FISCAL IMPACT REPORT

	ORIGINAL DATE 2/6/06		
SPONSOR Lujan, B.	**LAST UPDATED**	**HB** 603	
SHORT TITLE Clinical Laboratory Service Gross Receipts		**SB**	
		ANALYST Schardin	

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	**FY07**	**FY08**		
	(520.0)	(540.8)	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Conflicts with Senate Bill 29 and HB325.

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 603 expands the list of health practitioners who receive a gross receipts tax deduction for receipts from managed care providers, commercial health insurers and Medicare part C to include accredited clinical laboratories that are not located in a physician's office or hospital. Clinical laboratories were not included in 2004 legislation that made many other health provider receipts deductible from gross receipts tax.

The effective date of the provisions in this bill is July 1, 2006.

FISCAL IMPLICATIONS

This estimate is based on the Report 80, "Analysis of Gross Receipts by North American Industry Classification System." Total taxable gross receipts in FY07 for laboratories not located in a physician's office or a hospital is expected to be $32 million. Based on information from the federal Centers for Medicaid and Medicare Services (CMS) and from industry representatives, about 25 percent of these receipts come from managed care insurers. Therefore, the fiscal impact to the general fund is estimated to be $520 thousand in FY07 ($32 million X 25 percent eligible receipts X 6.5 percent statewide tax rate). This impact includes the direct impact of making these clinical laboratory receipts deductible, as well as the impact of holding local governments harmless from the new deductions. Local governments will not be impacted by this bill unless practitioners report their deductions incorrectly.

SIGNIFICANT ISSUES

According to DOH, recruitment and retention of health providers has been difficult in New Mexico because of the gross receipts tax. Although much of this problem was addressed by the 2004 Legislature, some healthcare practitioners in New Mexico still pay gross receipts tax, while their counterparts in most other states do not. Unlike many businesses that are subject to gross receipts tax but pass the tax on to consumers, many health providers cannot pass the tax on because managed care organizations and Medicare refuse to pay the tax.

In 2004, Governor Richardson signed an Executive Order directing specific activities to enhance New Mexico's behavioral health workforce (EO 2004-062). A concerted effort is now underway to recruit and retain behavioral health professionals, particularly in the state's rural areas. This gross receipts tax deduction could function as a recruitment and retention incentive for clinical laboratories.

ADMINISTRATIVE IMPLICATIONS

Administrative impacts to TRD can be handled with existing resources.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

House Bill 603 conflicts with House Bill 325 and Senate Bill 29, which amend the same section of statute to include counselors, therapists and social workers in the list of health practitioners eligible for the gross receipts tax deduction.

OTHER SUBSTANTIVE ISSUES

TRD noted that receipts from the health industry have historically grown more quickly than general revenue. Deducting services from high-growth sectors such as health care from the existing tax base makes it harder for tax revenue growth to keep pace with inflation.

SS/mt