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FISCAL IMPACT REPORT

ORIGINAL DATE 2/27/07

SPONSOR Gutierrez LAST UPDATED _____ HB 1107

SHORT TITLE Plastic Surgery Gross Receipts SB _____

ANALYST Schardin

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	(\$237.6)		Recurring	General Fund
	(\$158.4)		Recurring	Local Governments

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Health Policy Commission (HPC)

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 1107 creates a new gross receipts tax deduction for receipts of licensed and board-certified plastic surgeons, so long as receipts are for services provided in the scope of that certification.

The bill's provisions will be effective on July 1, 2007.

FISCAL IMPLICATIONS

Based on both New Mexico and national data, TRD estimates that about 30 practitioners will benefit from the proposed deduction. Each of these practitioners is expected to have taxable gross receipts of about \$200 thousand per year. This suggests a tax base of \$6 million will be eligible for the deduction. Taxed at a statewide rate of 6.6 percent, the proposal would reduce revenue by \$396 thousand in FY08. About 60 percent of that loss would accrue to the general fund and the remaining 40 percent to local governments.

SIGNIFICANT ISSUES

HPC notes that the medical services gross receipts tax deduction enacted in 2004 gave little benefit to plastic surgeons because it did not apply to receipts from fee-for-service transactions. Most plastic surgeon receipts are fee-for-service because plastic surgery is not covered by Medicare or managed care insurance.

HPC also notes that many surgeries performed by plastic surgeons are often performed by other types of physicians including otolaryngologists, dermatologists, ophthalmologists, gynecologists, orthopedic surgeons, oral surgeons, maxillofacial surgeons, and general surgeons. The bill would arbitrarily allow plastic surgeons to receive a deduction for some services while other physicians providing the same services would not receive a deduction.

LFC notes that while individual deductions from the gross receipts tax may have small fiscal impacts, their cumulative effect significantly narrows the gross receipts tax base. Narrowing the gross receipts tax base increases revenue volatility and requires a higher tax rate to generate the same amount of revenue.

LFC notes that receipts of health practitioners have historically grown faster than receipts of other industries. Removing receipts from high-growth sectors from the gross receipts tax base makes it more difficult for tax revenue to keep pace with inflation.

The bill will reduce local government gross receipts tax collections. Many of New Mexico's local governments are highly dependent on gross receipts tax revenue.

ADMINISTRATIVE IMPLICATIONS

The proposal will have a minimal administrative impact on TRD.

TECHNICAL ISSUES

TRD is concerned that creating a different type of gross receipts tax deduction than already exists in Sections 7-9-77.1 or 7-9-93, the proposal may create taxpayer confusion.

ALTERNATIVES

LFC suggests the bill could be targeted to receipts from medically necessary plastic surgery procedures. Perhaps language could be added so that the deduction only applies to receipts from procedures that correct things like birth defects, accidental injuries, cancer-related injuries, burns, and other medically-necessary procedures.

House Bill 688 amends Section 7-9-93, the medical services gross receipts tax deduction enacted in 2004, to allow deduction of fee-for-service receipts. That bill would allow a deduction for all fee-for-service receipts, regardless of whether a physician is a certified plastic surgeon.