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

		ORIGINAL DATE	01/24/14		
SPONSOR	Gonzales	**LAST UPDATED**	02/13/14	**HB**	32/aHFL#1
SHORT TITLE	Dialysis Facility Service Gross Receipts			**SB**	
				ANALYST	van Moorsel

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY14	**FY15**	**FY16**	**FY17**	**FY18**		
$0.0	($353.0)	($737.0)	($1,154.0)	($1,204.0)	Recurring	General Fund
$0.0	($235.0)	($491.0)	($769.0)	($803.0)	Recurring	Local Governments
$0.0	**($588.0)**	**($1,228.0)**	**($1,923.0)**	**($2,007.0)**	**Recurring**	**Total**

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates SB 28

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
Human Services Department (HSD)

SUMMARY

Synopsis of HFl#1 Amendment

The House Floor amendment to House Bill 32 provides that only receipts prior to July 1, 2024 may be deducted, providing an effective sunset of the deduction after FY23.

Synopsis of Original Bill

House Bill 32 amends section the Gross Receipts and Compensating Tax Act to provide for a deduction from gross receipts from payments by the U.S. government or any agency thereof for medical or other health services provided by a dialysis facility to Medicare beneficiaries. The deduction is phased in over a 3-year period: 1/3 in FY 2015; 2/3 in FY 2016; and 100 percent after June 30, 2016.

The bill requires the Taxation and Revenue Department (TRD) to compile an annual report on the deductions that includes the number of taxpayers receiving the deduction, the aggregate amount of deductions, and other information necessary to evaluate the effectiveness of the deduction. Beginning in 2020, TRD must report the annual reports every five years to the Revenue Stabilization and Tax Policy and the Legislative Finance committees.

The effective date of this bill is July 1, 2014. There is no sunset date. The LFC recommends adding a sunset date.

FISCAL IMPLICATIONS

TRD cites the Dialysis Patient Citizens organization in reporting there are 2,702 dialysis patients in New Mexico. Of 32 dialysis centers in New Mexico, 20 are for-profit and would qualify for the deduction. Correspondingly, the proportion of chairs in private dialysis centers to the total number of chairs is 62.4 percent, so the estimates are adjusted by this proportion. A 10-chair facility can see 10 patients at a time. To estimate the impact of the bill, TRD used information from the United States Renal Data System (USRDS) and assumed 75 percent of individuals undergoing hemodialysis or peritoneal dialysis are primarily insured through Medicare. Estimated Medicare cost per patient for dialysis services only, excluding separately billable drugs and other charges, is $17,851 according to 2009 USRDS data. The analysis assumes an average gross receipts tax (GRT) rate of 7.17 percent based on the known locations of qualifying taxpayers.

Based on data and information provided by the industry and confirmed by TRD, the growth rate of dialysis patients is estimated at 4.4 percent. The estimated revenue impact of dialysis facilities is estimated to grow at the same 4.4 percent rate, once fully phased-in.

The Human Services Department reports Medicaid reimburses the GRT for a dialysis service when Medicaid is the primary payer for the claim. However, when Medicare is the primary payer and has paid the claim for a Medicaid recipient, then Medicaid covers the patient responsibility portion (coinsurance and deductible) only. In those cases, Medicaid does not add on GRT. The vast majority of Medicaid recipients on dialysis are covered by Medicare.

This bill may be counter to the LFC tax policy principle of adequacy, efficiency and equity. Due to the increasing cost of tax expenditures revenues may be insufficient to cover growing recurring appropriations.

Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for a tax expenditure may be ambiguous, further complicating the initial cost estimate of the expenditure's fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures.

SIGNIFICANT ISSUES

Although the bill would further narrow the GRT base, moving New Mexico away from the tax policy goal of a GRT with a broad equitable base and a low rate, non-profit facilities are exempt from paying GRT on these services, meaning New Mexico is treating similarly-situated taxpayers differently.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is met with the bill's requirement to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the deduction and other information to determine whether the deduction is meeting its purpose.

ADMINISTRATIVE IMPLICATIONS

TRD estimates a moderate administrative impact because deduction must be separately stated from other deductions. As TRD's CRS filing system is currently implemented, the deduction could be tracked by using special rate and/or location codes, but the added complexity also decreases the likelihood of correct filing by taxpayers. Historically, taxpayer compliance with separately-stated deductions has been very low, which may reduce the value of any reports concerning this deduction issued by the TRD.

Forms and instructions would need to be modified at a minimal cost.

DUPLICATION

Duplicates SB 28.

TECHNICAL ISSUES

This bill does not contain a sunset date. The LFC recommends adding a sunset date.

Does the bill meet the Legislative Finance Committee tax policy principles?

1. **Adequacy**: Revenue should be adequate to fund needed government services.
2. **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity**: Different taxpayers should be treated fairly.
4. **Simplicity**: Collection should be simple and easily understood.
5. **Accountability**: Preferences should be easy to monitor and evaluate

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