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### FISCAL IMPACT REPORT

SPONSOR:	Macko	DATE TYPED:	02/09/00	HB	443
SHORT TITLE:	Tax Deduction for Certain Health Services				SB
					ANALYST: Eaton

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY00	FY01			
	\$ (51,500.0)		Recurring	General Fund
	\$ (34,400.0)		Recurring	Local Governments

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

Taxation and Revenue Department (TRD)

Department of Finance and Administration (DFA)

## **SUMMARY**

### Synopsis of Bill

This bill provides a gross receipts tax deduction for:

- Hospital, nursing, and outpatient facilities licensed by the Department of Health;
- All "health services";
- Laboratory services provided on referral from MDs, physician's assistants, dentists, dental assistants, dental hygienists, or optometrists;
- Prosthetic devices.

## **FISCAL IMPLICATIONS**

TRD reports the estimated impact of this bill is \$51.5 million to the general fund (recurring) and \$34.4 million to local governments.

DFA reports \$45.5 million in FY 1999 premiums tax attributable to health and casualty insurance. In 1991, life insurance accounted for roughly 76% of all spending on health and casualty insurance by New Mexicans. All insurance premiums tax on life and health insurance appears to go to the state general fund. Fiscal impact of gross receipts deductibility assumes that all healthcare and hospital services are deductible (please see "Technical Issues").

## **ADMINISTRATIVE IMPLICATIONS**

Minimal.

## **TECHNICAL ISSUES**

The definition of "licensed practitioner" includes dental assistants but excludes osteopaths, podiatrists, nurse practitioners, and physical therapists, among others.

Broad definitions of "health service" and "health facility" would allow most practitioners who operate out of a Department of Health licensed facility but who are not included under the definition of "licensed practitioner," to qualify for the deduction.

## **OTHER SUBSTANTIVE ISSUES**

TRD reports the following:

- The definition of "health service" would include elective and cosmetic surgeries and procedures.
- Only laboratory services provided on referral from a "licensed practitioner" are deductible. Given the limited definition of "licensed practitioner," deductibility of laboratory services would be difficult to establish and verify.
- Prosthetic devices are currently deductible if they are purchased by certain medical professionals who present NTTCs. This bill extends the deduction to all sales of prosthetics. What a prosthetic device is, however, is undefined.
- Anything that reduces the cost of providing healthcare has the potential to lower healthcare prices or at least slow their rate of increase. The tax savings contained in this proposal would have to be passed through hospitals, practitioners, and insurance companies, and thus substantially reduced, before reaching most New Mexicans.
- Non-profit hospitals are exempt from gross receipts tax and governmental gross receipts tax. Some practitioners can deduct a portion of Medicare receipts. The provisions of this bill would decrease the economic distortions that result from unequal tax treatment of comparable entities. Of course, the playing field could also be leveled by subjecting all healthcare facilities and providers to the gross receipts tax.
- Healthcare is a significant component of the tax base. The fiscal impact of this bill will be especially profound in certain small municipalities that rely heavily on gross receipts revenue generated by for-profit hospitals. Eliminating large portions of the gross receipts tax base may compromise local government bonding capacity.
- The gross receipts tax is an excise tax levied for the privilege of doing business in the state. The person engaging in business bears the burden of the tax; however, in most cases, the tax is passed on to the patient or customer by separate billing on the invoice. In other instances, prices are adjusted to cover the burden of the tax. Total gross receipts are a reasonable measure of "fair share" of taxes.

JBE/gm