F I S C A L   I M P A C T   R E P O R T

SPONSOR Ingle **DATE TYPED** 02/08/04 **HB**

SHORT TITLE Licensed Nursing Home Gross Receipts **SB** 574

ANALYST Taylor

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY04	FY05			
	(4,100.0)	(4,400.0)	Recurring	General Fund
	(3,700.0)	(4,000.0)	Recurring	Local Funds

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files
Taxation and Revenue Department (TRD)
Department of Health (DOH)

SUMMARY

Senate Bill 574 provides a gross receipts tax exemption for receipts of nursing homes licensed by the department of health. The bill has an effective date of July 1, 2004.

FISCAL IMPLICATIONS

TRD reports information from DOH indicates there were 84 nursing homes licensed by the department. TRD estimates that in FY05, the gross receipts tax base associated with these homes is $117 million. Applying an average gross receipts tax rate of 6.7 percent implies a total revenue reduction of $6.8 million--$4.1 million to the state general fund; $3.7 million to local government funds. TRD shows the impact growing by a little over 7 percent in FY06.

ADMINISTRATIVE IMPLICATIONS

TRD reports modest administrative impacts that can be managed with existing resources.

OTHER SUBSTANTIVE ISSUES

TRD reported the following substantive issues:

- The federal government funds a substantial portion of nursing home care through the Medicare and Medicaid programs. Data from the Centers for Medicare and Medicaid Services (formerly the Health Care Financing Administration) indicate that of total money paid to nursing homes in New Mexico for 1998, 59.1% was paid by Medicaid, Medicare paid 14.8% and private pay and insurance paid 26.1%.

- 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 health care sector.

- This bill proposes a tax exemption 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. Making the decisions about which goods and services are sufficiently meritorious to warrant a tax break is not necessarily a base for sound tax policy. The state has traditionally had a very broad transaction tax base with a fairly low tax rate. Narrowing the base probably implies an increase in rate at some point in the future in order to maintain revenue.

- Savings from tax deductions, exemptions and credits are not necessarily passed-on to the consumer. If the intent is to lower the tax burden on low-income nursing home residents, a refundable income tax credit may be a more efficient and reliable mechanism.

- 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.

- In addition to adding an element of stability to the gross receipts tax, receipts from the health care sector 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.

DOH's report included these issues:

- The Centers for Medicare and Medicaid Services (CMS) reported that in 1998, approximately $257 million were spent on nursing home care in New Mexico. Of that, $38 million were Medicare dollars. Gross receipts tax applied to that amount brings approximately $ 2 million that would be saved by nursing homes, if this bill were enacted into law. It is estimated that the number of Medicare beneficiaries in nursing homes has increased since 1998 as the U.S. population as a whole has aged.

- SB 574 would provide substantial tax relief to nursing homes and hospices. Nursing homes and hospices, like other health services, are challenged to address resource needs. Tax relief would afford these services providers the opportunity to address retention and recruitment of health personnel and/or allow them to pass cost savings on to consumers. However, removing the gross receipts tax may negatively impact the revenue streams of counties and the general fund within New Mexico.

BT/yr