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

ORIGINAL DATE 01/24/14
SPONSOR Taylor **LAST UPDATED** **HB** 41

SHORT TITLE Federal EEOIC Program Gross Receipts **SB**

ANALYST van Moorsel

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY14	**FY15**	**FY16**	**FY17**	**FY18**		
0.0	($1,380.0)	($1,440.0)	($1,500.0)	($1,560.0)	Recurring	General Fund
0.0	($920.0)	($960.0)	($1,000.0)	($1,040.0)	Recurring	Local Governments
0.0	**($2,300)**	**($2,400.0)**	**($2,500.0)**	**($2,600.0)**	**Recurring**	**Total**

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Bill 41 expands the list of deductions from GRT of receipts from certain medical and health care services to include receipts from payments from a compensation program established by the federal Energy Employees Occupational Illness Compensation (EEOIC) Program Act of 2000 for provision of medical and other health services by medical doctors and osteopathic physicians to covered beneficiaries.

The bill requires a taxpayer allowed such a deduction report the amount of the deduction separately in a manner required by Taxation and Revenue Department (TRD). TRD is required to compile an annual report on the deductions in this section of law, including the number of taxpayers receiving each deduction, the aggregate amount of deductions approved and any other information necessary to evaluate the effectiveness of the deductions. Beginning in 2019 and every five years thereafter, TRD must compile and present the annual reports to the Revenue Stabilization and Tax Policy Committee and the LFC.

The effective date of this bill is July 1, 2014. There is no sunset date. The LFC recommends adding a sunset date.

FISCAL IMPLICATIONS

TRD reports the EEOIC program was established to provide compensation and medical benefits to covered employees and where applicable, survivors of employees, who have or had illnesses associated with exposure to ionizing radiation, beryllium, silica, and other toxic substances, while working at nuclear and atomic weapons development, production and testing facilities for the Department of Energy, its contractors and subcontractors, and its predecessor agencies.

TRD notes no agency data exists to estimate the impact of this bill. Between January 2001 and December 2013, the United States Department of Labor reports that the $414.1 million in medical payments have been made for claimants living in New Mexico from the Federal Energy Employees Occupational Illness Compensation Program Act, an average of about $31.8 million per year. At a statewide average gross receipts tax rate of 6.8 percent, this amounts to an average of about $2.2 million in gross receipts tax revenue that would be foregone. The impact is assumed to grow at the rate of growth of healthcare spending, as forecast by Global Insight, TRD's and LFC's contracted forecasting service.

This bill may be counter to the LFC tax policy principle of adequacy, efficiency and equity. Due to the increasing cost of tax expenditures revenues may be insufficient to cover growing recurring appropriations.

Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for a tax expenditure may be ambiguous, further complicating the initial cost estimate of the expenditure's fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures.

SIGNIFICANT ISSUES

TRD notes current law (7-9-77.1 NMSA 1978) allows a deduction for receipts from services provided by over 25 different categories of health care providers (nurses, MD's, pharmacists, etc.). However, HB 41 provides for a new deduction for receipts from the EEOICP program, but only if the services are provided by two types of providers: M.D,'s and osteopathic physicians. Receipts from providers who are not M.D.'s or osteopaths would not be eligible for the deduction for payments from the EEOICP program. Although the language of the amendment is clear, this differentiation nevertheless could be confusing to providers.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is met with the bill's requirement to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the deduction and other information to determine whether the deduction is meeting its purpose.

ADMINISTRATIVE IMPLICATIONS

HB 41 requires the deduction to be separately stated from other deductions. As the TRD's CRS filing system is currently implemented, the deduction could be tracked by using special rate and/or location codes, but the added complexity also decreases the likelihood of correct filing by taxpayers. Historically, taxpayer compliance with separately-stated deductions has been very low. Low compliance rates in taxpayer-compliance with reporting requirements will significantly reduce the value of any reports concerning this deduction issued by TRD.

Forms and instructions would need to be modified at a minimal cost

TECHNICAL ISSUES

This bill does not contain a sunset date. The LFC recommends adding a sunset date.

Does the bill meet the Legislative Finance Committee tax policy principles?

1. **Adequacy**: Revenue should be adequate to fund needed government services.
2. **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity**: Different taxpayers should be treated fairly.
4. **Simplicity**: Collection should be simple and easily understood.
5. **Accountability**: Preferences should be easy to monitor and evaluate

PvM/jl