



2015 Legislative Session

Deduction for Gross Receipts Tax on Deductibles

The New Mexico Medical Society has surveyed physicians statewide and found that one of the major obstacles to recruiting and retaining physicians in New Mexico is the Gross Receipt Tax (GRT) on medical services. New Mexico is one of only two states in the US that require physicians to pay GRT on payments received for medical services provided (Hawaii is the other). Other professions may “pass through” by adding GRT to their client charges however medical providers are not allowed to add GRT to bills for their services.

Physicians practicing for University of New Mexico, Presbyterian Medical Services, Christus St. Vincent Hospital, Rehoboth McKinley Christian Hospital among others do not pay GRT because their corporate structure is either Not-For-Profit or Governmental. This creates an approximate 7% pricing disadvantage to physicians that are set up as a For-Profit-Corporation as their expenses and overhead is the same or more as the large NFP entities, unintentionally creating a disadvantage or disincentive to start or continue with an independent medical practice.

Since 1996, the New Mexico Legislature has allowed physicians to take a tax deduction for gross receipts paid for: a) on call Services, b) Medicare part B and C, c) managed care contracts and d) uncompensated care in emergency rooms. These important reforms have greatly assisted in recruitment and retention of physicians. The last remaining reform is a deduction for gross receipt tax paid on deductibles received; the estimated annual fiscal impact is \$8.3 to 9.3 M over the next five years. Note that this number is substantially lower than the original Taxation and Revenue Department (TRD) projections. Working with the TRD, we have analyzed the data and found that the actual impact is about 65% less once GRT payments for non-physician healthcare services have been removed from the calculations, as would be appropriate for accurately projecting the fiscal impact of the new legislation.

Medical services are crucial to the physical and economic health of our communities, and they are facing great and new pressures, with many struggling to stay open. Challenges include:

- Managed Care Organizations, Medicare, Medicaid, Tricare, etc., all pay physicians at a negotiated reduced rate, or governmental, fee schedule.
- Under the Affordable Care Act, patients pay higher deductibles for physician services. Insurance payments for medical services only begin after the annual policy deductible has been met. Physicians practicing in a for-profit setting currently must pay about 7% GRT on the deductible, which effectively cuts their payment by 7%.
- More frequently now with the new higher deductible policies, more and more patients charge their deductibles to a credit card, which further cuts payment by 2 – 3%+ depending on the bank charge.

Besides the student loans of \$150,00-\$500,000 physicians new to practice have, all physicians pay medical liability insurance (\$15,000 - \$82,000 annually), board certification/recertification, continuing medical education (mandated 75 hours per license term), staff (6 – 10 per doctor), equipment, electronic medical records systems, rent/lease, and many other expenses. The expenses, regulations, and requirements of practicing medicine continue to increase, while payment rates continue to decline. Granting relief from the GRT on deductibles for the 73% of New Mexico doctors in private-practice will go a long way to helping our medical professionals balance out some of the deficits and recruit desperately needed new physicians to their practices.

The State of New Mexico must continue to invest in the physician community and enact legislation to allow a gross receipt tax deduction for deductibles. Not only will this investment of \$8.3 – \$9.3M level the field for physicians in private practice, but it will greatly assist in the recruitment and retention of doctors by putting the economic environment of medical practices in New Mexico more in line with what other states have to offer to attract and retain medical professionals.

For more information please contact:

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