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

SPONSOR Fidel **DATE TYPED** 03/18/05 **HB**

SHORT TITLE Property Tax on Health-Related Equipment **SB** 945/a SFC

ANALYST Padilla-Jackson

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY05	FY06			
	Insignificant	Insignificant	Recurring	Property Tax Recipients

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to House Bill 322 and Senate Bill 501

SOURCES OF INFORMATION
LFC Files

Responses Received From
New Mexico Commission on Higher Education (CHE) (original bill only)
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of SFC Amendments

The Senate Finance Committee amended Senate Bill 945. The amendments strike the section of the bill that would allow a compensating tax exemption for the use of property by the New Mexico Hospital Equipment Loan Council and strike the gross receipts/governmental gross receipts tax deduction for receipts from selling certain property to the Council.

Synopsis of Original Bill

Senate Bill 945 provides a property tax exemption for health-related equipment purchased by a participating health facility. The equipment must be purchased, acquired, financed or refinanced with the proceeds of bonds issued under the Hospital Equipment Loan Act and remains exempt as long as the facility remains liable under any lease, loan or other agreement securing the bonds. The bill also provides an exemption from compensating tax for the purchase of equipment made with financing from the New Mexico Hospital Equipment Loan Council (HELC). Lastly, the bill provides an exemption from gross receipts and governmental gross receipts tax for receipts from selling certain property to the HELC.

FISCAL IMPLICATIONS

Fiscal Implications of Bill as Amended

The proposed amendments to the bill eliminate the fiscal impact associated with the gross receipts and compensating tax deductions, leaving only the impact associated with the property tax. As described below by TRD's analysis, the fiscal impact of the property tax section of the bill is estimated to be insignificant.

Fiscal Implications of Original Bill

The total fiscal impact of the original bill is approximately -\$4.6 million in FY06, of which -\$2.7 million will impact the General Fund and -\$1.8 million will impact local governments. TRD's analysis assumed, based on information from HELC, that \$100 million in equipment is purchased from in-state firms with Council financing, 70 percent of which is purchased by private, for-profit entities, and subject to the gross receipts tax. Seventy million dollars multiplied by the statewide average gross receipts tax rate would yield obligations of \$4.6 million. TRD notes that if the property were purchased out of state and subject to compensating tax, similar amounts would be due and that if the property were subject to Governmental Gross Receipts tax, proceeds would be distributed to the New Mexico Finance Authority, the Energy, Minerals, and Natural Resources Department and the Office of Cultural Affairs.

The personal property portion of the bill, according to TRD, is likely to have insignificant fiscal impacts to property tax recipients. TRD provided the following comments on the personal property portion of the bill:

Personal property tax obligations would be based one-third of the value of property purchased using funding from the Hospital Equipment Loan Act. If \$100 million in equipment were to be purchased and financed by the Loan Council, 70 percent of which was by for-profit institutions, one-third of \$70 million in equipment or \$23.3 million would be subject to property taxation. Assuming the property was taxed at the 30-mill statewide average rate on nonresidential property, annual tax obligations would decline by approximately \$700,000. The resulting loss of taxable property value would not decrease revenues flowing to property tax recipients (primarily counties, school districts and municipalities) due to rate increases resulting from the yield control mechanism and the mechanism whereby debt-service rates are calculated. The property tax burden would thus be shifted, decreasing for the beneficiaries of the provisions and increasing for all other taxpayers. Impacts would increase over time as more equipment is purchased through the Loan Act and therefore exempted from property tax under the provisions. The resulting shift of the property tax burden could be significant in a small locality where a for-profit hospital represents a significant part of the tax base.

ADMINISTRATIVE IMPLICATIONS

Administrative impacts are assumed to be minimal to TRD.

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