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

		ORIGINAL DATE	02/08/14		
SPONSOR	Trujillo, J.	**LAST UPDATED**	02/12/14	**HB**	207
SHORT TITLE	Health Care Practitioner Gross Receipts			**SB**	
				ANALYST	van Moorsel

REVENUE (dollars in thousands)

Estimated Revenue					**Recurring or Nonrecurring**	**Fund Affected**
FY14	**FY15**	**FY16**	**FY17**	**FY18**		
0.0	($29,200.)	($30,400.0)	($31,500.0)	($32,500.0)	Recurring	General Fund
See "Fiscal Implications," below.						

Parenthesis ( ) indicate revenue decreases

Relates to HB 262 – Nonprofit Hospital Services Gross Receipts; HB 118 – Health Care Practitioner Gross Receipts

SOURCES OF INFORMATION
LFC Files

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

SUMMARY

Synopsis of Bill

House Bill 207 amends the Gross Receipts and Compensating Tax Act to expand the types of gross receipts that may be deducted from gross receipts for commercial contract and Medicare part C services provided by a healthcare practitioner. The bill allows receipts from copayments or deductibles paid by an insured or enrollee to a health care practitioner to be deducted. Receipts from fee-for-service payments by a health care insurer may not be deducted from gross receipts.

The bill adds definitions for copayment, deductible fee-for-service and managed health care plan, and specifies the types of qualifying health-care practitioners.

The bill also requires the Economic Development Department to request the New Mexico center for health workforce analysis to collect data to be used to assess the effectiveness of the deductions retaining and recruiting health care practitioners and report to the Revenue Stabilization and Tax Policy and the LFC by November of each year on the effectiveness of the deductions.

The bill states the purpose of the deductions is to retain and attract additional health care practitioners providing commercial contract and Medicare part C services in the state.

The bill contains a delayed repeal that would sunset the entire deduction effective January 1, 2020.

The effective date of the provisions of this bill is July 1, 2014.

FISCAL IMPLICATIONS

This bill makes changes to the deduction in Section 7-9-93 NMSA 1978 that are difficult to analyze because direct data are not available. An important issue to note is that because of the hold harmless distributions made to local governments, any increase in this deduction would be borne solely by the General Fund.

TRD notes that this bill makes two distinct changes that result in a significant fiscal impact. The first is the inclusion of out of pocket co-payments and deductibles to the receipts eligible for deduction.

The Health Care Cost Institute (HCCI) estimates, in their *2012 Health Care Cost and Utilization Report*, that on average, $768 was spent on out of pocket expenditures on copays, deductibles and coinsurance per insured person nation-wide, out of total health care expenditures of $4,701 per insured. This represents about 16.3 percent of total expenditures per insured person. While this is a national estimate and New Mexico may differ significantly from the national average, applying a similar percentage to New Mexico's existing deduction would amount to a deduction of about $210 million in gross receipts, and foregone revenue of about $14 million based on an average tax rate of 6.8%, in FY13 terms. This deduction is forecast to grow at the IHS Global Insight[1] forecast growth rate of real consumer spending on health care.

As the deduction under Section 7-9-93 NMSA 1978 increases, the hold harmless distributions to counties and municipalities also increase. This would offset the negative impact to local governments but increase the negative impact to the General Fund by about $5.6 million.

The second impact inducing change is the broadening of the definition of eligible health care practitioners. Specifically, this bill includes:

- a person licensed or registered pursuant to the provisions of the Pharmacy Act
- a person licensed pursuant to the provisions of the Massage Therapy Practice Act
- a person licensed pursuant to the provisions of the Naprapathic Practice Act
- a person licensed, certified or credentialed pursuant to the Medical Imaging and Radiation Therapy Health and Safety Act; and
- a person licensed or certified pursuant to the provisions of the Emergency Medical Services Act.

[1] IHS Global Insight is the economic forecasting service used by LFC and TRD.

TRD notes it does not have data at a sufficient level of detail to directly measure the potential impact of adding these specialties to the deductions of Section 7-9-93 NMSA 1978. Pharmacist services, in particular are hard to measure. Taxpayers classified as pharmacies generate gross receipts from many other areas than just the services of pharmacists. Pharmacies and drug stores report taxable gross receipts of almost $350 million, some fraction of which is pharmacists' services. There is also presumably a large amount of pharmacists' services that are performed for businesses otherwise classified. Assuming that $100 million in receipts from pharmacists' services becomes deductible under this bill, the impact would be about $6.8 million.

The other specialties are encompassed by two broader industrial codes: other miscellaneous health care providers (massage therapy, Naprapathy and EMS), which reports about $50 million in taxable gross receipts, and diagnostic medical laboratories (radiologic services), which reports $72 million in taxable gross receipts. Of the total of $122 million in taxable gross receipts from these categories, 50 percent is assumed to be eligible for this deduction, resulting in about $4 million in lost gross receipts tax revenue. With the resulting increase in hold harmless payments, the impact would fall entirely on the General Fund.

SIGNIFICANT ISSUES

This bill allows the same deduction on payments made by the actual consumer that is already allowed when the payment is made by the managed health care provider and the insurer.

In its analysis, TRD notes**:** the bill removes the separate reporting of this deduction to the Taxation and Revenue Department (TRD) and replaces it with different reporting to the Economic Development Department. This effectively eliminates TRD's ability to calculate and make medical hold harmless distributions, because the deduction amount is used to calculate the hold harmless distribution. TRD would still be responsible for calculating the distribution, but would no longer have the ability to do so.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is <u>not</u> met since TRD is <u>not</u> required in the bill 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.

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

PvM/ds