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

SPONSOR: HBIC DATE TYPED: 2/19/03 HB 361/HBICS

SHORT TITLE: Health Practitioner Gross Receipts Deduction SB

ANALYST: Smith

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	**FY04**			
	(31,900.0)	(34,800.0)	Recurring	General Fund
	(2,200.0)	(2,400.0)	Recurring	Counties
	(See Technical Issues)		Recurring	Municipalities

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

The House Business and Industry Substitute for House Bill 361 provide a gross receipts tax deduction for licensed health practitioners for services performed pursuant to a contract with managed health care providers. The deduction is limited to the "commercial portion of contract services", or services performed other than for Medicare and Medicaid patients.

This proposal also makes adjustments to municipal gross receipts tax distributions that are intended to generate additional revenues to offset the new deduction. Specifically, municipal distributions are calculated on a base that includes the value of the proposed health care deductions claimed for each municipality.

FISCAL IMPLICATIONS

TRD's fiscal impact was derived from the 1997 Census of Healthcare Services in New Mexico, the Department's "Analysis of Gross Receipts by Standard Industrial Classification" (Report-80), "Combined Reporting System-Warrant Distribution Summary" (Report 490B), state Medicare and Medicaid expenditure data from the Centers for Medicare and Medicaid Services (CMMS), and financial statements from selected managed care providers filed with the Public Regulation Commission.

Under this proposal, municipal distributions are calculated on a base that includes the value of the proposed health care deductions. This change is not accompanied by a corresponding increase in the overall state gross receipts tax rate. Thus municipal compensation is financed with foregone state general fund revenue.

County governments will have a smaller tax base on which to generate revenue, and there are no provisions to compensate counties contained in the proposal.

TECHNICAL ISSUES

Amendments to municipal distributions are made which are intended to maintain municipal gross receipts tax revenue at the same level as under current law. ***However, for the amendments to work, it is critical that health practitioners report the exact amount of all deductions attributable to each location.*** If all health practitioners report correctly, the provisions contained in this bill will accomplish their purpose. However, as with most changes in tax law, reporting behavior can be irregular. For example, some taxpayers may treat deductions (which are required to be reported) as exemptions that are not subject to reporting requirements. The actual impact on a specific municipality's gross receipts tax revenue is unpredictable.

OTHER SUBSTANTIVE ISSUES

TRD makes the following policy arguments:

- This continues a trend over the last decade of removing medical and hospital services from the gross receipts base. A broad base helps to limit the tax rate, thus cutting the base by an industry this large may shift a noticeable amount of tax burden to remaining taxpayers.

- In addition to adding an element of stability to the gross receipts tax, receipts of health practitioners grow more quickly than general revenue. Exempting this sector reduces the state's ability to generate adequate revenue from the gross receipts tax.

- The availability of a gross receipts tax deduction conditioned on who receives health care service could be considered discriminatory

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