

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (legis.state.nm.us). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

## FISCAL IMPACT REPORT

ORIGINAL DATE 01/28/10  
 LAST UPDATED 02/10/10    **HB** 170/aHTRC

**SPONSOR** Begaye

**SHORT TITLE** Hospital Gross Receipts as Matching Funds    **SB** \_\_\_\_\_

**ANALYST** Gutierrez

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY10	FY11	FY12		
	\$0.0 - \$70,120.0	\$0.0 - \$73,977.0	Recurring	Counties*
	\$0.0 - (\$1,567.0)	\$0.0 - (\$1,654.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

\*Except Bernalillo County

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Taxation and Revenue Department (TRD)

### SUMMARY

#### Synopsis of HTRC Amendment

The House Taxation and Revenue Committee amendment to House Bill 170 changes the language to allow multiple hospitals within a county to receive the matching funds whereas the previous language stated “a hospital” it now states “hospitals”.

#### Synopsis of Original Bill

House Bill 170 amends the local hospital gross receipts tax act to allow any county other than a class A county having a population of more than three hundred thousand (excludes Bernalillo County) to impose a rate not to exceed ¼ percent, which may be imposed in increments of 1/8 percent. The revenue from this imposed local hospital gross receipts tax will be dedicated as matching funds for state or federal programs benefiting a hospital that is located in the county and is designated as a sole community provider by the Centers for Medicare and Medicaid Services or benefiting patient care at the hospital.

The effective date of the bill’s provisions is July 1, 2010.

**FISCAL IMPLICATIONS**

The fiscal impact of this bill depends on if and when eligible counties choose to impose the local hospital gross receipts tax. To illustrate the potential fiscal impacts of the bill, the table below shows the amount of revenue that could be generated by each eligible county if the newly allowed 1/4 percent local hospital gross receipts tax is fully imposed in FY11. About \$70 million could be generated by counties if all eligible counties fully impose the tax in FY11. This analysis uses the taxable gross receipts estimate from the December 2009 consensus forecast.

The table below also indicates the potential general fund revenue loss that could occur if all eligible counties fully impose this tax in FY11. The food and medical gross receipts tax deductions enacted in 2004 include “hold harmless” provisions to protect local governments from associated revenue losses. In 2007, legislation froze the tax rate at which some local governments are held harmless from the food and medical deductions. However, in smaller cities, the general fund hold harmless distribution grows larger when higher local option taxes are imposed. The table below shows the general fund revenue loss could be about \$1.6 million in FY11 if all eligible counties choose to fully impose the tax.

**Illustration of Potential Revenue from Additional County Local Option Increments -  
Fiscal Year 2011**

County	Potential Revenue: 1/4%	Potential General Fund Loss Due to Hold
	County Local Hospital GRT	Harmless Distribution: 1/4% County Local Hospital GRT
Bernalillo	Excluded	Excluded
Catron	73,475	(3,612)
Chaves	2,770,364	Hold Harmless Rate Frozen
Cibola	684,523	(80,447)
Colfax	716,821	(41,370)
Curry	1,795,112	(236,456)
De Baca	53,450	(5,966)
Dona Ana	7,656,262	Hold Harmless Rate Frozen
Eddy	5,892,587	Hold Harmless Rate Frozen
Grant	1,120,058	(150,066)
Guadalupe	242,491	(20,019)
Harding	162,114	(1,153)
Hidalgo	244,644	(10,087)
Lea	7,572,117	Hold Harmless Rate Frozen
Lincoln	1,104,344	(104,274)
Los Alamos	4,165,368	(136,527)
Luna	817,185	(94,245)
McKinley	2,773,440	Hold Harmless Rate Frozen
Mora	73,499	(6,851)
Otero	2,012,104	Hold Harmless Rate Frozen
Quay	446,763	(34,019)
Rio Arriba	1,372,069	(136,017)
Roosevelt	559,834	(65,889)
San Juan	9,998,887	Hold Harmless Rate Frozen
San Miguel	800,957	(110,627)
Sandoval	3,767,231	Hold Harmless Rate Frozen
Santa Fe	8,589,735	Hold Harmless Rate Frozen
Sierra	366,898	(42,409)
Socorro	488,204	(59,256)
Taos	1,390,111	(190,713)
Torrance	485,277	(22,805)
Union	343,297	(15,035)
Valencia	1,580,805	Hold Harmless Rate Frozen
<b>Total</b>	<b>\$70,120,028</b>	<b>(\$1,567,844)</b>

Source: Reports 500 and Reports 80 from TRD

## SIGNIFICANT ISSUES

In addition to the current state gross receipts tax rate of 5 percent, New Mexico's municipalities and counties are authorized to impose over 4 percent of local option gross receipts taxes (that figure excludes several additional local option taxes that have been authorized for selected local governments). Due to increasing imposition of local option taxes, the statewide gross receipts tax rate is increasing steadily. On average, a local option gross receipts tax of about 2.07 percent was imposed by local governments statewide in FY09. Combined with the state gross receipts tax of 5 percent, the weighted average statewide tax rate was therefore 7.07 percent.

## ADMINISTRATIVE IMPLICATIONS

This bill would have a minimal impact on TRD.

## OTHER SUBSTANTIVE ISSUES

New Mexico's gross receipts tax (GRT) is imposed on many business-to-business transactions. This adds to overhead, putting New Mexico companies at a competitive disadvantage with out-of-state businesses. It also disadvantages small versus large businesses. These problems are exacerbated by higher tax rates.

BLG/mt:svb

***The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:***

- 1. Adequacy:*** revenue should be adequate to fund government services.
- 2. Efficiency:*** tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.
- 3. Equity:*** taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.
- 4. Simplicity:*** taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.
- 5. Accountability/Transparency:*** Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.

***More information about the LFC tax policy principles will soon be available on the LFC website at [www.nmlegis.gov/lcs/lfc](http://www.nmlegis.gov/lcs/lfc)***