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

SPONSOR: Stewart DATE TYPED: 01//30/02 HB 205

SHORT TITLE: Nursing Home Gross Receipts Tax Exemption SB

ANALYST: Neel

REVENUE

Estimated Revenue		**Subsequent Years Impact**	**Recurring Or Non-Rec**	**Fund Affected**
FY02	**FY03**			
	$ (3,523.0)	$ (3,843.0)	Recurring	General Fund
	$ (2,988.0)	$ (3,260.0)	Recurring	Local Governments

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to: SB 207

SOURCES OF INFORMATION

LFC Files

Response Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 205 enacts a new section of the Gross Receipts and Compensating Tax Act to provide a gross receipts tax exemption for the receipts of nursing homes licensed by the Department of Health.

Significant Issues

The Health Licensing and Certification Bureau of the Department of Health stated that there are 84 nursing homes currently licensed in New Mexico. Licensed nursing homes do not include residential mental health or substance abuse facilities, but do include some community care facilities for the elderly. Data from the 1997 Economic Census of Health Care and Social Assistance was used to derive a tax base of $117 million for the FY 2003 estimate.

Board of Health licenses a number of different categories of nursing homes. These include: skilled nursing facility, intermediate care facility and Developmentally Disabled group homes. The data from the 1997 Economic Census are not consistent with the categories licensed by the Department of Health.

FISCAL IMPLICATIONS

The Taxation and Revenue Department (TRD) analysis of this bill estimates that the full year impact on the general fund would be negative $3.5 million for FY03. The full year impact on local governments would be to reduce revenue by $3.0 million. TRD reported that this is the best estimate available, subject to the known defects of the available data, and to the issues and assumptions discussed below.

OTHER SUBSTANTIVE ISSUES

This bill proposes a straightforward tax exemption for a "merit good". However, the Gross Receipts and Compensating Tax Act taxes many otherwise meritorious goods and services, and exempts other meritorious goods and services. The Gross Receipts and Compensating Tax Act treats some medical services as meritorious, and certainly provides extensive tax relief for most charitable organizations. Making the decisions about which goods and services are sufficiently meritorious to warrant a tax break is not necessarily a base for sound tax policy.

The state has traditionally had a very broad transaction tax base with a fairly low tax rate. Narrowing the base probably implies an increase in rate at some point in the future in order to maintain revenue.

Savings from tax deductions, exemptions and credits are not necessarily passed-on to the consumer. If the intent is to lower the financial burden on low-income nursing home residents, a direct subsidy would be a more efficient and reliable mechanism. Beginning in 1998, the payment rate for a nursing home has been determined by a blend of a facility specific rate and a federal rate. In the first year, the facility percentage was 75 percent and the federal rate 25 percent. As facilities entered their second year under PPS, the mix became 50-50. This began as early as July 1, 1999 for some nursing homes, depending on the individual facility's cost reporting period. In the third year, the blend was 25 percent facility and 75 percent federal, and in the fourth year beginning in 2001, all nursing facilities will be paid at the federal rate. This new scheme has apparently led to a significant reduction in nursing home revenue.

Recent testimony to Congress (August 2000) indicated that the numbers of bankruptcies of private nursing homes have skyrocketed.

In response to this fiscal stress, Congress passed the Balanced Budget Refinement Act of 1999 (BBRA), which provided a 4 percent increase and also temporarily boosted payments for certain patients (high medical cost patients) by 20 percent. These additional changes, scheduled to take effect Oct. 1, 2000, are expected to increase overall Medicare payments for skilled nursing care by an estimated 5.8 percent above the published rates for Fiscal Year 2000. The proposal creates new, higher payment categories for residents with multiple, serious health problems that require intensive care and treatment. In fiscal year 2001, Medicare payments to nursing homes are projected to increase more than 20 percent over FY 2000 projections.

SN/njw:ar