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

SPONSOR Cravens **DATE TYPED** 2-20-2005 **HB**

SHORT TITLE Health Gross Receipts and Medicaid Service Tax **SB** 372

ANALYST Taylor

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
	3,780.0	12,134.0	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

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

SUMMARY

Senate Bill 372 phases out the gross receipts tax deduction for payments from managed care providers, health care insurer for commercial contract services or medicare part C services. The phase-out would begin after December 31, 2005, after which 80 percent of receipts would be deductible. An additional 20 percent of the deduction would be phased-out each year thereafter until the deduction is completely eliminated on January 1, 2010.

The bill also creates a new tax: the Medicaid Services Tax. The tax is imposed against the receipts from managed care providers, health care insurer for commercial contract services or medicare part C services. The tax rate is 1 percent in the year that 20 percent of the receipts are deductible (calendar year 2009). The rate would increase to 2 percent in the year that these services were no longer deductible (2010). Revenues raised by the tax are earmarked to the Medicaid program.

The bill carries an emergency clause, making it effective upon signature by the governor.

FISCAL IMPLICATIONS

The Taxation and Revenue Department estimates that the phase-out of the gross receipts tax deduction would increase state general fund revenues by $3.8 million in FY06 and by $12.1 million in FY07. When fully phased-out, general fund revenues would increase by $44.6 million. No local government impact is reported: the deduction includes provisions holding local governments harmless.

The impacts of the new “Medicaid Services Tax” are delayed until FY09. TRD estimates that the tax would raise $3.8 million in FY09 and $11.4 million in FY10.

ADMINISTRATIVE IMPLICATIONS

TRD’s reported the following administrative note:

> By Dec 31, 2009, a new tax program will need to be developed and implemented with new forms, instructions and publication changes. Taxpayer and staff education would be needed over and above the usual updates. Audit and compliance procedures would be needed.

TECHNICAL ISSUES

TRD also submitted this technical issue:

> The bill proposes to impose a new tax on receipts that are defined in a separate section of statute. This could create problems if that other section is amended or repealed.

BT/yr