit system such that all eligible practitioners can receive up to a $5,000 credit.

House Bill 228 removes the nursing specialties currently eligible for the $3,000 rural health care practitioner tax credit and instead adds all registered nurses to the $3,000 credit.

House Bill 275 expands the rural health care practitioner tax credit to new occupations, requires all credit claimants to be licensed, and adds annual reporting requirements for TRD and a delayed repeal date.

Senate Bill 203 adds chiropractic physicians to the $5,000 rural health care practitioner tax credit.

TECHNICAL ISSUES

This bill does not contain a delayed repeal date. LFC recommends adding a delayed repeal date.

OTHER SUBSTANTIVE ISSUES

DOH is responsible for determining eligibility and issuing a certificate to a qualifying health care practitioner. The New Mexico Administrative Code may need to be updated to correspond to the new eligibility standards, and consideration should be made to determine how eligibility may be approved and 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

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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 (RSTP), 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	✖	Although variations of this bill have been introduced multiple times in the last few years, the bill has not been vetted through LFC or RSTP.
Targeted		
Clearly stated purpose	✔	No, but seems evident.
Long-term goals	✖	None.
Measurable targets	✖	None.
Transparent	✖	Credits are separately reported to TRD; however, no annual reporting from TRD to interim committees is required .
Accountable		
Public analysis	✖	No annual reporting required.
Expiration date	✖	There is no delayed repeal date.
Effective		
Fulfills stated purpose	?	Current data from TRD's tax expenditure report only indicates the number of claimants and cost of the credit, making it difficult to determine whether practitioners would not move to or remain in rural areas "but for" the credit.
Passes "but for" test	?	
Efficient	?	
Key: ✔ Met ✖ Not Met ? Unclear		

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