FISCAL IMPACT REPORT

SPONSOR Park **DATE TYPED** 2-06-2004 **HB** 340

SHORT TITLE Physical Therapist Gross Receipts Deduction **SB**

ANALYST Taylor

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY04	FY05			
	(160.0)	(170.0)	Recurring	General Fund
	(145.0)	(155.0)	Recurring	Local Governments

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to: HB 17, HB 154 and SB 179

SOURCES OF INFORMATION

LFC Files

Response Received From
Taxation and Revenue Department (TRD)

SUMMARY

HB 340 provides a phased-in gross receipts tax deduction to physical therapist for receipts from Medicare payments. A physical therapist is defined as someone licensed by the physical therapy board of the Regulation and Licensing Department.

The bill also adds language providing a gross receipts tax deduction for Medicare receipts of home health care agencies and clinical laboratories. The deduction is phased in over three-years beginning in FY04. (TRD reports that this simply reconciles legislation passed last session with statute).

The bill carries no effective date, and thus would become effective 90 days after signing by the governor.

FISCAL IMPLICATIONS

TRD estimates that exempting physical therapists' gross receipts from the tax would reduce general fund revenues by $160 thousand and local governments' revenues by $145 thousand in FY05. The revenue loss assumes that, based on information from the Economic Census of Health Care and Social Assistance and TRD's Gross Receipts by Standard Industrial Classification, the gross receipts base is $40 million. They also estimate that 12 percent of therapists' receipts are paid for by Medicare (source Centers for Medicare and Medicaid Services). Multiplying $40 million by the 12% Medicare share by a 6.1% average gross receipts tax rate implies a total revenue loss of about $300 thousand, which is divided between state and local governments.

ADMINISTRATIVE IMPLICATIONS

TRD reports moderate administrative impacts that can be absorbed with existing resources.

OTHER SUBSTANTIVE ISSUES

The following issues were raised in TRD's analysis:

- 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.

BT/lg:dm