BILL ANALYSIS AND FISCAL IMPACT REPORT
Taxation and Revenue Department

January 24, 2024

Bill: HB-93 **Sponsor:** Representative Kathleen Cates

Short Title: Medicaid Home Modification Gross Receipts

Description: This bill provides that receipts of an eligible provider for environmental modification services reimbursed by the medical assistance division of Health Care Authority Department may be deducted from gross receipts, starting July 1, 2024, and prior to July 1, 2034. An eligible provider is one who meets requirements of the medical assistance division to provide environmental modifications pursuant to a waiver granted by the federal Department of Health and Human Services to provide home and community-based services to recipients. Definitions are provided for "environmental modifications" and include the purchasing and installing of equipment or making physical adaptations to a recipient's residence or enhance the recipient's ability to act independently.

Effective Date: July 1, 2024

Taxation and Revenue Department Analyst: Pedro Clavijo

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2024	FY2025	FY2026	FY2027	FY2028		
--	($280)	($290)	($300)	($320)	R	General Fund
--	($190)	($190)	($200)	($210)	R	Local Governments

* In thousands of dollars. Parentheses ( ) indicate a revenue loss. ** Recurring (R) or Non-Recurring (NR).

Methodology for Estimated Revenue Impact: Using data from the Human Services Department (HSD), the Taxation and Revenue Department (Tax & Rev) estimated that in 2021 approximately 1,341 Medicaid recipients had benefited from environmental modifications at the aggregate cost of $5,788,099. Tax & Rev used S&P's growth rate for the health care chained price index to assume inflationary cost increases for the services provided. The impact to the general fund is from the direct impact of the Gross Receipts Tax (GRT) deduction only and is not adjusted for changes to Medicaid state and federal matching funds. Tax & Rev defers to HSD's impact to the general fund as relates to general fund appropriations and federal revenue impacts.

Policy Issues: The bill seeks to aid in reducing the cost of making environmental modifications to Medicaid recipients' homes. Tax & Rev assumes this tax reduction would be passed on to New Mexico Medicaid program's outlay for these services whereby the state and federal match would be reduced, saving additional general fund dollars. The impact though is not offset for local governments. The Medicaid recipients themselves would continue to have these modifications covered through Medicaid and thus not be impacted by the reduction of the tax due.

While tax incentives may support particular industries or encourage specific social and economic behaviors, the proliferation of such incentives complicates the tax code. Adding more tax incentives: (1) creates special treatment and exceptions to the code, growing tax expenditures and/or narrowing the tax base, with a negative impact on the General Fund; and, (2) increases the burden of compliance on both taxpayers and Tax & Rev. Adding complexity and exceptions to the tax code does not comport generally with the best tax policy.

Technical Issues: Considering the definition of "eligible provider" in the bill, it is unclear if this deduction should be extended to governmental gross receipts tax as well.

The bill provides a deduction for the provision of "environmental modification services". But "environmental modifications" are defined to include "the *purchasing* and installing of equipment…" In order to ensure that the deduction covers all aspects of environmental modification, Tax and Rev suggests changing the words "environmental modification services" to just "environmental modifications" on p. 1, line 21.

Other Issues: Tax & Rev suggests adding language stating this deduction is required to be separately reported. The effectiveness of this deduction will be unknown without the requirement to state the new deduction separately.

Administrative & Compliance Impact: Tax & Rev will need to update forms, instructions, and publications and make information system changes. Tax & Rev's Administrative Services Division (ASD) anticipates this bill will take approximately 40 hours, split between two existing full-time employees to be implemented. Tax & Rev's Information Technology Division (ITD) estimates that implementing the bill will require approximately 220 hours or one month and an estimated staff workload cost of $12,210.

Estimated Additional Operating Budget Impact*				R or NR**	Fund(s) or Agency Affected
FY2024	FY2025	FY2026	3 Year Total Cost		
--	$2.9	--	$2.9	NR	Tax & Rev – ASD - Operating
$12.2	--	--	$12.2	NR	Tax & Rev – ITD - Staff Workload Cost

* In thousands of dollars. Parentheses ( ) indicate a cost saving. ** Recurring (R) or Non-Recurring (NR).

Related Bills: HB220 (2023 Session)