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 (www.nmlegis.gov). 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.

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

SPONSOR Trujillo, J. **ORIGINAL DATE** 01/31/16 **LAST UPDATED** **HB** 274

SHORT TITLE Doctor Copayment Gross Receipts **SB**

ANALYST Keyes

REVENUE (dollars in thousands)

Estimated Revenue				Recurring or Nonrecurring	Fund Affected
FY17	**FY18**	**FY19**	**FY20**		
($24,000.0)	($49,440.0)	($76,384.8)	($78,676.3)	Recurring	General Fund

Parenthesis ( ) indicate revenue decreases

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY17	FY18	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	Minimal	Minimal	Minimal	Recurring	Taxation and Revenue

Parenthesis ( ) indicate expenditure decreases

SOURCES OF INFORMATION
LFC Files

Responses Received From
Department of Health (DOH)
Office of the Superintendent of Insurance (OSI)
Retiree Healthcare Authority (RHCA)

No Response Received From
Taxation and Revenue Department (TRD)

SUMMARY

House Bill 274 creates a deduction from gross receipts tax for a copayment or deductible paid to a physician, osteopath or podiatrist.

The deduction would be phased in as follows:

- On and after July 1, 2016 and prior to July 1, 2017, 33 and 1/3 percent of receipts may be deducted;
- On and after July 1, 2017 and prior to July 1, 2018, 66 and 2/3 percent of receipts may be deducted;
- On and after July 1, 2018, 100 percent of receipts may be deducted.

Receipts for fee-for-service payments by a health care insurer shall not be deducted from gross receipts.

The bill would become effective 90 days after the legislative session ends.

There is no delayed repeal date. The LFC recommends adding a delayed repeal date.

FISCAL IMPLICATIONS

The amount of revenue claimed through the credit is difficult to assess at this time as it is unknown how many health care practitioners would claim the credit.

To provide an estimate of the revenue impact provided by this bill, it is estimated that approximately 800,000 patients, comprised of 700,000 patients with commercial insurance and one third of Medicare recipients are members of the Medicare Advantage which are approximately 100,000 patients. It is assumed that patients visit their healthcare provider on average three times each year paying a co-pay of $30. This would bring an estimated amount of $72 million available for deduction against gross receipts tax. A three percent growth rate was applied to the estimate for each year outlined in the estimated revenue table. As the bill describes above, the deduction would be phased in.

	FY17	**FY18**	**FY19**	**FY20**
Taxable Copayments	$72,000.0	$72,000.0	$74,160.0	$76,384.8
Annual Growth Rate	0%	3%	3%	3%
Base Copayments	$72,000.0	$74,160.0	$76,384.8	$78,676.3
Deduction Phase-In Rate	33.3%	66.7%	100%	100%
Deduction from GRT	$24,000.0	$49,440.0	$76,384.8	$78,676.3

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

The Office of the Superintendent of Insurance has noted that the way this bill is written, it would only impact copayments and deductibles for commercial insurance, not self-insured coverage. The physician/provider office would have to identify which kind of coverage the consumer had and only submit for the commercially insured.

PERFORMANCE IMPLICATIONS

The purpose of the deduction is to retain health care practitioners that provide commercial contract and Medicare Part C services in the state and to attract additional health care practitioners to New Mexico. The increased number of providers available also makes it easier for insurance carriers to meet their network adequacy requirements under the provisions of the insurance code.

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

As this is an additional tax credit to be claimed by taxpayers, the overall operating budget impact is anticipated to be minimal for the Taxation and Revenue Department.

TECHNICAL ISSUES

OSI has noted that this bill only identifies copayments and deductibles. Often, a consumer’s portion of a medical bill will be a co-insurance payment. Copayments are fixed amounts while co-insurance is a percentage amount. The sponsor may want to consider amending the language to include co-insurance.

This bill does not contain a delayed repeak date. The LFC recommends adding a delayed repeal date.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Healthcare practitioners in the state of New Mexico will continue to pay gross receipts tax on co-payments and deductibles.

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

CK/jle