FISCAL IMPACT REPORT

SPONSOR Brandt **LAST UPDATED**
ORIGINAL DATE 03/06/2025
SHORT TITLE Health Practitioner Coinsurance GRT **BILL NUMBER** Senate Bill 455
ANALYST Faubion

REVENUE*
(dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
GRT	$0.0	($23,000.0)	($23,900.0)	($24,900.0)	$0.0	Nonrecurring	General Fund
GRT	$0.0	($24,900.0)	($25,900.0)	($26,900.0)	$0.0	Nonrecurring	Local Governments
Hold Harmless	$0.0	($8,400.0)	($7,400.0)	($6,200.0)	$0.0	Nonrecurring	General Fund
Hold Harmless	$0.0	$8,400.0	$7,400.0	$6,200.0	$0.0	Nonrecurring	Local Governments

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

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
TRD	Indeterminate but minimal	Indeterminate but minimal	$0.0	Indeterminate but minimal	Nonrecurring	General Fund
Total	Indeterminate but minimal	Indeterminate but minimal	$0.0	Indeterminate but minimal	Nonrecurring	General Fund

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

Relates to House Bill 344 and Senate Bill 295.

Sources of Information
LFC Files

Agency Analysis Received From
Taxation and Revenue Department (TRD)
Healthcare Authority (HCA)
Department of Health (DOH)

SUMMARY

Synopsis of Senate Bill 455

Senate Bill 455 (SB455) proposes to expand the gross receipts tax (GRT) deduction for healthcare practitioners in New Mexico by including coinsurance paid directly by patients under

their health insurance or managed care plans, in addition to co-payments and deductibles. The bill mandates annual reporting on these deductions to assess their effectiveness and updates definitions related to co-payments and coinsurance for clarity. The deductions expire at the end of fiscal year 2028.

The effective date of this bill is July 1, 2025.

FISCAL IMPLICATIONS

Estimating the full impact of this bill is challenging due to significant gaps in available data on both healthcare spending and taxation within private insurance and managed care plans. Without detailed, provider-level financial data, it is difficult to determine how much taxable revenue will be newly deductible and how that will affect state and local revenues. Key missing data include practice type, tax district and corresponding GRT rate, and payer distribution (i.e., the share of payments coming from Medicaid, Medicare, private coinsurance, private co-payments, and direct pay). Additionally, because healthcare spending patterns fluctuate due to policy changes, patient demographics, and economic conditions, even historical data may not provide an accurate projection. Without a comprehensive dataset integrating tax filings, reimbursement rates, and healthcare expenditures, any fiscal estimate remains highly uncertain, making it difficult to assess the impact on state and local finances.

The Taxation and Revenue Department (TRD) notes its fiscal impact methodology as follows:

> This bill expands the current GRT deduction under 7-9-93 NMSA 1978 for certain health receipts to coinsurance payments by patients made directly to the provider. Note that deductibles and co-payments are already deductible; these represent an amount a patient must pay at the time of receipt of medical services, with the remainder being covered by the insurance provider. Coinsurance represents the amount that a patient must pay after the deductible is satisfied. TRD used data from the RP80 GRT report and retrieved taxable GRT by NAICS codes in the associated health practitioner fields to identify the proportion of taxpayers that might claim the deduction. Then, TRD used data from the Centers for Medicare & Medicaid Services on private health expenditures in New Mexico, 1991-2020, to estimate the tax base. An average percentage of 30 percent on coinsurance for the patient is also applied. The fiscal impact was grown using the average annual percentage growth of private health expenditures from 1991 to 2020. The statewide effective GRT rate for healthcare services was applied to the forecast for the outlook. The fiscal impact includes the effects of this deduction on the distributions to municipalities pursuant to Section 7-1-6.4 NMSA 1978 as the majority of the taxable base will be in municipalities. The fiscal impact also accounts for the impact of the hold harmless payments to municipalities and counties per Sections 7-1-6.46 and 7-1.6.47 NMSA 1978 under the benchmark fiscal impact.

This bill creates or expands a tax expenditure with a cost that is difficult to determine but likely significant. LFC has serious concerns about the substantial risk to state revenues from tax expenditures and the increase in revenue volatility from erosion of the revenue base. The committee recommends the bill adhere to the LFC tax expenditure policy principles for vetting, targeting, and reporting or action be postponed until the implications can be more fully studied.

SIGNIFICANT ISSUES

Co-payments (co-pays) and coinsurance are both forms of cost-sharing in health insurance but function differently. A co-pay is a fixed amount a patient pays for a medical service, such as $30 for a doctor's visit, regardless of the total cost of the service. In contrast, coinsurance is a percentage of the cost that a patient pays, usually after meeting their deductible. For example, with 20 percent coinsurance, if a medical bill is $1,000, the patient would pay $200 while the insurance covers the remaining $800. Essentially, co-pays are fixed costs, while coinsurance varies with the total expense of the service.

The Department of Health explains the distinctions between co-pays and co-insurance, highlighting their impact on patient costs and healthcare provider revenues. Co-pays are fixed amounts paid per service, often unaffected by deductibles but counting toward a patient's out-of-pocket maximum, while co-insurance is a percentage of costs shared between the patient and insurer after the deductible is met. Commercial health plans commonly use a mix of both, with co-pays applied to outpatient services and co-insurance to inpatient care.

TRD notes the following policy issues:

> Rising healthcare spending is one of the most considerable fiscal challenges facing state governments and continues to be a concern for patients who cope with growing medical costs. This is a concern for New Mexico and the United States. Hence, any fiscal incentive to reduce healthcare costs will positively affect healthcare consumers. Studies have shown that low healthcare spending by individuals contributes to increasing disposable income for workers, boosting job growth. Lower healthcare spending also affects state budgets because it results in lower health insurance spending for government employees and reduces lost tax revenue due to the deductions to ease the burden of health insurance spending.
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> While tax incentives can support specific industries or promote desired social and economic behaviors, the growing number of such incentives complicate the tax code. Introducing more tax incentives has two main consequences: (1) it creates special treatment and exceptions within the code, leading to increased tax expenditures and a narrower tax base, which negatively impacts the general fund; and (2) it imposes a heavier compliance burden on both taxpayers and TRD. This proposal adds an additional deduction to Sections 7-9-77.1 and 7-9-93 NMSA 1978 increasing complexity for taxpayers and the administration of the tax code. Increasing complexity and exceptions in the tax code is generally not in line with sound tax policy.
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> The National Institute of Health's (NIH), National Center for Biotechnology Information published a study that predicts that nationwide the demand for doctors will outpace the supply so that by 2030, 34 of 50 states will have physician shortages. This shortage is more prominent for states in the South and West regions of which Mississippi and New Mexico will have the severest shortage. Their study predicts a shortage of 2,118 physicians in New Mexico by 2030 due in part to a higher percentage of physicians over 60 years of age compared to other states. The study discusses solutions that reach nationwide including: increasing the number of medical school graduates; increasing equitable federal funding for graduate medical education (GME); attracting foreign-trained doctors; increasing utilization of mid-level providers and increasing uptake of emerging medical technology. Without a nationwide solution, New Mexico will continue

to compete with other states for a smaller pool of physicians. It is unclear how the deductions and reimbursements of this bill will directly reduce patient costs and improve the present challenges the US health system faces. Furthermore, diverting resources from the general fund to allow almost every payment to a healthcare practitioner to be subject to a deduction from GRT implies tradeoffs that might limit the State's capacity to invest in expanding healthcare access.

This bill narrows the GRT base. Many New Mexico tax reform efforts over the last few years have focused on broadening the GRT base and lowering the rates. Narrowing the base leads to continually rising GRT rates, increasing volatility in the state's largest general fund revenue source. Higher rates compound tax pyramiding issues, when a tax is applied to a good or service that has already been taxed, and force consumers and businesses to pay higher taxes on all other purchases without an exemption, deduction, or credit.

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 deduction and other information to determine whether deduction is meeting its purpose.

ADMINISTRATIVE IMPLICATIONS

TRD will update forms, instructions, and publications.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Senate Bill 455 relates to Bill 344 and Senate Bill 295, which expand GRT deductions to all nonhospital and non-Medicaid healthcare spending, including coinsurance.

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.	✗	No record of an interim committee hearing can be found.
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	✓	The deductions must be reported publicly in the TER. The deductions do have an expiration date.
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	✓	
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 purposes, goals, or targets with 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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