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

ORIGINAL DATE 1/26/07
SPONSOR Papen **LAST UPDATED** 2/13/07 **HB**

SHORT TITLE Hospital Gross Receipts Credit **SB** 326/aSCORC

ANALYST Schardin

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	**FY08**	**FY09**		
	($5,034.9)	($11,120.8)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates HB 524
Relates to HB 23 and SB 161

SOURCES OF INFORMATION
LFC Files

Responses Received From
Department of Health (DOH)
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of SCORC Amendment

The Senate Corporations and Transportation Committee amendment to Senate Bill 326 clarifies language in Section 1 based on a suggestion made by TRD. The amendment does not affect the bill's fiscal impact.

Synopsis of Original Bill

Senate Bill 326 provides a gross receipts tax credit for hospitals licensed by the Department of Health (for-profit hospitals). The credit equals one third of the state gross receipts tax rate in FY08, two-thirds of state gross receipts tax in FY09, and the entire state gross receipts tax rate in FY10 and beyond.

The bill will be applicable to tax reporting periods after July 1, 2007.

FISCAL IMPLICATIONS

All of the state's for-profit hospitals are currently located within municipal areas, where the state tax rate is 3.775 percent. Therefore, the credit will eliminate the state gross receipts tax paid by for-profit hospitals once it is fully phased in. The bill does not apply to local option gross receipts taxes, so for-profit hospitals will still pay a little over 1 percent local gross receipts tax.

A New Mexico Hospital Association survey on hospital gross receipts indicates that for-profit hospitals paid gross receipts tax of $16.5 million in FY05 and $21.4 million in FY06, of which 60 percent went to the state and 40 percent went to local governments. Assuming that the impacted tax base will grow by 10 percent each year, the credit will reduce general fund revenue by about $5,034.9 thousand in FY08, $11,120.8 thousand in FY09, and $18,252.7 thousand once it is fully phased-in in FY10.

SIGNIFICANT ISSUES

Under current law, for-profit hospitals qualify for a 50 gross receipts tax deduction (Section 7-9-73.1 NMSA 1978). The bill effectively reduces the gross receipts tax paid by for-profit hospitals from 50 percent of the normal state rate to nothing once it is fully phased-in in FY10.

About half of New Mexico's hospitals are for-profit. For-profit hospitals compete with non-profit hospitals in New Mexico and hospitals in neighboring states that do not pay gross receipts tax. The New Mexico Hospital Association reports that this bill will remove a competitive disadvantage against New Mexico's for-profit hospitals.

According to the NMHA, rural hospitals have no choice but to absorb the costs of uncompensated care for patients who cannot pay. In addition, it is difficult for for-profit hospitals to pass gross receipts tax on to consumers because Medicare will not reimburse for it.

DOH believes removing the gross receipts tax from for-profit hospitals will make them more profitable and could allow them to provide enhanced services in New Mexico.

The proportion of for-profit hospitals has increased over last few years because for-profit hospitals have more access to capital.

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.

ADMINISTRATIVE IMPLICATIONS

TRD reports they will experience moderate administration impacts due to this bill. TRD will need to revise forms, educate taxpayers, train personnel, modify audit processes, and manually process the credit.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Senate Bill 326 duplicates House Bill 524.

Senate Bill 326 relates to House Bill 23 and Senate Bill 161. These two bills are the same as

Senate Bill 326 except they phase in the new gross receipts tax deduction in two years instead of three.

TECHNICAL ISSUES

TRD noted that in the original bill the purpose of Section 1 of the bill was unclear. The Senate Corporations and Transportation Committee amendment to the bill addressed this concern.

TECHNICAL ISSUES

TRD notes the purpose of Section 1 of the bill is unclear. It appears possible that the language was intended to clarify that TRD should reduce the distributions to the general fund to prevent revenue impacts to local governments. If that is the intention of the sponsors, TRD recommends amending Section 1 to state "Distributions from the tax administration suspense fund *to the state general fund* of *net* revenue attributable to the gross receipts tax ..."

SS/csd:nt