FISCAL IMPACT REPORT

SPONSOR Garcia, M/Jones **LAST UPDATED** **ORIGINAL DATE** 1/26/2024

SHORT TITLE Rural Health Care Tax Credit Eligibility **BILL NUMBER** House Bill 163

ANALYST Faubion

REVENUE*
(dollars in thousands)

Type	FY24	FY25	FY26	FY27	FY28	Recurring or Nonrecurring	Fund Affected
PIT	-	($11,630.0)	($11,630.0)	($11,630.0)	($11,630.0)	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
DOH	$153.2	$153.2	$153.2	$459.6	Recurring	General Fund
Total	$153.2	$169.8	$169.8	$476.2	Recurring/Nonrecurring	General Fund

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

Relates to House Bill 218

Sources of Information

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

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

SUMMARY

Synopsis of House Bill 163

House Bill 163 (HB163) amends the rural healthcare practitioner tax credit against income tax to add several categories of health workers to the list of approved practitioners eligible to receive the credit. HB163 adds pharmacists, registered nurses, clinical social workers, independent social workers, professional mental health counselors, professional clinical mental health counselors, marriage and family therapists, professional art therapists, alcohol and drug abuse counselors, and physical therapists to be eligible for a $3,000 annual credit. HB163 also 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 as identified by the New Mexico 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) provided the following fiscal analysis:

> Section 1(b)(1) 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 Taxation and Revenue Department (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.
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> Section 1(b)(1) amounts to $1.43 million of the total estimated revenue impact.
> Section 1(b)(2) expands the list of persons eligible to receive the credit. To compute the fiscal impact, TRD used the information provided in the New Mexico Health Care Workforce Committee (HCWC) annual report for 2023. The largest component of the fiscal impact is from the inclusion of registered nurses (RNs) among the health care professionals eligible for the credit. Per the 2023 HCWC report's Table 5.6, there were

16,181 practicing RNs and Certified Nurse Specialists (CNS) in New Mexico. CNSs are advanced practice RNs that are already eligible for the credit. The Department assumed that 90 percent of the 16,181 were RNs. Of these, 20 percent are practicing in nonmetropolitan areas, given the report's geographic distribution, and are assumed to become eligible for this credit. Based on these calculations, approximately 2,914 RNs would be newly eligible for the credit.

The next largest component of the fiscal impact is from the inclusion of various types of behavioral healthcare providers to the list of eligible health care practitioners. Due to a lack of available data on some health care providers for the 2023 HCWC report, TRD uses the 2022 report. According to the 2022 HCWC report, there were approximately 8,434 classified behavioral health care providers. Of these, based on Table 6.2, which details the workforce by provider type in the 2022 HCWC report, 87 percent of providers are assumed to be classified as one of the newly added categories of eligible behavioral healthcare providers in this bill (clinical social workers, independent social workers, professional mental health counselors, professional clinical mental health counselors, marriage and family therapists, professional art therapists, alcohol and drug abuse counselors). TRD assumes approximately 25 percent of these providers are practicing in nonmetropolitan areas. Based on these calculations, approximately 1,677 health care professionals would be newly eligible for the credit.

The remaining components of the fiscal impact come from the addition of pharmacists and physical therapists (PTs) to the list of eligible health care practitioners. Based on the 2022 HCWC report, there were approximately 1,890 pharmacists and 1,536 PTs working in the state of New Mexico. Of these, 24 percent of pharmacists and 25 percent of PTs are practicing in non-metropolitan areas, given the report's geographic distribution, and are assumed eligible for this credit. Based on these calculations, approximately 460 pharmacists and 380 PTs would become eligible for the credit.

In total, 5,372 healthcare practitioners are estimated to become newly eligible for the credit under the provisions of this bill. Some of the providers in the newly eligible categories 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.

TRD assumed the distribution of the new population of practitioners claiming the credit between full-time and part-time credits to be 60:40. TRD also assumed a percentage share of the credit that these newly eligible taxpayers may apply to their annual tax year liability, given the associated average salaries for the new categories of practitioners eligible for the $3,000 maximum credit. The average salary for each respective practitioner category was taken from the Department of Workforce Solutions' occupation and wage data. For pharmacists and PTs, the tax liability based on their average salary is assumed to reach the $3,000 credit amount. But for the other categories of newly eligible practitioners, it was assumed that, based on their average salaries, 75 percent of the credit amount will be claimed.

Section 1(b)2) amounts to $10.2 million of the total estimated revenue impact.

In total, based on the foregoing figures and assumptions, the reduction of eligible hours

> and expansions outlined in this bill are estimated to reduce PIT revenue by $11.63 million per year. 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.

The LFC fiscal analysis also uses the 2023 New Mexico Health Care Workforce Committee annual report county-level estimates of almost all types of practitioners in medical and behavioral health fields—including independently licensed psychologists, social workers, counselors, and marriage and family therapists—practicing in New Mexico. This data indicates, in 2021 or 2022 (some data in the report is 2021 data and some is 2022), 16,181 registered nurses and clinical nurse specialists, 1,929 certified nurse practitioners, 189 certified nurse-midwives, 1,853 pharmacists, 1,536 physical therapists, and 889 occupational therapists were practicing (not just licensed) in the state. The report indicates 20 percent to 30 percent of these are practicing in rural areas. Data in the same report show there are 3,711 active licensed social workers and 2,828 licensed counselors, of whom between 20 percent and 30 percent are practicing in nonmetropolitan areas according to data from the report. Lastly, the report reports 432 alcohol and drug counselors, 70 art therapists, 312 marriage and family therapists, and 70 midwives in the state.

Therefore, LFC staff estimate between 6,000 and 9,000 additional practitioners in rural areas would be eligible to receive the $3,000 tax credit or partial credit, resulting in an estimated reduction in tax revenue of approximately $15.75 million annually if all those newly eligible were able to claim the full amount of the credit. Because TRD has more information on the uptake of the current credits and tax liability of those taking the credit, their analysis is included in the table on page one, although it should be noted the fiscal impact could be higher.

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

Since the rural healthcare practitioner tax credit program inception in 2007, an average of 2,000 rural healthcare providers have participated each year, according to DOH. 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.

TRD notes the following:

> 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.

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.

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 nine 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.

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.

The New Mexico Health Care Workforce Committee has routinely recommended for the expansion of the rural health practitioner tax credit, including listing it as Recommendation 7 from the New Mexico Health Care Workforce Committee, 2023 Annual Report. The annual report notes that pharmacists, physical therapists, social workers, and counselors who are included in the expansion of this credit are particularly needed in many areas of the state. By expanding the population of eligible practitioners, this credit could further incentivize the recruitment and retention of professionals to work in rural areas of the state, where residents are currently medically underserved.

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 (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, HB163 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. HB163 aligns with HCA's efforts to support, increase, and expand the health care provider workforce in rural New Mexico.

The Department of Health notes the following policy issues:

New Mexico has a significant shortage of health care professionals, which include not only doctors, but all health care professionals such as nurses, physician assistants, dentists, dental hygienists, psychiatrists, pharmacists, administrative staff, etc. The New Mexico Healthcare Workforce Committee 2022 Annual Report documents the shortage of physicians in New Mexico and offers recommendations for recruitment, retention, and increasing the health care workforce.

New Mexico's health system poses certain challenges for improving the health status of the population as New Mexico's population is not evenly distributed across the state geographically. Of New Mexico's 33 counties, seven contain predominantly urban areas defined as part of Metropolitan Statistical Areas. The remaining 26 Non-Metropolitan counties are considered rural or frontier in nature (New Mexico Rural Health Plan, June 2019).

Due to current healthcare reimbursement systems, communities with a large proportion of low-income residents and rural communities may not generate sufficient paying demand to assure that providers will practice in these locations. The rural to urban migration of health professionals inevitably leaves poor, rural, and remote areas underserved and disadvantaged. Skilled health professionals are increasingly taking job opportunities in the labor market in high-income areas as the demand for their expertise rises.

Since the demands for health care services and providers continues to increase, providing incentives, such as the Tax Credit Program, to rural health care providers who work in rural and underserved areas may help stabilize and improve health care services. Providing health care and public health services in rural areas poses challenges such as the ability to hire and maintain health care providers, and the great distances that many people must travel to get care. The proposed eligibility changes in HB163 could encourage more health care providers to provide needed health care services in rural and underserved areas of the state.

Geographically, New Mexico is a largely rural state. Of New Mexico's 33 counties, seven contain predominantly urban areas defined as part of Metropolitan Statistical Areas (New Mexico Rural Health Plan, June 2019). The remaining 26 non-metropolitan counties are considered rural or frontier in nature. It should be noted that there are locations within Metropolitan Statistical Areas counties that are largely rural or frontier. The very large size of New Mexico counties creates this situation.

The DOH Rural Health Care Practitioner Tax Credit Program (hereinafter referred to as Tax Credit Program) thoroughly reviews applications from health care providers each tax

year. Certificates are issued to those who meet all eligibility criteria. Participants file these certificates as part of their own individual tax returns for tax credits issued by the Taxation and Revenue Department (TRD). In tax year 2022, was 2,058 rural health care providers were determined eligible. All were practicing in rural areas (data retrieved from the NM Rural Health Care Practitioner Tax Credit Program database).

Based on licensure data for the various professions in New Mexico, the Tax Credit Program would not be able to calculate how many rural health care professionals would be working in rural areas. In fact, this was one of the original challenges in 2006 when legislators were deciding on the current rural health care professionals to be approved for the Tax Credit Program. The Tax Credit Program does not track the number of patients served by rural health care providers in rural locations. The Tax Credit Program only tracks the total number of rural health care providers eligible. TRD tracks the number of actual issued tax credits.

Since the Tax Credit Program's inception, no state operational funds have been dedicated to the administration of this program. The operation of this program is conducted with staff time assigned from other federal and state programs.

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

Taxation and Revenue Department:

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

TRD 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 non-recurring 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 expand the Health Care Practitioner Tax Credit.

Department of Health:

The eligibility expansion proposed in HB163 could increase the number of applications submitted to the DOH for the Rural Health Care Practitioner Tax Credit Program, and without adequate staff to process the increased applications, a Full-Time Equivalent

would be needed to process the increase in tax credit applications. The proposed legislation contains no appropriation for administrative support needed to carry out the requirements of HB163. Currently, DOH does not receive state operational funds to process Rural Health Care Practitioner Tax Credit applications. The operation of this program is conducted with staff time assigned from other federal and state programs.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

This bill is related to House Bill 218 which duplicates parts of this bill.

TECHNICAL ISSUES

TRD notes the bill adds language to require the practitioner taxpayer identification number on the certificate. Clarifying that this should be the social security number of the taxpayer and not the business tax ID number for those that are private practitioners would be beneficial to credit processing at TRD and improve the customer experience by requiring fewer supplemental items to be submitted.

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.

POSSIBLE QUESTIONS

Should similar practitioners, such as occupational therapists, speech and language pathologists, chiropractors, and naturopathic physicians be included?

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 stated 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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