FISCAL IMPACT REPORT

		LAST UPDATED	
SPONSOR	Harper/Jones	**ORIGINAL DATE**	1/26/2024
SHORT TITLE	Rural Health Care Tax Credit Definitions	**BILL NUMBER**	House Bill 218
		ANALYST	Faubion

REVENUE*
(dollars in thousands)

Type	FY24	FY25	FY26	FY27	FY28	Recurring or Nonrecurring	Fund Affected
PIT		($1,430.0)	($1,430.0)	($1,430.0)	($1,430.0)	Recurring	General Fund

Parentheses ( ) indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY24	FY25	FY26	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
TRD	No fiscal impact	$16.6	No fiscal impact	$16.6	Nonrecurring	General Fund

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

Duplicates sections of House Bill 163.

Sources of Information

LFC Files
2023 New Mexico Tax Expenditure Report
2023 New Mexico Health Care Workforce Committee Report

Agency Analysis Received From
Regulation and Licensing Department (RLD)
Office of the Superintendent of Insurance (OSI)
Health Care Authority (HCA)

Agency Analysis was Solicited but Not Received From
Taxation and Revenue Department (TRD)
Department of Health (DOH)

SUMMARY

Synopsis of House Bill 218

House Bill 218 (HB218) reduces the number of hours that a practitioner is required to provide service in a rural area to be eligible for the rural health care practitioner tax credit. The bill also amends the definition of "rural" for the rural health care practitioner credit, tying it to U.S. Department of Health and Human Services definitions instead of an area identified by the NM Department of Health.

This bill does not contain an effective date, and as a result, would go into effect May 15, 2024, (90 days after the Legislature adjourns) if signed. The provisions in this bill apply to taxable years beginning on or after January 1, 2024.

FISCAL IMPLICATIONS

The Taxation and Revenue Department (TRD) notes the following in an analysis submitted for House Bill 163 (HB163), edited to only include those comments relevant to components proposed in HB218:

> This bill reduces the number of hours required to be worked in rural areas to qualify for the credit. Using a sample of taxpayers that have claimed the credit between 2016 and 2020, the TRD calculated that the ratio of practitioners claiming the credit between full-time and part-time credits to be 60:40 and that part-time credit recipients represent about 850 taxpayers. TRD then assumes that 50 percent of the taxpayers receiving the part-time credit will increase their hours to obtain the full credit amount within their qualifying practitioner group.
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> TRD then estimated how many additional practitioners may now become eligible for the credit with the reduced hours or be incentivized to work additional hours in rural areas part of the year and receive a full-time or part-time credit. TRD used the information provided in the New Mexico Health Care Workforce Committee (HCWC) annual report for 2022 and 2023 to determine how many practitioners in rural areas may currently not be covered by the credit. TRD analyzed providers in non-metropolitan areas of the state for each current eligible practitioner group based on the report's geographic distribution. In total, 189 healthcare practitioners are estimated to become newly eligible for the credit under the provisions of this bill. TRD assumed a 60:40 split for full-time versus part-time credit of the additional pool of practitioners. Some of the providers in metropolitan areas may qualify for part-time credits if they perform some of their practice in rural qualified areas; but such metropolitan providers are not assumed in this estimate.
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> TRD assumes no growth in the number of professionals eligible for the credit each year. Given the presumed intent to improve access to health care, this credit could see growth as more professionals provide services in qualified rural areas.

This bill creates or expands a tax expenditure. 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

In FY23, approximately 2,100 rural healthcare providers claimed the credit, costing approximately $7.3 million, according to the 2023 New Mexico Tax Expenditure Report.

Many nurses and other health care practitioners do not work a traditional 40-hour work week, but instead may work three 12-hour shifts per week or some other non-traditional schedule. This amendment to the rural practitioner health care credit aligns the hours worked with this nontraditional, but common, schedule. This bill proposes a 24 percent decrease in the number of hours required to claim the credit.

The proposed definition of rural is tied to the U.S. Department of Health and Human Services designation of a rural county or an unincorporated area of a partially rural county instead of an area determined by the NM Department of Health. This will likely lead to more consistent determination of rural but is unlikely to change the number or scale of eligible areas in any given year.

TRD notes the following in analysis submitted for HB163, edited to only include those comments relevant to components proposed in HB218:

> Personal income tax (PIT) represents a consistent source of revenue for many states. For New Mexico, PIT is approximately 25 percent of the state's recurring general fund revenue. While this revenue source is susceptible to economic downturns, it is also positively responsive to economic expansions. New Mexico is one of 41 states, along with the District of Columbia, that impose a broad-based PIT (New Hampshire and Washington do not tax wage and salary income). Like several states, New Mexico computes its income tax based on the federal definition of taxable income and ties to other statues in the federal tax code. This is referred to as "conformity" to the federal tax code. The PIT is an important tax policy tool that has the potential to further both horizontal equity, by ensuring the same statutes apply to all taxpayers, and vertical equity, by ensuring the tax burden is based on taxpayers' ability to pay.
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> The proposed changes of the rural health care practitioner tax credit will erode horizontal equity in state income taxes. By basing the credit on profession and location of work, taxpayers in similar economic circumstances are no longer treated equally. Thus, two dentists who earn the same salary may have different tax liability given where they work. The proposed changes to lower the required number of qualified hours further erodes that horizonal equity by potentially increasing the pool of qualified taxpayers. The other side of this credit is the broader public good of subsidizing medical professional employment in rural areas for the betterment of New Mexico residents' quality of life in those areas. There are health, social, and environmental benefits gained by serving residents in their home communities versus those residents incurring travel costs, time commitment, and other burdens to travel long distances, or not receive care at all.
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> Reducing the qualified hours may have unintended consequences. The current level of the full credit represents working full-time annually in a rural clinic. By dropping the hours down to 1,584, this represents working approximately 9 months of the year in a rural clinic. The population of taxpayers receiving the credit with higher hours may lower their hours working in rural areas and work for three months in a metropolitan area to receive a higher income for a fourth of the year. That said, requiring a practitioner to

> work 2,080 hours per year equates to that individual taking no time off in a year, whether for vacation or illness; this is likely not feasible.
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> The demand for health-care workers in the current market could facilitate an arrangement such as this. Thus, current practitioners receiving the higher credit amount working full-time in rural clinics may decrease the time seeing patients in rural areas. This could potentially impact patients who have established care with certain healthcare practitioners. If the changes proposed in the bill do not incentivize more practitioners to serve rural areas or increase their service hours in rural areas that could put further strain on the healthcare infrastructure in rural areas.
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> The current credit does not include a sunset date. TRD supports sunset dates for policymakers to review the impact of a credit before extending it if a sufficient timeframe is allotted for tax incentives to be measured. Given the expansion of this credit and the additional cost to the state, a sunset date would force an examination of the benefit of this credit versus the cost.

The Health Care Authority (HCA) (previously the Human Services Department) notes:

> Expanding this tax credit to additional practitioners may encourage more licensed providers to practice in rural areas of New Mexico. As a result, HB218 could help address health care workforce shortages, which would ultimately improve access to care for Medicaid-enrolled members and all New Mexicans. This tax credit may increase service utilization among Medicaid individuals as providers recruited and retained in parts of the state with limited access to care. Improving access to health care, especially in rural areas, is a key priority for HCA. HB218 aligns with HCA's efforts to support, increase, and expand the health care provider workforce in rural New Mexico.

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.

ADMINISTRATIVE IMPLICATIONS

TRD will need to make information system changes and update forms, instructions, publications. These changes will be included in annual tax year changes.

TRD, in analysis submitted for HB163, recommends an interface to allow the Department of Health (DOH) to send the certification information regularly and securely. The added requirement for DOH to provide the certifications in a specified form and by an agreed upon manner and interval with TRD will increase processing efficiency for the Revenue Processing Department (RPD) and reduce risks for certification data being shared from the source versus at the time of filing with the taxpayer. TRD may have some nonrecurring costs to facilitate the data exchange with DOH but will have recurring savings which will aid in other reported impacts if several bills with new tax credits become law.

This bill will have a low impact on TRD Information Technology Division (ITD), approximately 300 hours or about 2 months for an estimated staff workload cost of $16,650 to change the Health Care Practitioner Tax Credit (submitted for HB163).

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

This bill duplicates sections in House Bill 163.

OTHER SUBSTANTIVE ISSUES

In assessing all tax legislation, LFC staff considers whether the proposal is aligned with committee-adopted tax policy principles. Those five principles:

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

In addition, staff reviews whether the bill meets principles specific to tax expenditures. Those policies and how this bill addresses those issues:

Tax Expenditure Policy Principle	Met?	Comments
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.	✗	This bill was not heard at an interim committee.
Targeted: The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals. Clearly stated purpose Long-term goals Measurable targets	✗	There are no stated purposes, goals, or targets.
Transparent: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies	✓	This credit is reported in the Tax Expenditure Report.
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. Public analysis Expiration date	?	There is no expiration date.
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. Fulfills stated purpose Passes "but for" test	?	There are no states goals by which to measure effectiveness or efficiency.
Efficient: The tax expenditure is the most cost-effective way to achieve the desired results.	?	
Key: ✓ Met ✗ Not Met ? Unclear		

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