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

**SPONSOR** HBIC **DATE TYPED** 02-10-04 **HB** 154/HBICS

**SHORT TITLE** Health Practitioners Services Gross Receipts **SB**

**ANALYST** Taylor

## REVENUE

| Estimated Revenue | | Subsequent Years Impact | Recurring or Non-Rec | Fund Affected |
|---|---|---|---|---|
| FY04 | FY05 | | | |
| | (50,600.0) | (54,000.0) | Recurring | General Fund |

(Parenthesis ( ) Indicate Revenue Decreases)

* See fiscal implications narrative for details

**SOURCES OF INFORMATION**
LFC Files

**SUMMARY**

Synopsis of Bill

The House Business and Industry Committee substitute for HB 154 removes the gross receipts tax from certain health care services. It creates new distributions to cities and counties and adjusts the county equalization formula. The local government distributions and the county equalization formula adjustment are made to offset local government revenue losses from removing those taxes.

The deduction is limited to receipts of licensed health practitioners from payments by a managed care provider for the "commercial portion of contract services", where such services are defined as managed care contract services other than those provided for Medicare and Medicaid patients. Licensed health care practitioners include chiropractic physicians, dentists and dental hygienists, physicians, physician assistants, osteopathic physicians, , doctors of oriental medicine, podiatrists, psychologists, registered nurses, licensed practical nurses, midwives, physical therapists, optometrists, occupational therapists, respiratory care practitioners, clinical laboratories, speech pathologists or audiologists, social workers, counselors and therapists.

The bill has an effective date of July 1, 2004.

## FISCAL IMPLICATIONS

TRD estimates that this bill would reduce general fund revenues by about $50.6 million in FY05. The estimate draws upon information from various sources including the Census for Healthcare Services in New Mexico, TRD gross receipts reports and federal government Medicaid and Medicare reports, and selected managed care organization financials.

TRD notes that the bill is meant to be revenue neutral for local governments, but they caution that for this to work health practitioners will have to report exact amounts by location.

## ADMINISTRATIVE IMPLICATIONS

TRD reported the following on administrative implications:

> Major computer system changes will be required to accept and track the deductions and to make the appropriate adjustments to local revenue distributions. Reprogramming the system to track the deductions by location is possible. However, the effective date of July 1, 2004 does not allow the department enough time for the transition. An effective date of January 1, 2005 should give the department enough time to incorporate the changes.

## OTHER SUBSTANTIVE ISSUES

TRD's report raised the following issues:

- Other bills that propose similar deduction-reporting schemes for the purpose of calculating local government offsets impose stiff penalties for under-reporting deduction amounts. A similar provision should be included in this bill because it is critical that the exact amount of all deductions attributable to each location be reported correctly in order for the offset provision to work effectively.

- 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.

- 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 "elasticity"—the rate of growth of revenue collections relative to the rate of economic growth--of the gross receipts tax. In other words, it makes it harder for the tax revenues to keep up with inflation when the higher-growth sectors are carved out of the existing tax base.

- The broad GRT base has frequently been cited as one reason New Mexico's sales tax revenue growth has been more robust than that of other states. Over the decade ending in 2002, the GRT base grew at a 5.1% compound annual growth rate, compared with personal income growth of 5.5% in the state. One explanation is that the GRT's taxation of services prevented the erosion of the base as the economy has shifted away from manufacturing to services.

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

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

BT/dm