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## FISCAL IMPACT REPORT

ORIGINAL DATE 1/30/06

SPONSOR Varela LAST UPDATED \_\_\_\_\_ HB 325

SHORT TITLE COUNSELOR & THERAPIST PAYMENT GROSS RECEIPTS SB \_\_\_\_\_

ANALYST Schardin

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
	(268.0)	(282.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates SB 29.

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Human Services Department (HSD)

Taxation and Revenue Department (TRD)

Department of Health (DOH)

### SUMMARY

#### Synopsis of Bill

House bill 325 expands the list of health practitioners who receive a gross receipts tax deduction for receipts from managed care providers, commercial health insurers and Medicare part C. The bill adds mental health counselors, marriage and family therapists, and art therapists who have obtained a masters degree or doctorate, as well as licensed social workers who have obtained a master's degree in social work and have practices two years of postgraduate social work under supervision. These types of providers were not included in 2004 legislation that made many other health provider receipts deductible from gross receipts tax.

The effective date of the provisions in this bill is July 1, 2006.

### FISCAL IMPLICATIONS

The group Resources for Change reports that New Mexico licenses 1,200 master's level social workers, but only about 400 of these social workers are independent practitioners who accept

managed care reimbursements. New Mexico licenses 1,727 masters-level counselors, but only about 400 of these accept managed care reimbursements. Therefore, the deduction would apply to about 750-800 social workers and counselors.

TRD estimates the fiscal impact to the general fund at \$268 thousand in FY07 and \$282 thousand in FY08. This impact includes the direct impact of making these practitioner receipts deductible, as well as the impact of holding local governments harmless from the new deductions. Local governments will not be impacted by this bill unless practitioners report their deductions incorrectly.

TRD calculated this impact based on aggregate industry trends, which suggest that approximately half of these providers' receipts come from managed care insurers, and thus will be eligible for the new deduction.

### **SIGNIFICANT ISSUES**

According to DOH, recruitment and retention of health providers has been difficult in New Mexico because of the gross receipts tax. Although much of this problem was addressed by the 2004 Legislature, some healthcare practitioners in New Mexico still pay gross receipts tax, while their counterparts in most other states do not. Unlike many businesses that are subject to gross receipts tax but pass the tax on to consumers, many health providers cannot pass the tax on because managed care organizations and Medicare refuse to pay the tax.

In 2004, Governor Richardson signed an Executive Order directing specific activities to enhance New Mexico's behavioral health workforce (EO 2004-062). A concerted effort is now underway to recruit and retain behavioral health professionals, particularly in the state's rural areas. This gross receipts tax deduction could function as a recruitment and retention incentive for counselors, therapists and social workers.

### **ADMINISTRATIVE IMPLICATIONS**

According to TRD, House bill 325 would require system coding and troubleshooting; form and instruction revisions; taxpayer education and seminar material and instruction preparation; and department personnel training. These changes can be implemented with existing resources.

### **OTHER SUBSTANTIVE ISSUES**

TRD noted that receipts of health practitioners have historically grown more quickly than general revenue. Deducting services from high-growth sectors such as health care from the existing tax base makes it harder for tax revenue growth to keep pace with inflation.

SS/yr