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FISCAL IMPACT REPORT

ORIGINAL DATE 1/27/07

SPONSOR Feldman LAST UPDATED _____ HB _____

SHORT TITLE Indian Health Service Payment Gross Receipts SB 11

ANALYST Schardin

APPROPRIATION (dollars in thousands)

| Appropriation | | Recurring or Non-Rec | Fund Affected |
|---------------|--------|-------------------------|------------------|
| FY07 | FY08 | | |
| | (72.0) | Recurring | General Fund |

(Parenthesis () Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

| Estimated Revenue | | | Recurring or Non-Rec | Fund Affected |
|-------------------|---------|------|-------------------------|----------------------|
| FY07 | FY08 | FY09 | | |
| | (188.0) | | Recurring | General Fund |
| | (125.0) | | Recurring | Local Governments |

(Parenthesis () Indicate Revenue Decreases)

Duplicates HB 245

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

Department of Health (DOH)

Indian Affairs Department (IAD)

SUMMARY

Synopsis of Bill

Senate Bill 11 will allow receipts from payments by or on behalf of the Indian Health Service (IHS) of the United States Department of Health and Human Services for the provision of medical and other health services by medical doctors and osteopathic physicians to be deducted

from gross receipts.

The bill also eliminates outdated language regarding the phase-in of a gross receipts deductions for certain health providers and clinical laboratories that occurred from FY04 to FY06.

The effective date of these provisions will be July 1, 2007.

FISCAL IMPLICATIONS

TRD reports that a 2004 Legislative Council Service study showed total IHS spending in New Mexico for FY02 was \$228.3 million. Adjusted for growth in the national IHS budget, TRD estimates total IHS spending in New Mexico to be \$270 million in FY08. Federal survey data suggest that 22 percent of all health care spending is for physician services, suggesting payments of \$60 million per year for IHS physician services. Some of these receipts are already eligible for gross receipts tax deductions under Sections 7-9-93 and 7-9-77.1 NMSA. After subtracting receipts eligible for these other deductions, TRD estimates a remaining tax base of \$4.7 million in FY08. Based on a statewide tax rate of 6.6 percent, the bill will reduce revenue by about \$313 thousand. Sixty percent of that revenue loss will accrue to the general fund and 40 percent will accrue to local governments.

Because the gross receipts tax deduction created reduces billing by providers to the Medicaid program the state will see budget savings in the Medicaid program. New Mexico's average share of Medicaid spending is 23 percent, so Medicaid savings are expected to be 23 percent of the \$313 revenue impact explained above, or \$72 thousand.

SIGNIFICANT ISSUES

According to DOH and IAD, the gross receipts tax deduction created in this bill would make it more profitable for medical providers to serve Native American populations in New Mexico. Currently, 31 of New Mexico's 33 counties are designated as health professional shortage areas for primary care physicians.

IAD reports that Indian Health Service and tribal health care programs currently face difficulties in recruiting health care practitioners due to below-average salaries.

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 administrative impact on TRD will be minimal.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Senate Bill 11 duplicates House Bill 245.

TECHNICAL ISSUES

IAD recommends adding a definition of the term “covered beneficiaries.” A suggested definition may be found in the federal Indian Health Care Improvement Act, Public Law 94-437, which defines the term “Indian.”

SS/mt