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

ORIGINAL DATE 1/25/09
SPONSOR Begaye **LAST UPDATED** 2/28/09 **HB** 56

SHORT TITLE Medical Record Keeping Equipment Tax Credit **SB**

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	**FY10**	**FY11**		
		($1,320.0)	Recurring	General fund
	* see "Fiscal Impact" for out-year impacts			

(Parenthesis ( ) Indicate Revenue Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY09	FY10	FY11	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		$20.0	$20.0	$40.0	Recurring	GF-TRD

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
Department of Health (DOH)
Health Policy Commission (HPC)

SUMMARY

Synopsis of Bill

House bill 56 provides a personal income tax credit to pharmacists and physicians for the purchase of electronic medical records equipment. The credit is equal to the amount of the equipment and can be claimed over five years provided that no more than 20 percent of the credit is claimed in any tax year. The credit is further restricted to the value of uncompensated medical care provided by the taxpayer in a tax year.

The credit will be effective for tax years 2010 and there is no sunset date.

FISCAL IMPLICATIONS

The fiscal impact is based on 3,300 licensed pharmacists and physicians who reside in NM purchasing $20 thousand of eligible equipment which is replaced on a three-year cycle. TRD assumes that 10 percent of the practitioners will apply the first year, 40 percent the second year, 25 percent in the third year and 25 percent in the fourth year. By FY14, the fiscal impact is $13.2 million.

	FY11	FY12	FY13	FY14
Fiscal Impact (000s)	**$1,320**	**$6,600**	**$9,900**	**$13,200**

Note that the bill does not distinguish between resident and non-resident taxpayers and this fiscal impact assumes only resident taxpayers will claim the credit. The fiscal impact calculations also assume that each practitioner's uncompensated care exceeds the amount of the equipment. Uncompensated care is not defined and so it is difficult to determine the levels of uncompensated services practitioners provide, particularly pharmacists.

SIGNIFICANT ISSUES

DOH:

The use of electronic medical records is a key component of improving healthcare and controlling costs, however, few physicians currently use the technology. Nationally, a Harvard study estimated 17% of physicians use an electronic medical record system. A recent study in New Mexico concluded approximately 10% of New Mexico physicians use a system.

Among the reasons for not using an electronic medical record system, most physicians cite the high cost (estimated to be between $30,000 to $50,000 per physician), in addition to the lack of technical expertise, the impact installation of the system initially has on their productivity, and the complexity of system selection. Physicians who are part of larger practices or employees of hospitals and large clinics typically have access to electronic medical record systems and the infrastructure to deal with these issues. Single practitioners in rural areas are usually those for whom this technology is most out of reach.

With slightly over 4,000 physicians practicing in New Mexico, and approximately 400 currently using electronic medical records, the cost of this bill would be over $110,000,000 for five years if all physicians took the full tax credit.

While there is a significant value to automating medical records, that value increases exponentially when the records can be shared. HB 56 would be improved by including the need to choose a system certified to be interoperable (such certification is available through the federal Committee on Certification of Health Information Technology) or of the necessity to participate in the Health Information Exchange which facilitates the movement of electronic medical records among providers.

HPC:

Use of EMRs

According to a recent study by Boston researchers, published online by the *New England Journal of Medicine*, EMRs are part of most prescriptions to improve medical care, but only a small fraction of physicians actually use them. The study indicates that only 4% of doctors seeing outpatients use fully functional health record systems and another 13% have basic models.

Doctors who used electronic health records were more likely to be young, provide primary care, practice in large groups or in hospitals, and live in the western U.S., according to a national survey of 2,758 ambulatory care physicians that the authors of the study say is the first comprehensive study on the subject.

The study indicates that the most significant barrier to adopting electronic health records is the cost of putting systems into place, coupled with a concern about whether that investment will be recouped. Another issue of concern is choosing the right kind of system and whether it would quickly become obsolete.

Uncompensated Care

The HPC's 2007 Senate Memorial 34 (SM34) report defined "uncompensated care" as follows:

Uncompensated Care – A health care provider's bad debt and charity care.
Uncompensated Care = (Bad debt + charity care) x cost-to-charge ratio

The SM 34 task force also determined that in order to define "uncompensated care", other terms also need to be defined. These terms included operating costs, gross patient charges, bad debt, charity care, and cost-to-charge ratio. Taking into consideration the Generally Accepted Accounting Principles (GAAP) guidelines, the report defined these terms.

PERFORMANCE IMPLICATIONS

The bill does not contain a sunset date and there is no provision for reporting on this credit. It is important for policy makers to have regular information and an opportunity to review the effectiveness of the credit.

ADMINISTRATIVE IMPLICATIONS

TRD reports that it will require a ¼ FTE to approve, record, monitor and track the credit and carry-forwards and that new forms and taxpayer education information will be required.

TECHNICAL ISSUES

The term "uncompensated medical care" should be clearly defined to avoid confusion.

TRD reports that the credit would apply to out-of-state taxpayers as well as in-state and that would potentially increase the fiscal impact. Also, the nature of the equipment should be clearly defined to avoid extensive auditing. With no precise definition, there is the potential for abuse that can only be discovered through the audit process.

NF/svb