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

SPONSOR: Smith DATE TYPED: 2/25/03 HB

SHORT TITLE: Licensed Hospital Gross Receipts SB 780

ANALYST: Neel

## REVENUE

| Estimated Revenue | | Subsequent Years Impact | Recurring or Non-Rec | Fund Affected |
|---|---|---|---|---|
| FY03 | FY04 | | | |
| | ($5,300.0) | ($5,800.0) | Recurring | General Fund |
| | ($3,200.0) | ($3,500.0) | Recurring | Local Governments |
| | | | | |

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to:

HB410 Gross Receipts Tax Credit for Physicians
SB250 Nursing Home Care Income Tax Credit
HB113, Health Care Provider Gross Receipts
SB063, Health Practitioners Gross Receipts Deduction
SB035, health Practitioners Gross Receipts

## SOURCES OF INFORMATION

LFC files

Responses Received From

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

## SUMMARY

Synopsis of Bill

SB780 enacts a new section of the Gross Receipts Compensating Tax Act to allow a gross receipts tax credit for receipts collected by hospitals licensed by the Department of Health.

The credit for hospitals located in a municipality will be 3.275% of the hospital's taxable gross receipts. The credit for hospitals located in the unincorporated area of a county will be 5% of the hospital's taxable gross receipts.

Significant Issues

Under present law, hospitals that are organized as non-profits under the federal tax code are completely exempt from the gross receipts tax. All other hospitals qualify for a 50% deduction from the gross receipts tax (Section 7-9-73.1 NMSA). Thus, the effect of the proposal would be to eliminate the remaining 50% of the tax being paid by for-profit hospitals.

## FISCAL IMPLICATIONS

According to TRD, DOH's Licensing and Certification Bureau reports that licensed hospitals include acute care facilities, critical access, psychiatric, rehabilitation, and other specialty hospitals. Data from the 1997 Economic Census of Health Care and Social Assistance and the department's "Analysis of Gross Receipts by Standard Industrial Classification" were used to derive a taxable gross receipts base of $284 million for FY 2004.

## ADMINISTRATIVE IMPLICATIONS

TRD notes that forms will need to be redesigned, and systems modified to accept and track the new credit. Taxpayer education efforts will be greater than for normal changes. These changes can be accomplished with resources currently available to the department. However, the department is in the process of converting to a new computer system for processing gross receipts tax. The changes required by this bill would have to be implemented in the new system. This system is currently scheduled to become operational in October 2003. Thus, an effective date of January 1, 2004 should give the department enough time to incorporate the changes into the new system.

## OTHER SUBSTANTIVE ISSUES

The HPC provided the following metrics:

- As of June 2002, New Mexico licensed hospitals included:
  - 35 general acute hospitals, with anywhere from 10 to 558 beds.
  - 15 specialty hospitals, with anywhere from 6 to 135 beds.
  - 9 Indian Health Service hospitals
  - The total number of NM hospitals declined by 7 between 1998 and 2001. (HPC, HIDD Report 2002)

- Current US Census data for 2000 shows a total New Mexico health care industry employment of 63,360 individuals with an annual payroll of $1,980,285.00.

    - In 2000, New Mexico hospitals employed 42% of health care industry employees and paid 46% of the total industry payroll. (HPC Quick Facts 2003)

**<u>Payer sources</u>**

- In New Mexico in 2000:
    - 26.6% of all hospital discharges were paid by Medicare
    - 21.89% were paid by Medicaid
    - 41.19% were paid by private insurance
    - 7.69% were uninsured
    - The greatest number of discharges – 63.4% -- average between $1,000 and $9,999 in total charges.
    - Payer source varies widely across New Mexico's counties.
      (HPC, <u>HIDD Report</u> 2001)

**<u>Other issues</u>**

- Medicaid currently pays gross receipts tax as part of its reimbursement rate for hospitals. However, Medicare, the primary source of payment for hospital stays among persons 65 and older, does not pay GRT. This leaves the hospitals to bear the tax burden.

- New Mexico is the only state in the continental US that charges gross receipts tax on health care services, including hospital services.

- New Mexico hospitals are the primary source of employment for nearly half the state's health care workers. The tax credit proposed in SB780 will cost the State some GRT income, but will also provide hospitals with increased financial resources to maintain employment levels and service quality.

- At their January 24, 2003, meeting, the Commissioners of the HPC announced that they support a gross receipts tax credit for New Mexico health care services.

**SN/sb**