

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (legis.state.nm.us). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

ORIGINAL DATE 1/28/08
 SPONSOR Smith LAST UPDATED 1/28/08 HB _____
 SHORT TITLE Border Region Health Services Gross Receipts SB 306
 ANALYST Schardin

REVENUE (dollars in thousands)

| Estimated Revenue | | | Recurring or Non-Rec | Fund Affected |
|-------------------|-----------|-----------|-------------------------|------------------|
| FY08 | FY09 | FY10 | | |
| | (1,808.8) | (1,881.6) | Recurring | General Fund |

(Parenthesis () Indicate Revenue Decreases)

Duplicates HB273.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

| | FY08 | FY09 | FY10 | 3 Year Total Cost | Recurring or Non-Rec | Fund Affected |
|--------------|------|------|------|----------------------|-------------------------|------------------|
| Total | .8 | 60.0 | 60.0 | 120.8 | Recurring | General Fund |

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

Health Policy Commission (HPC)

Department of Health (DOH)

New Mexico Border Authority (NMBA)

SUMMARY

Synopsis of Bill

Senate Bill 306 creates a gross receipts tax credit against the state share of gross receipts tax for receipts from the provision of health care services by a physician, physician assistant or registered nurse in the area of New Mexico located within 55 miles of the Mexico border.

These provisions would become effective on July 1, 2008 and would sunset on July 1, 2015.

FISCAL IMPLICATIONS

Based on historic population and inflation growth rates for the effected areas, TRD estimates that a tax base of \$47.9 million will be eligible for the proposed credit in FY09. Almost all of that tax base occurs in municipalities, where the state share of gross receipts tax is 3.775 percent. The proposed credit would therefore reduce general fund gross receipts tax revenue by about \$1808.8 thousand in FY09. The revenue loss associated with the credit is expected to grow by about 4 percent per year.

SIGNIFICANT ISSUES

The map below was provided by TRD to illustrate the area within 55 miles of New Mexico's border with Mexico that will be affected by the proposed gross receipts tax credit. About 95 percent of receipts affected by the proposal are in Las Cruces and Deming.



Source: TRD

TRD reports that under current law, receipts of the health care providers affected by this bill are deductible from gross receipts tax when paid by Medicare, a managed care provider or a health care insurer for commercial contract services.

LFC notes that while individual credits, deductions and exemptions from the gross receipts tax may have small fiscal impacts, their cumulative effect significantly narrows the gross receipts tax base. Narrowing the gross receipts tax base increases revenue volatility and requires a higher tax rate to generate the same amount of revenue.

LFC notes that receipts of health practitioners have historically grown faster than receipts of other industries. Removing receipts from high-growth sectors from the gross receipts tax base makes it more difficult for tax revenue to keep pace with inflation.

NMBA, HPC and DOH note that border area population is increasing rapidly and the area is already underserved by health providers. It is difficult to recruit health providers to the area due to the large number of poor and uninsured patients.

ADMINISTRATIVE IMPLICATIONS

The bill would require TRD to create a new form to be submitted with the CRS-1 Form. TRD would require an additional FTE for manual review of credits and an additional processing FTE, each costing \$30 thousand per year. TRD would need to revise publications and instructions. Gentax and CRS online programs would require changes to process the proposed credit. Taxpayer education will be required to prevent misreporting.

Since taxpayers can only claim the proposed credit after taking all other deductions, taxpayers would be required to implement further tracking of receipts in an already complex system.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Senate Bill 306 duplicates House Bill 273.

TECHNICAL ISSUES

DOH suggests amending the definition of the border area to match the definition established in U.S. Public Law 103-400, which defines the border area as within 100 kilometers, or 62.5 miles, from the border.

SS/mt