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

SPONSOR: Youngberg DATE TYPED: 3/3/03 HB 869

SHORT TITLE: Physician Services Gross Receipts SB

ANALYST: Neel

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY 2004	FY 2005	FY 2006		
($2,300.0)	($5,200.0)	($8,500.0)	Recurring	General Fund
($2,000.0)	($4,600.0)	($7,400.0)	Recurring	Local Governments

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to:

SB35 Healthcare Practitioners Gross Receipts
SB63 Healthcare Practitioners Gross Receipts Deduction
SB158 Food and Health Provider Gross Receipts Deduction.
HB163 Physicians Gross Receipts Deduction
HB361 Health Practitioners Gross Receipts Deduction
HB440 Gross Receipts Deduction for Podiatrists
HB410 Gross Receipts Tax Credit for

SOURCES OF INFORMATION

LFC files

Responses Received From

Taxation and Revenue Department (TRD)
Health Policy Commission (HPC)
Department of Health (DOH)
Human Services Department (HSD)

SUMMARY

Synopsis of Bill

House Bill 869 (HB 869) would increase, by percentile increments over 5 years, the deductibility for certain payments received by licensed health care practitioners from gross receipts tax. Deductible receipts would be limited to the payments made by managed health care providers for the commercial portion of contract services provided by a physician with eligible practitioners.

Managed health care provider is defined as a person that provides for the delivery of comprehensive basic health care services and medically necessary services to individuals enrolled in a plan through its own employed health care providers or by contracting with selected or participating health care providers. The *commercial portion of contract services* is defined as services performed pursuant to a contract with a managed health care provider other than those provided for medicare patients pursuant to Title 18 of the federal Social Security Act or for medicaid patients pursuant to Title 19 of the same Act.

Physician is defined as a physician, physician assistant, osteopathic physician or osteopathic physician's assistant as appropriately licensed in New Mexico.

Eligible practitioners would be able to deduct 20% of covered payments received from July 1, 2003 through June 30, 2004; 40% of covered payments received from July 1, 2004 through June 30, 2005; 60% of covered payments received from July 1, 2005 through June 30, 2006; 80% of covered payments received from July 1, 2006 through June 30, 2007; and 100% of covered payments received after June 30, 2007.

FISCAL IMPLICATIONS

TRD used the following information in determining the fiscal impact: 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.

ADMINISTRATIVE IMPLICATIONS

TRD notes a moderate administrative impact including systems coding and troubleshooting must be performed; forms and instructions must be revised; taxpayer seminar materials and technical advice memoranda must be prepared; and department personnel must be trained on the new provisions. These changes can be implemented with existing resources.

OTHER SUBSTANTIVE ISSUES

TRD notes the following substantive issues:

1. Targeting preferential tax treatment to specific industries is not necessarily good tax policy. It raises questions of equity and increases the pressure to extend relief to others by setting a precedent that they may use to justify similar tax breaks.

2. This bill proposes a tax deduction 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. 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 reduced public services.

3. 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.

4. 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.

5. The availability of a gross receipts tax deduction conditioned on who receives healthcare service could be considered discriminatory.

6. Some of the impetus behind proposals to provide deductions or exemptions to healthcare practitioners stems from the fact that some health plans are said to be refusing to pay the passed-on tax.

SN/sb