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

ORIGINAL DATE 2/1/06
SPONSOR Smith **LAST UPDATED** **HB**

SHORT TITLE Health Insurer Fee-for-Service Gross Receipts **SB** 205

ANALYST Schardin

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
	($715.0)	($1,510.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Conflicts with SB29.

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 205 expands the gross receipts tax deduction for medical services passed by the 2004 Legislature (Section 7-9-93 NMSA 1978) to include fee-for-service payments to health providers from managed care providers, health insurers for commercial contract services, or Medicare part C services.

The bill also states that the medical service deductions in Section 7-9-93 NMSA 1978 must be stated separately on tax forms.

This new fee-for-service deduction will be phased in over five years. The portion of deductible receipts will be 20 percent in CY2007, 40 percent in CY2008, 60 percent in CY2009, 80 percent in CY2010, and 100 percent in CY2010 and after (see Technical Issues).

The effective date of these provisions will be January 1, 2006.

FISCAL IMPLICATIONS

TRD reports that a 2002 survey by the UNM Institute for Public Policy found that about 2.5 percent of New Mexico respondents belonged to fee-for-service insurance plans.

The distributions under Sections 7-1-6.46 and 7-1-6.47 NMSA 1978 would hold local governments harmless from revenue losses, so long as health practitioners accurately report their new deductions.

Total revenue loss to the general fund is expected to be $715 thousand in FY07 (six month impact), $1,510 thousand in FY08, and rise to $4.2 million per year once the deductions are fully phased in. This revenue loss is partially due to the actual deductions, and partially due to the local government hold-harmless provisions in Sections 7-1-6.46 and 7-1-6.47 NMSA 1978.

TRD's fiscal impact analysis does not include fee-for-service receipts from Medicaid because Medicaid does not qualify as a "health care insurer" as defined in Section 7-9-93 NMSA 1978.

SIGNIFICANT ISSUES

The term fee-for-service refers to a healthcare billing system in which particular services are paid for individually rather than provided as part of a comprehensive plan.

ADMINISTRATIVE IMPLICATIONS

TRD reports significant administrative implications associated with this bill. The bill states that deductions in Section 7-9-93 will be stated separately on tax forms. The bill would create a second deduction in Section 7-9-93, but both of these deductions would be combined on the tax form. Combining these two deductions will make auditing taxpayer compliance very difficult.

In addition, TRD will have to recode systems, revise forms and instructions each year the deduction is phased in, retrain personnel, implement a new special rate code, and increase audit efforts.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

The bill conflicts with SB29, which also amends Section 7-9-93. SB29 adds licensed counselors, therapists and social workers to the gross receipts tax deduction contained in that section.

TECHNICAL ISSUES

The bill states that in FY2010 80 percent of receipts will be eligible for the deduction, but also states that all receipts will be eligible on or after January 1, 2010. It is unclear if 80 or 100 percent will be eligible in CY2010.

OTHER SUBSTANTIVE ISSUES

TRD notes 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/mt