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FISCAL IMPACT REPORT

ORIGINAL DATE 2/16/07

SPONSOR Leavell LAST UPDATED _____ HB _____

SHORT TITLE Health Care Practitioner Gross Receipts SB 664

ANALYST Schardin

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY07	FY08		
	(\$1,173.7)	Recurring	General Fund
	(\$2,910.1)	Recurring	Federal Funds

(Parenthesis () Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	(\$13,612.5)	(\$29,947.5)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

Department of Health (DOH)

SUMMARY

Synopsis of Bill

Senate Bill 664 provides a phased-in gross receipts tax deduction for receipts from certain health practitioner services that are not otherwise deductible pursuant to Section 7-9-93 NMSA 1978 or any other provision of the gross receipts and compensating tax act. Under current law, that deduction in Section 7-9-93 NMSA 1978 applies to receipts of health care practitioners from payments by a managed health care provider or health care insurer for commercial contract services or Medicare Part C. Receipts from fee-for-service payments are not eligible for the deduction in Section 7-9-93 NMSA 1978.

The deduction contained in this bill will be phased-in as follows: in FY08, 25 percent of receipts will be deductible, in FY09 50 percent of receipts will be deductible, in FY10 75 percent of receipts will be deductible, and in FY11 and beyond all receipts will be deductible.

The bill also holds local governments harmless from the gross receipts tax revenue loss that will result from this bill.

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

FISCAL IMPLICATIONS

TRD reports that taxable gross receipts of all physicians eligible for gross receipts tax deduction in this bill will be about \$825 million in FY08 and are expected to grow by 10 percent per year. With a statewide average tax rate of 6.6 percent and a 25 percent deduction, the bill will reduce gross receipts tax collections by about \$13,612.5 thousand in FY08. Because the bill holds local governments harmless from the deduction, the entire revenue impact will be to the general fund.

TRD estimates that about 30 percent of the \$13,612.5 thousand in gross receipts tax reduction, or \$4,083.8 thousand, will be attributable to receipts paid by Medicaid. Therefore, the bill will allow Medicaid appropriations to be reduced by \$4,083.8 thousand in FY08. It is estimated that 71.26 percent of that appropriation reduction will be from federal funds and the remaining 28.74 percent will be from the general fund. The fiscal impacts for the bill over the four-year phase-in period are summarized in the table below.

Summary of Fiscal Impacts for Senate Bill 644 (\$ in thousands)

Appropriation Impacts	FY08	FY09	FY10	FY11
General Fund	(1,173.7)	(2,582.1)	(4,260.4)	(6,248.6)
Federal Funds	(2,910.1)	(6,402.2)	(10,563.6)	(15,493.3)
Revenue Impacts				
General Fund	(13,612.5)	(29,947.5)	(49,413.4)	(72,473.0)

SIGNIFICANT ISSUES

The bill defines health care practitioners that are eligible to receive the new deduction in the same way health care practitioners are defined in Section 7-9-93 NMSA 1978. Practitioners include chiropractors, dentists, dental hygienists, doctors or oriental medicine, optometrists, osteopaths, physical therapists, physicians and physician assistants, podiatrists, psychologists, midwives, nurses, occupational therapists, respiratory care practitioners, speech-language pathologists, audiologists, mental health counselors, marriage and family therapists, art therapists and social workers.

The provision to hold local governments harmless from the revenue loss in this bill is similar to the provisions enacted in 2004 as part of the food and medical services deductions. The fiscal impact to the state general fund of these hold harmless provisions grows each time a county or municipality imposes a higher local option gross receipts tax (See Alternatives).

ADMINISTRATIVE IMPLICATIONS

The bill is expected to cause moderate administrative impacts for TRD. The provision to hold local governments harmless to the new deduction has been somewhat difficult for TRD to administer.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Senate Bill 664 conflicts with House Bill 688, which provides a deduction for the same health services but does so by amending a different section of statute (7-9-93 NMSA 1978). Additionally, the deductions provided in House Bill 988 are not phased in over four years. Instead, 100 percent of health services receipts are deductible starting in FY08.

Senate Bill 664 conflicts with Senate Bill 1182, which also amends Section 7-1-6.46 and 7-1-6.47 NMSA 1978 to fix local option hold harmless payments for the food and medical services deductions enacted in 2004 at local option tax rates as of January 1, 2007.

ALTERNATIVES

LFC staff suggests incorporating the amendments included in Senate Bill 1182, which would prevent the provisions that hold local governments harmless to revenue losses from growing larger each time a higher local option gross receipts tax is imposed.

SS/nt