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

SPONSOR HBIC **DATE TYPED** 3-01-2005 **HB** 904/HBICS

SHORT TITLE Department of Health Hospital Gross Receipts **SB**

ANALYST Taylor

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY06	FY07			
($2,900)	($5,000)	($6,300)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates Senate Finance Committee substitute for SB 643

SOURCES OF INFORMATION

LFC Files
Taxation and Revenue Department (TRD)

SUMMARY

The House Business and Industry Committee substitute for Senate Bill 643 provides a gross receipts tax credit for gross receipts taxes from hospitals licensed by the Department of Health. The credit is applied against the state's portion of gross receipts tax from providing commercial contract or medicare part A,B or C services. The credit is phased in over three years, beginning on July 1, 2005. In municipalities the rate in calendar year 2005 is 1.258 percent, in 2006 it is 2.516 percent and in 2007 it is 3.75 percent. For hospitals located in the unincorporated areas of a county, the rate in 2005 is 1.67 percent; in 2006 the rate is 3.34 percent; and in 2007 the rate is 5 percent.

FISCAL IMPLICATIONS

The New Mexico Hospital Association's survey on hospital gross receipts payments for the last 12 month period indicates that investor owned hospitals paid total gross receipts of $15.2 million. Assuming a state-wide average gross receipts tax rate of 6.6 percent, this implies a tax base of about $230 million. The hospital association also reported that about 32 percent of this was due from Medicare payments (parts A, B and C) and 34 percent from commercial contracts. These are the two sources that would benefit from the credit, and together they account for two-thirds, or $152 million of the $230 million tax base. The remaining one-third comes from Medicaid and self pay.

The bill phases in the credit beginning on July 1, 2005. Although the phase-in schedule begins on the fiscal year, the rates change each calendar year. The result is that the phase-in rates on a fiscal year basis are the average of the calendar year rate reductions. In FY06, the credit would equal 1.887 percent of gross receipts, in FY07 3.146 percent, and in FY08 3.775 percent.

The fiscal impacts of the bill (revenue loss) apply to the state general fund only; they were determined as follows:

1. FY06: $2.9 million. The impact is calculated by multiplying the $152 million tax base by 1.887 percent.
2. FY07: $5.0 million. The calculation is $160 million ($152 million plus 5 percent growth) times 3.146 percent.
3. FY08: $6.3 million. The calculation is $168 million ($160 million base plus 5 percent growth) times 3.775 percent.

ADMINISTRATIVE IMPLICATIONS

TRD's analysis included this administrative impact:

> High impact. System coding and troubleshooting must be performed; forms and instructions must be revised; taxpayer education materials and instruction 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 credit

TECHNICAL ISSUES

TRD'S report noted the following technical issue:

> The bill states that a credit can be taken against the "state portion" of gross receipts tax. This language should probably read: "The credit shall be applied against the State General Fund distribution of the net receipts attributable to the Gross Receipts Tax."

BT/lg:yr