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

SPONSOR: Jennings DATE TYPED: 2/6/03 HB

SHORT TITLE: Health Practitioners Gross Receipts Deduction SB 35

ANALYST: Smith

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	**FY04**			
	(18,200.0)	(19,900.0)	Recurring	**Gross Receipts Tax Deduction:** General Fund
	(13,700.0)	(14,900.0)	Recurring	Municipalities
	(2,200.0)	(2,400.0)	Recurring	Counties
	(34,100.0)	(37,200.0)		Total
				Distribution Increase:
	(4,900.0)	(5,300.0)	Recurring	General Fund
	4,900.0	5,300.0	Recurring	Municipalities
	(23,100.0)	(25,200.0)	Recurring	**Net General Fund**
	(8,800.0)	(9,600.0)	Recurring	**Net Municipalities**
	(2,200.0)	(2,400.0)	Recurring	**Net Counties**
	(34,100.0)	(37,200.0)		**Total**

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION

Responses Received From

TRD

SUMMARY

Synopsis of Bill

Senate Bill 35 provides a gross receipts tax deduction for receipts of licensed health practitioners from services performed pursuant to a contract with managed health care providers. The deduction is limited to the "commercial portion of contract services", or services performed other than for Medicare and Medicaid patients. The state-shared gross receipts distribution to municipalities is increased from the current 1.225% to 1.24%. The increase is intended to generate additional revenues for municipalities in order to offset the new gross receipts tax deduction.

FISCAL IMPLICATIONS

TRD reports that the fiscal impact was derived from the 1997 Census of Healthcare Services in New Mexico, the Department's "Analysis of Gross Receipts by Standard Industrial Classification" (Report-80), "Combined Reporting System-Warrant Distribution Summary" (Report 490B), state Medicare and Medicaid expenditure data from the Centers for Medicare and Medicaid Services (CMMS), and financial statements from selected managed care providers filed with the Public Regulation Commission. TRD makes the following observations:

- First, the increase in the state-shared portion of gross receipts tax from 1.225% to 1.24% is not sufficient to completely offset removing the contracted services from the gross receipts tax base. In fact, municipalities are collectively compensated for less than half of the effect of removing contracted services from the base. The state-shared rate for fiscal year 2004 would need to be close to 1.28% in order to approximate revenue neutrality for the municipalities.

- Additionally, taxable gross receipts attributable to the health-care industry are expected to grow at a higher rate than the overall gross receipts base. As a result, although the increase in rate will partially compensate municipalities in the short-term, the revenue gap will widen over time. The gross receipts revenue derived from a relatively slow-growing base will not keep pace with the foregone revenue.

- Finally, most receipts from health care services are concentrated in larger municipalities. However, cities in which physicians' receipts are a greater share of total receipts than the municipal average will suffer a proportionally greater loss of revenue because the base on which the 1.24% share is calculated would be reduced by a greater percentage than for average municipalities. In this regard, provisions contained in this bill result in net transfers from some cities (primarily Albuquerque and Las Cruces) to other municipalities.

- The increase in the state-shared distribution to municipalities is not accompanied by a corresponding increase in the overall state gross receipts tax rate, thus municipal compensation is financed with foregone state general fund revenue. Further, county governments will have a smaller tax base on which to generate revenue, and there are no provisions to compensate counties contained in the proposal.

OTHER SUBSTANTIVE ISSUES

TRD makes notes the following tax policy issues:

- Targeting preferential tax treatment to specific industries is not necessarily good tax policy. It raises questions of equity and increases the pressure to extend relief to others by setting a precedent that they may use to justify similar tax breaks.

- This bill proposes a tax deduction for a “merit good”. However, the Gross Receipts and Compensating Tax Act taxes many otherwise meritorious goods and services, and exempts other meritorious goods and services. The Gross Receipts and Compensating Tax Act treats some medical services as meritorious, and certainly provides extensive tax relief for most charitable organizations. The state has traditionally had a very broad transaction tax base with a fairly low tax rate. Narrowing the base eventually leads to increasing rates in order to maintain revenue, or reduced public services.

- This continues a trend over the last decade of removing medical and hospital services from the gross receipts base. A broad base helps to limit the tax rate, thus cutting the base by an industry this large may shift a noticeable amount of tax burden to remaining taxpayers.

- In addition to adding an element of stability to the gross receipts tax, receipts of health practitioners grow more quickly than general revenue. Exempting this sector reduces the “elasticity” of the gross receipts tax over time.

SS/yr/njw