

**MNCARE TAXES  
HEALTH CARE PROVIDER  
SURCHARGES  
TOBACCO PAYMENTS**

April 24, 2001

|   |            |           |
|---|------------|-----------|
|   | <b>Yes</b> | <b>No</b> |
| Separate Official Fiscal Note Requested | X          |           |
| <b>Fiscal Impact</b>                    |            |           |
| DOR Administrative Costs/Savings        | X          |           |

Department of Revenue

Analysis of H.F. 14 (Bradley)/S.F. 260 (Sams) **Analysis Revised for Delete Everything Amendment (SS0260R) and February 2001 Forecast**

|                                   | <u>Revenue Gain or (Loss)</u> |                  |                  |                  |                 |
|-----------------------------------|-------------------------------|------------------|------------------|------------------|-----------------|
|                                   | <u>F.Y. 2001</u>              | <u>F.Y. 2002</u> | <u>F.Y. 2003</u> | <u>F.Y. 2004</u> | <u>FY2005</u>   |
|                                   | (000's)                       |                  |                  |                  |                 |
| General Fund                      |                               |                  |                  |                  |                 |
| Tobacco Payments                  |                               | (382,521)        | (274,600)        | (198,808)        | (202,832)       |
| Health Care Provider Surcharges   |                               | <u>(71,608)</u>  | <u>(75,615)</u>  | <u>(77,348)</u>  | <u>(79,147)</u> |
| General Fund Total                |                               | (\$454,129)      | (\$350,215)      | (\$276,156)      | (\$281,979)     |
| Health Care Access Fund           |                               |                  |                  |                  |                 |
| MNCare Taxes*                     |                               | (78,800)         | (240,232)        | (252,293)        | (263,909)       |
| 1% Premium Tax*                   |                               | 0                | (17,594)         | (33,727)         | (35,144)        |
| Ambulance Service Exemption (555) | (555)                         | (311)            | 0                | 0                | 0               |
| Tobacco Payments                  |                               | <u>382,521</u>   | <u>274,600</u>   | <u>198,808</u>   | <u>202,832</u>  |
| Health Care Access Fund Total     | (\$555)                       | \$303,410        | \$16,774         | (\$87,212)       | (\$96,221)      |

\*Estimates assume the taxes would not be imposed.

**Note:** The repeal of the federal contingency reserve of up to \$150 million is not reflected in the table.

The repeal of specified health care provider surcharges effective July 1, 2001.

MNCare taxes repealed effective January 1, 2002.

1% premium tax repealed effective January 1, 2003.

Tobacco payment changes effective December 31, 2001.

Repeal of federal contingency reserve effective July 1, 2001.

Ambulance services exempted effective June 30, 2000.

## **EXPLANATION OF THE BILL**

### **Current Law:**

- MNCare taxes are imposed at the rate of 1.5%; the rate will increase to 2% starting January 1, 2002.
- The 1% gross premium tax on health maintenance organizations and nonprofit health service plan corporations shall be reinstated effective January 1, 2003.
- The tobacco case settlement payments go to the state general fund.
- A federal contingency reserve of up to \$150 million is provided.
- Health care provider surcharges go to the state general fund.
- Licensed ambulance services are considered to be health care providers and are subject to the MNCare tax.

### **Proposed Law:**

- For calendar years beginning on or after January 1, 2002, the MNCare taxes would be contingent on the Health Care Access Fund (HCAF) balance, but the tax rate could not exceed 2%. In determining the HCAF balance, increased revenue from any increase in the gross premium tax could not be counted.
- For calendar years beginning on or after January 1, 2003, the gross premium tax would be contingent on the HCAF balance, but the tax rate could not exceed 1%. In determining the HCAF balance, increased revenue from any increase in the MNCare taxes would be counted.
- Starting with the December 31, 2001 payment, revenues from the tobacco case settlement would be allocated to the HCAF, including the December 31 annual payments plus the January 2 settlement payments in 2002 and 2003.
- The federal contingency reserve would be repealed effective July 1, 2001.
- The health care provider surcharges for HMOs, and hospitals, as well as the 1.8% of net patient revenue surcharge for Hennepin County Medical Center (HCMC) and the University of Minnesota hospital would be eliminated starting July 1, 2001. The health care provider surcharges for nursing homes and the \$1.5 million monthly surcharge for HCMC and the \$500,000 monthly surcharge for the University of Minnesota hospital would remain.
- For MNCare tax purposes, licensed ambulance services would no longer be considered to be health care providers retroactive to June 30, 2000.

## **REVENUE ANALYSIS DETAIL**

- The February 2001 forecast provided data for MNCare taxes, gross premium taxes, tobacco case settlement payments, and the health care provider surcharges.
- Estimates are adjusted to reflect the impact of the effective dates on collections.

**REVENUE ANALYSIS DETAIL (Continued)**

- The Department of Finance February 2001 forecast of the Health Care Access Fund shows the federal contingency reserve at the \$150 million reserve limit for fiscal years 2002 through 2005.
- Actual MNCare tax receipts data for ambulance services during tax year 1999 are from Department of Revenue information. They are projected at an annual growth rate of 5%.

**Number of Taxpayers Affected:**

Latest available data indicate that the following organizations pay the MNCare taxes: 151 hospitals, 15 surgical centers, 124 wholesale drug distributors, and 7,591 health care providers. Ten health maintenance organizations and 3 nonprofit health service plan corporations are subject to the 1% gross premium tax. There are 38 ambulance services.

**ADMINISTRATIVE/OPERATIONAL IMPACT**

See fiscal note

Source: Minnesota Department of Revenue  
Tax Research Division

<http://www.taxes.state.mn.us/polic.html#analyses>