

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (legis.state.nm.us). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

## FISCAL IMPACT REPORT

SPONSOR SCORC DATE TYPED 03/18/05 HB \_\_\_\_\_

SHORT TITLE NURSING HOME GROSS RECEIPTS SB 540/SCORCS

ANALYST Padilla-Jackson

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
(\$11,000.0)*	(\$22,000)	Similar	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

\*The first year impact is assumed to be 50 percent of the recurring impact.

Relates to Senate Bill 534, Senate Bill 59, Senate Bill 570, and House Bill 634

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Taxation and Revenue Department (TRD)

### SUMMARY

#### Synopsis of Bill

The Senate Corporations and Transportation Committee substitute for Senate Bill 540 would provide personal income tax credits for unreimbursed or uncompensated medical expenses paid by taxpayers for themselves, their spouses or their dependents to the extent that medical expenses exceed \$28,000. The credits would be refundable, so that when the credits exceed tax liability, the excess credits would be refunded to taxpayers. The bill's definition of medical expenses covers a wide range of medical costs, including diagnosis, cure, mitigation or prevention of disease, insurance covering medical care, and long-term care as defined in Section 770B(c) of the Internal Revenue Code.

The effective date of the provisions of this are applicable for tax years beginning on or after January 1, 2005.

## **FISCAL IMPLICATIONS**

The total fiscal impact is estimated by TRD to be -\$22 million in FY06 to the General Fund. TRD notes that the fiscal impacts were estimated using information from federal and state tax returns of New Mexico residents. In tax year 2001, 1,475 New Mexico tax returns claiming more than \$28,000 per return in medical and dental expenses as an itemized deduction on their federal tax returns claimed a total of \$138 million in expenses. At this level of expenditures, these taxpayers would be eligible for approximately \$14 million in credits under the proposal. In addition, 1,700 taxpayers claiming over \$2,800 in medical expense deductions each claimed a total of \$8.2 million under state law in each of the last two tax years. These deductions are only available if the taxpayer has not claimed the same expense on the federal tax return. Since the rate of deduction is 10 percent (and higher for some low-income taxpayers), these taxpayers had medical expenses of more than \$28,000 for the year. They would be eligible for approximately \$8 million in credits under the proposal. Thus, the combined revenue impacts would be approximately \$22 million per year.

## **ADMINISTRATIVE IMPLICATIONS**

Minor to TRD.

## **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

Senate Bill 534 provides nursing homes a gross receipts tax deduction for receipts from third-party administrators of Medicare and the Federal Military TRICARE program. Senate Bill 59 adds counselors and social workers and Senate Bill 570 and House Bill 634 adds clinical laboratories to the gross receipts tax deduction for medical services reimbursed by managed care. Senate Bill 643 proposes that hospitals licensed by the New Mexico Department of Health may claim a gross receipts tax credit.

## **TECHNICAL ISSUES**

TRD cautions that since the bill permits all receipts of a nursing home to be deductible, it is possible that nursing homes would be able to deduct receipts that were unrelated to the provision of nursing home services, such as payment received for transporting a patient to a beauty shop.

**OPJ/yr**