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

ORIGINAL DATE 01/30/14
SPONSOR Gonzales & Cisneros **LAST UPDATED** **HB** 118

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

ANALYST van Moorsel

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY14	**FY15**	**FY16**	**FY17**	**FY18**		
	(15,200.0-23,800.0)	(15,800.0-24,700.0)	(16,400.0-25,600.0)	(16,900.0-26,400.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
Department of Finance and Administration (DFA)
Regulation and Licensing Department (RLD)
Office of the Superintendent of Insurance (OSI)
Department of Health (DOH)

SUMMARY

Synopsis of Bill

House Bill 118 amends the Gross Receipts and Compensating Tax Act to expand the deductions for health care practitioner services to include receipts from payments by an individual enrolled in a plan with a managed care provider or health care insurer. Qualifying payments must be to a health care practitioner for commercial contract services. The services must be within the scope of practice of the person providing the service.

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

FISCAL IMPLICATIONS

The Taxation and Revenue Department (TRD) reports it does not have data to directly estimate the impact of the proposed deduction; however, it combines external data sources to generate the revenue estimate.

The Health Care Cost Institute (HCCI) estimates in their *2012 Health Care Cost and Utilization Report* that on average, $768 was spent on out of pocket expenditures on copays, deductibles and coinsurance per insured person nation-wide, out of total health care expenditures of $4,701 per insured. This represents about 16.3 percent of total expenditures per insured person. While this is a national estimate and New Mexico may differ significantly from the national average, applying a similar percentage to New Mexico's existing deduction would amount to a deduction of about $210 million in gross receipts, and foregone revenue of about $14 million based on an average tax rate of 6.8 percent, in FY13 terms. The Department of Finance and Administration (DFA) estimates deductions in FY13 terms of $315 million, representing $22.8 million in foregone GRT revenue in that year. This deduction is forecast to grow at the IHS Global Insight[1] forecast growth rate of real consumer spending on health care.

As the deduction under Section 7-9-93 NMSA 1978 increases, the hold harmless distributions to counties and municipalities also increase. This would offset the negative impact to local governments but increase the negative impact to the General Fund by about $5.6 million.

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

This bill allows the same deduction on payments made by the actual consumer that is already allowed when the payment is made by the managed health care provider and the insurer.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is <u>not</u> met since TRD is <u>not</u> required in the bill 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.

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/ds

[1] IHS Global Insight is the economic forecasting service used by TRD and the LFC.