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FISCAL IMPACT REPORT

ORIGINAL DATE 2/3/06

SPONSOR Smith LAST UPDATED _____ HB _____

SHORT TITLE Department of Health Hospital Gross Receipts SB 527

ANALYST Schardin

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
		(4,023.8)	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

Relates to HB674.

SOURCES OF INFORMATION

LFC Files

Responses Received From

Department of Health (DOH)

SUMMARY

Synopsis of Bill

Senate Bill 527 provides a gross receipts tax credit for hospitals licensed by the Department of Health (for-profit hospitals). The credit equals one third of the state gross receipts tax rate in FY08, two-thirds of the state gross receipts tax rate in FY09, and the entire state gross receipts tax rate in FY10 and beyond.

The bill will be applicable to tax reporting periods after July 1, 2006.

FISCAL IMPLICATIONS

All of the state's for-profit hospitals are currently located within municipal areas, where the state tax rate is 3.775 percent. Therefore, the credit will eliminate the state gross receipts tax paid by for-profit hospitals once it is fully phased in. The bill holds local governments harmless, so for-profit hospitals will still pay a little over 1 percent local gross receipts tax.

A New Mexico Hospital Association survey on hospital gross receipts payments for FY05 indicates that for-profit hospitals paid gross receipts tax of \$16.4 million, of which about \$9.9 million went to the state. Assuming that the impacted tax base will grow by 7 percent each year, the credit will reduce general fund revenue by about \$4,023.8 thousand in FY08, \$8,611.0 thousand in FY09 and \$13,824.3 thousand once it is fully phased-in in FY10.

SIGNIFICANT ISSUES

The bill effectively reduces the gross receipts tax paid by for-profit hospitals from 50 percent of the normal state rate to nothing once it is fully phased-in in FY10.

About half of New Mexico's 42 hospitals are for-profit. For-profit hospitals compete with non-profit hospitals in New Mexico and hospitals in neighboring states that do not pay gross receipts tax. The New Mexico Hospital Association reports that this bill will remove a competitive disadvantage against New Mexico's for-profit hospitals.

According to the NMHA, rural hospitals have no choice but to absorb the costs of uncompensated care for patients who cannot pay. In addition, it is difficult for for-profit hospitals to pass gross receipts tax on to consumers because Medicare will not reimburse for it.

DOH believes removing the gross receipts tax from for-profit hospitals will make them more profitable and could allow them to provide enhanced services in New Mexico.

The proportion of for-profit hospitals has increased over last few years because for-profit hospitals have more access to capital.

ADMINISTRATIVE IMPLICATIONS

TRD reports they will experience moderate administration impacts due to this bill. TRD will need to revise forms, educate taxpayers, train personnel, and modify audit processes.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Senate Bill 527 relates to House Bill 674, which creates the same gross receipts tax credit but phases it in over two years instead of three.

TECHNICAL ISSUES

The bill's effective date is July 1, 2006, but the way the bill is drafted the credit will not take effect until July 1, 2007. This may be a drafting error.

TRD notes that the credit could be taken by hospitals after the deduction in Section 7-9-73.1 NMSA 1978, but it is unclear if the credit could be taken before or after the deduction in Section 7-9-93 NMSA 1978. A taxpayer may be able to claim the credit for receipts that are also eligible for the deduction in Section 7-9-93 NMSA 1978. TRD suggests amending page 2, lines 10-11 and 15-16 to read "after all applicable deductions have been taken."

OTHER SUBSTANTIVE ISSUES

TRD noted that receipts from the health industry have historically grown more quickly than general revenue. Deducting services from high-growth sectors such as health care from the existing tax base makes it harder for tax revenue growth to keep pace with inflation.

POSSIBLE QUESTIONS

In December 2005, NMHA told the Revenue Stabilization and Tax Policy Committee that there is a trend of hospitals converting from non-profit to for-profit because for-profit hospitals have better access to capital. Hospitals that have converted tend to be older, smaller facilities in small communities that cannot afford to make improvements through bond issuances or other financing sources. Does better access to capital give for-profit hospitals a competitive advantage over non-profit hospitals?

SS/nt