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FISCAL IMPACT REPORT

SPONSOR Hobbs DATE TYPED 1/27/2004 HB 17

SHORT TITLE Certain Health Care Services Gross Receipts SB _____

ANALYST Taylor

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
(7,000.0)	(15,000.0)	(24,000.0)	Recurring	General Fund
(6,000.0)	(13,000.0)	(21,000.0)	Recurring	Local Governments

(Parenthesis () Indicate Revenue Decreases)

Relates to: HB 154 and SB 179

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

HB 17 provides a phased-in gross receipts tax deduction to licensed health care practitioners for payments from managed health care providers for Medicare Part C and commercial contract services. The deduction is phased in over three years, with one-third of receipts being exempt in FY05, two-thirds exempt in FY06, and all receipts exempt thereafter.

Commercial contract services are defined as services provided by contract other than services provided to Medicaid and Medicare patients pursuant to applicable federal titles.

Medicare Part C services are contract-provided services to Medicare patients pursuant to Title 18 of the federal social security tax.

Licensed health practitioners are defined to include chiropractic physicians, dentists, dental hygienists, physicians, physician assistants, osteopathic physicians, doctors of oriental medicine,

podiatrists, psychologists, registered nurses, licensed practical nurses, midwives, physical therapists, optometrists, registered occupational therapists, respiratory care practitioners, a clinical lab accredited pursuant to 42 USCA 263, and speech pathologists or licensed audiologists.

FISCAL IMPLICATIONS

TRD estimates that exempting health care practitioners' gross receipts from the tax would reduce general fund revenues by \$7 million in FY05, \$15 million in FY06 and \$24 million in FY07. Revenue losses associated with the bill are fully phased-in (FY07) with more than \$740 million in health care practitioner receipts exempted. This fiscal estimate revenue loss to the general fund of \$24 million is estimated by applying an effective state gross receipts rate of 3.25 percent.

Estimated revenue losses to local governments are calculated in the same manner, except that a lower effective tax rate is used.

ADMINISTRATIVE IMPLICATIONS

TRD reports moderate administrative impacts that can be absorbed with existing resources.

OTHER SUBSTANTIVE ISSUES

The following issues were raised in TRD's analysis:

1. This bill proposes a tax deduction for a "merit good". However, the Gross Receipts and Compensating Tax Act taxes many otherwise meritorious goods and services, and exempts other meritorious goods and services. The Gross Receipts and Compensating Tax Act treats some medical services as meritorious, and certainly provides extensive tax relief for most charitable organizations. The state has traditionally had a very broad transaction tax base with a fairly low tax rate. Narrowing the base eventually leads to increasing rates in order to maintain revenue, or reduced public services.
2. This continues a trend over the last decade of removing medical and hospital services from the gross receipts base. A broad base helps to limit the tax rate, thus cutting the base by an industry this large may shift a noticeable amount of tax burden to remaining taxpayers.
3. The 1997 Balanced Budget Act expanded the types of private health care plans that may offer Medicare benefits to include medical savings accounts, managed care plans, and private fee-for-service plans. The new Medicare Part C programs are in addition to the fee-for-service options available under Medicare Parts A and B.
4. In addition to adding an element of stability to the gross receipts tax, receipts of health practitioners grow more quickly than general revenue. Exempting this sector reduces the "elasticity"—the rate of growth of revenue collections relative to the rate of economic growth--of the gross receipts tax. In other words, it makes it harder for the tax revenues to keep up with inflation when the higher-growth sectors are carved out of the existing tax base.
5. Some of the impetus behind proposals to provide deductions or exemptions to health care practitioners stems from the fact that some health plans are said to be refusing to pay the

passed-on tax. Additionally, Medicare reimbursement rates are widely believed to be unjustly low, creating significant economic strain on the New Mexico healthcare sector.

BT/yr