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

SPONSOR Komadina — **ORIGINAL DATE** 1/23/08 — **LAST UPDATED** 2/09/08 — **HB**

SHORT TITLE Health Care Practitioner Gross Receipts — **SB** 158

ANALYST Schardin

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY08	FY09		
	(3,821.1)	Recurring	General Fund
	(8,446.6)	Recurring	Federal Funds

(Parenthesis ( ) Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY08	FY09	FY10		
	(32,258.0)	(35,483.8)	Recurring	General Fund
	(28,050.0)	(30,855.0)	Recurring	Local Governments

(Parenthesis ( ) Indicate Revenue Decreases)

Relates to SB342

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY08	FY09	FY10	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		45		45	Nonrecurring	General Fund
		30	30	60	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

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

SUMMARY

Synopsis of Bill

Senate Bill 158 provides a 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, the 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 effective date of these provisions will be July 1, 2008.

FISCAL IMPLICATIONS

TRD indicates that taxable gross receipts of all physicians eligible for the proposed gross receipts tax deduction be about $854.5 million in FY09. It is assumed that nearly all of these services will be provided in municipalities, where the average tax rate is 7.06 percent. Multiplying the base by 7.06 percent yields a revenue impact of $60.3 million in FY09. About 54 percent of that impact, or $32.3 million, will come from the general fund. The remaining 46 percent, or $28.1 million, will come from local governments. These receipts are expected to grow by 10 percent per year.

About 22 percent of the $60.3 million gross receipts tax reduction, or $13.3 million, will be attributable to receipts paid by Medicaid. Therefore, the bill will allow Medicaid appropriations to be reduced by $13.3 million in FY09. It is estimated that 71.2 percent of that appropriation reduction will be from federal funds and the remaining 28.8 percent will be from the general fund. The state share of this appropriation reduction is expected to grow slightly over time as the state's Medicaid match rate falls. The fiscal impacts for the bill over the next four fiscal years are summarized in the table below.

Summary of Fiscal Impacts for Senate Bill 158 (dollars in thousands)

Appropriation Impacts	**FY09**	**FY10**	**FY11**	**FY12**
General Fund	(3,821.1)	(4,276.2)	(4,784.1)	(5,350.8)
Federal Funds	(9,446.6)	(10,318.3)	(11,269.9)	(12,308.6)
Revenue Impacts				
General Fund	(32,258.0)	(35,483.8)	(39,032.2)	(42,935.4)
Local Governments	(28,050.0)	(30,855.0)	(33,940.5)	(37,334.6)

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, the medical services deduction enacted in 2004. 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.

ADMINISTRATIVE IMPLICATIONS

The bill is expected to cause moderate to high administrative impacts for TRD. The bill's requirement that the proposed deduction be separately stated on tax returns will require a new gross receipts filing special code, additional lines on CRS forms, programming changes to the Gentax system, additional processing resources, revision of instructions and publications, taxpayer education, and new audit procedures. TRD estimates the revenue processing division would require 2 FTEs. One FTE would cost $45 thousand nonrecurring in FY09 and would handle taxpayer errors in the first year. A recurring FTE costing $30 thousand would process the deduction on an ongoing basis.

RELATIONSHIP

Senate Bill 158 relates to Senate Bill 342, which expands the medical services deduction enacted in 2004 to include receipts from co-payments or deductibles paid by an insured person to a health practitioner.

TECHNICAL ISSUES

TRD notes that on page two, lines one and two, the proposed deduction would be stated separately on tax returns. Similar bills introduced inn recent years required this separate reporting because TRD needed to calculate a hold harmless distribution for local governments. Because there is no hold harmless provision associated with this deduction, requiring the deduction to be separately stated may be overly burdensome on TRD and taxpayers.

SS/bb