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FISCAL IMPACT REPORT



SPONSOR: McSorley DATE TYPED: 02/04/02 HB _____

SHORT TITLE: Tax Deductions for Certain Medical Services SB 277

ANALYST: Gilbert

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY02	FY03			
	* \$ (0.1)	* \$ (0.1)	Recurring	General Fund
	* \$ (0.1)	* \$ (0.1)	Recurring	Municipalities
	\$ (2,435.0)	\$ (2,825.0)	Recurring	Counties

(Parenthesis () Indicate Revenue Decreases)

*See Narrative

Duplicates HB 366

SOURCES OF INFORMATION

LFC Files

Response Received

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 277 amends Section 7-9-77.1 to provide a gross receipts tax deduction for receipts arising from the provision of medical and other health services by physicians (including osteopathic physicians).

This bill also increases the statewide gross receipts tax rate from 5.0% to 5.11% and the state-shared distribution to municipalities is increased from the current 1.225% to 1.288%. These rate provisions are intended to generate additional revenues to offset the reduction due to the new gross receipts tax deduction provided to physicians.

FISCAL IMPLICATIONS

The fiscal impact analysis provided by the Taxation and Revenue Department (TRD) was based on the 1997 Census of Healthcare Services in New Mexico and the Department's "Analysis of Gross Receipts by Standard Industrial Classification" (Report-80) and "Combined Reporting System-Warrant Distribution Summary" (Report 490B).

Since taxable gross receipts attributable to the health-care industry are expected to grow at a higher rate than the overall gross receipts base, the increases in rates are only sufficient to approximate revenue neutrality in the short-term. It is unlikely the gross receipts tax derived from a relatively slow-growing base can keep pace with the revenue lost as a result of this bill in the longer term. Secondly, most receipts from physicians' services are concentrated in larger municipalities. In the short term, the 1.288% distribution will be sufficient to collectively compensate municipalities. However, cities in which physicians' receipts are a greater share of total receipts than the municipal average will suffer a loss of revenue because the base on which the 1.288% share is calculated would be reduced by a greater percentage than for average municipalities. In this regard, provisions contained in this bill result in net transfers from some cities (primarily Albuquerque and Las Cruces) to smaller municipalities.

ADMINISTRATIVE IMPLICATIONS

The TRD would need to revise their information systems, forms and instructions, and taxpayer seminar materials. In addition to TRD staff training regarding the new provisions, technical advice memoranda would also need to be prepared and distributed. However, TRD believes these changes can be implemented with existing resources.

OTHER SUBSTANTIVE ISSUES

There are no provisions in this bill to maintain revenue neutrality for county governments. Consequently, county residents will likely bear the brunt of shifting tax burdens that could result from this bill.

The Gross Receipts and Compensating Tax Act currently treats some medical services as meritorious. For example, extensive tax relief is provided for most charitable organizations. The state has traditionally had a very broad transaction tax base with a fairly low tax rate. Narrowing the base eventually leads to increasing rates in order to maintain revenue, or will result in reduced public services.

POSSIBLE QUESTIONS

The provisions of this bill do not cover several categories of health practitioner. This list includes chiropractors, dentists or dental hygienists, physician assistants, doctors of oriental medicine, podiatrists, psychologists, RNs or LPNs, midwife practitioners, physical therapists, occupational therapists, respiratory care technicians, optometrists, licensed massage therapists, non PA emergency technicians and ambulance services, speech and auditory therapists and most home health care. This raises questions of equity and increases the pressure to extend relief to other medical practitioners.