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

		ORIGINAL DATE	1/27/18		
SPONSOR	Gomez	**LAST UPDATED**		**HB**	145
SHORT TITLE	Physical Therapist Assistant Gross Receipts			**SB**	
				ANALYST	Iglesias

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY18	**FY19**	**FY20**	**FY21**	**FY22**		
($590.0)	($590.0)	($610.0)	($640.0)	($660.0)	Recurring	General Fund
($480.0)	($480.0)	($500.0)	($520.0)	($540.0)	Recurring	Local Governments
($480.0)	($450.0)	($430.0)	($400.0)	($370.0)	Recurring	General Fund (Hold Harmless Distribution)
($1,550.0)	**($1,520.0)**	**($1,540.0)**	**($1,560.0)**	**($1,570.0)**	**Recurring**	**TOTAL**

Parenthesis ( ) indicate revenue decreases

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
Regulation and Licensing Department (RLD)

SUMMARY

Synopsis of Bill

House Bill 145 expands the definition of "health care practitioner" to include licensed physical therapist assistants for two gross receipts tax deductions: Section 7-9-77.1 NMSA 1978 (deduction for Medicare services by certain medical practitioners and medical-related facilities) and Section 7-9-77.1 NMSA 1978 (deduction for commercial contract services or Medicare Part C services by health care practitioners).

The effective date of this bill is July 1, 2018.

FISCAL IMPLICATIONS

The fiscal estimates were provided by the Taxation and Revenue Department (TRD) using data from the publicly available RP-80 report to estimate the fiscal impact of the bill. The estimate took into account the total amount of GRT paid for taxpayers filing under NAICS code 62130 (Offices of Physical, Occupational and Speech Therapists, and Audiologists) for the fiscal year that ended on June 30, 2017. The cost of the deduction assumes that 25 percent of the tax paid reported by these taxpayers represents the amount of revenue loss to the general fund through the proposed deduction. The bill would also imply a "double hit" to the general fund because the deduction would have to be partially refunded to the applicable local governments as part of the health care providers "hold harmless" distributions. The estimated amounts for FY18 and beyond were grown using the most recent Consensus Revenue growth expectations for GRT (January 2018).

The actual cost of the deduction could be greater than the estimates, as some licensed physical therapist assistants may be filing under broader two-digit or three-digit NAICS codes, and therefore may not be included in TRD's estimate.

SIGNIFICANT ISSUES

The proposed deduction would provide tax relief for physical therapists who work in New Mexico. TRD also notes the deduction would represent a tax expenditure, as defined by TRD's Tax Expenditure Report.

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.

PERFORMANCE IMPLICATIONS

TRD indicates the proposal would impose moderate administrative costs on the Department's Audit & Compliance and Revenue Processing Divisions.

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

1. **Vetted**: The proposed new or expanded tax expenditure was vetted through interim legislative committees, such as LFC and the Revenue Stabilization and Tax Policy (RSTP) Committee, to review fiscal, legal, and general policy parameters.
2. **Targeted**: The tax expenditure has a clearly stated purpose, long-term goals, and measurable annual targets designed to mark progress toward the goals.
3. **Transparent**: The tax expenditure requires at least annual reporting by the recipients, the Taxation and Revenue Department, and other relevant agencies.
4. **Accountable**: The required reporting allows for analysis by members of the public to

determine progress toward annual targets and determination of effectiveness and efficiency. The tax expenditure is set to expire unless legislative action is taken to review the tax expenditure and extend the expiration date.

5. **Effective**: The tax expenditure fulfills the stated purpose. If the tax expenditure is designed to alter behavior – for example, economic development incentives intended to increase economic growth – there are indicators the recipients would not have performed the desired actions "but for" the existence of the tax expenditure.
6. **Efficient:** The tax expenditure is the most cost-effective way to achieve the desired results.

LFC Tax Expenditure Policy Principle	**Met?**	**Comments**
Vetted	✘	Expanding these two deductions to include licensed physical therapist assistants was not heard by interim committees.
Targeted		
Clearly stated purpose	✘	Both affected deductions have no stated purpose.
Long-term goals	✘	None.
Measurable targets	✘	None.
Transparent	✓	Both affected deductions are separately reported and currently included in TRD's annual Tax Expenditure Report.
Accountable		
Public analysis	?	Current reporting requirements for both affected deductions
Expiration date	✘	None.
Effective		
Fulfills stated purpose	?	Both affected deductions have no stated purpose.
Passes "but for" test	?	Both affected deductions have no stated purpose.
Efficient	?	
Key: ✓ Met ✘ Not Met ? Unclear		

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