

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current and previously issued FIRs are available on the NM Legislative Website (www.nmlegis.gov).

FISCAL IMPACT REPORT

SPONSOR Chandler/Gallegos ORIGINAL DATE 02/06/22
 LAST UPDATED 02/08/22 HB 190

SHORT TITLE Income Tax Credit for New Mexico Nurses SB _____

ANALYST Faubion

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY22	FY23	FY24	FY25	FY26		
--	(\$9,352.8)	--	--	--	Nonrecurring	General Fund

Parenthesis () indicate revenue decreases

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

FY22	FY23	FY24	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
--	\$15.5	--	\$15.5	Nonrecurring	TRD – ITD staff workload
--	\$55.0	--	\$55.0	Nonrecurring	TRD - RPD temp position
--	\$12.5	--	\$12.5	Nonrecurring	TRD - RPD staff workload

Parenthesis () indicate expenditure decreases

SOURCES OF INFORMATION

LFC Files

Responses Received From

Regulation and Licensing Department (RLD)

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 190 creates a \$1,000 refundable income tax credit for tax year 2022 for a taxpayer that was employed full time as a nurse at a hospital located in New Mexico. The taxpayer shall apply to the department on forms and in the manner prescribed by the department. The application shall include a certification by the hospital for which the taxpayer was employed that the taxpayer was employed full time throughout 2022 as a nurse by the hospital.

There is no effective date of this bill. It is assumed that the effective date is 90 days following adjournment of the Legislature.

FISCAL IMPLICATIONS

The New Mexico Healthcare Workforce Committee's 2021 Annual Report reported that 28.4 thousand registered nurses and clinical nurse specialists held New Mexico licenses during 2020¹. Of these individuals, 7,000 were identified as out of state, 5,900 were nonpracticing, and 15.6 thousand were in active practice in New Mexico. Of these 15.6 thousand nurses practicing in the state of New Mexico, approximately 60 percent, or 9,400, work in a hospital and are therefore eligible to receive the credit².

TRD notes that due to an increase in demand for nurses during the Covid-19 pandemic and a tight labor market, nurse salaries increased 4 percent nationally in the first nine months of 2021, compared to 3.3 percent in 2020 and 2.6 percent in 2019³. This increased salary may have brought more nurses into the market, increasing the number of eligible taxpayers for this credit. However, difficult working conditions associated with Covid-19 may cause some nurses to leave the profession or not work full time during 2022.

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

TRD notes the following:

PIT revenue represents a consistent source of revenue for many states. PIT revenue is susceptible to economic downturns but also positively responsive to economic expansion. New Mexico is one of 42 states along with the District of Columbia that impose a broad-based personal income tax. The personal income tax is seen as both horizontally equitable, the same statutes apply to all taxpayers and vertically equitable, due to the progressive design of the personal income tax.

Progressive, in this context, means taxes where the average tax rate increases as the taxable amount increases. Thus, an income tax credit for nurses would erode horizontal equity in the state personal income taxes. By basing the credit on profession, taxpayers in similar

¹ https://www.nmms.org/wp-content/uploads/2018/08/NMHCWF_2021Report_FINAL_edist.pdf

² ECPI University, HealthAffairs.org, and American Association of Colleges of Nursing quote between 58 and 61 percent of nurses work in hospitals.

³ https://www.wsj.com/articles/nurse-salaries-rise-as-demand-for-their-services-soars-during-covid-19-pandemic-11637145000?reflink=desktopwebshare_permalink

economic circumstances are no longer treated equally. Thus, two taxpayers who earn the same salary may have different tax liability given what their choice of profession is. This new tax credit would reward those working in a profession that is facing considerable labor shortages due to increased retirements⁴. Markets have responded to these shortages by increasing their wages, to attract more nurses to the labor force. This tax credit may provide an incentive for those nurses that are already employed, to continue to remain in the labor force for the entirety of 2022, easing some of the shortages in the short run.

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 credit and other information to determine whether the credit is meeting its purpose.

TRD shall compile an annual report on the tax credit provided by this section that shall include the number of taxpayers approved to receive the credit, the aggregate amount of credits approved and any other information necessary to evaluate the credit. TRD shall present the report to the revenue stabilization and tax policy committee and the Legislative Finance Committee with an analysis of the cost of the tax credit.

ADMINISTRATIVE IMPLICATIONS

TRD will need to make information system changes and update forms and publications. Audit procedures will need to be updated to verify the eligibility of the credit. These changes will be incorporated into annual tax year implementation and cost \$15,492 in workload costs for the Information Technology Division (ITD). The Revenue Processing Division (RPD) will require an additional temporary position at a cost of \$55,000 as certifications must be entered manually. In addition, as returns with the credit are submitted, they will need to be manually reviewed. These changes will be incorporated into annual tax year implementation and cost \$12,500 to RPD for staff workload costs.

TECHNICAL ISSUES

TRD notes that the proposed legislation provides an income tax credit for full-time nurses, but the legislation does not define the term full-time. TRD suggests adding a definition to avoid ambiguity. Absent that definition, TRD will need to issue guidance to hospitals who wish to certify employee eligibility, but TRD's guidance may be subject to legal challenge since it is not based in statute.

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.

⁴ https://www.wsj.com/articles/covid-19-surge-leaves-doctors-nurses-reeling-from-burnout-11611612044?mod=article_inline

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.