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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** 2-21-2005 **HB**

SHORT TITLE Health Insurer Fee-For-Service Gross Receipts **SB** 179

ANALYST Taylor

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY06	FY07			
(304.0)	(942.0)	(2,678.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files
Taxation and Revenue Department (TRD)

SUMMARY

Senate Bill 179 provides a phased-in gross receipts tax deduction for receipts from fee-for-service payments by health care insurers. In calendar year 2006, one-fourth of receipts may be deducted; in 2007, one half of receipts may be deducted; in 2008, three-fourths of receipts may be deducted and on January 1, 2009 and thereafter, all receipts may be deducted.

The bill has an effective date of January 1, 2006.

FISCAL IMPLICATIONS

TRD estimates that the deduction provided in this bill would reduce state general fund revenues by $304 thousand in FY06, $942 thousand in FY07. When fully phased-in, general fund revenues would be lower by $2.68 million. The fiscal impacts reflect both the direct impact from the state's gross receipt tax and the indirect effect stemming from the local hold harmless provision. Local governments are held harmless because the bill amends provisions of statute (exempting food and medical services) passed last years that included hold harmless provisions for local governments.

According to TRD, the estimate is based on the department's hospital gross receipts data. They indicate that a 2002 survey by the UNM Institute for Public Policy reported that approximately

2.5 percent of respondents in the state reported belonging to an indemnity, or fee for service insurance plan.

TRD also notes that their estimate does not include Medicaid fee-for-service receipts because Medicaid does not meet the bill's definition of health care insurer.

ADMINISTRATIVE IMPLICATIONS

TRD reports the following administrative impact:

> Moderate to high impact. System coding and troubleshooting must be performed; forms and instructions must be revised; taxpayer education materials and instructional publications must be prepared; and personnel must be trained. A new special rate code would have to be implemented in the Department's tax computer system. Audit processes and compliance issues would increase the cost of handling this deduction.
>
> The bill states that the deductions should be separately stated on the CRS-1 form. The law would then contain two deductions—a 100% deduction for contract payments from a health care insurer and a scaled deduction for fee-for-service payments – that are subject to hold-harmless provisions. The Department will find it extremely difficult to audit these businesses because two deductions are combined on a single line of the CRS-1 form.

TECHNICAL ISSUES

TRD notes that the term fee-for service is not defined.

OTHER SUBSTANTIVE ISSUES

TRD's note that the deduction would not apply to Medicaid could be problematic. The Centers for Medicare and Medicaid (CMS) is reportedly closely monitoring taxes that seem to target Medicaid alone.

BT/rs