

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 411

(Senator Eckardt, *et al.*)

Budget and Taxation

**Income Tax - Credit for Physician Preceptors in Areas With Health Care
Workforce Shortages**

This bill creates a nonrefundable tax credit against the State income tax for a licensed physician who serves without compensation as a physician preceptor in an approved preceptorship program. The Department of Health and Mental Hygiene (DHMH) must issue a credit certificate of \$1,000 for each student for whom the licensed physician served as a preceptor without compensation, not to exceed \$10,000 per physician. DHMH may issue up to \$100,000 in total credits each year. Up to \$100,000 of unspent funds in the Health Personnel Shortage Incentive Grant (HPSIG) program may be transferred to or revert to the general fund to offset the costs of the tax credit.

The bill takes effect July 1, 2016, and applies to tax year 2016 and beyond.

Fiscal Summary

State Effect: Special fund expenditures from the HPSIG program increase by \$100,000 annually in FY 2017 through 2019 due to HPSIG funds being transferred to the general fund to offset credits claimed against the income tax. Special fund expenditures increase by \$64,700 in FY 2020 and general fund revenues decrease by \$35,300 once the HPSIG fund balance is depleted. In FY 2021, general fund revenues will decrease by \$100,000. General fund expenditures increase by \$85,000 in FY 2017 due to implementation costs at DHMH and the Comptroller's Office. Future year estimates reflect ongoing operating expenses at DHMH.

(in dollars)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
GF Revenue	\$0	\$0	\$0	(\$35,300)	(\$100,000)
GF Expenditure	\$85,000	\$14,600	\$15,000	\$15,400	\$15,900
SF Expenditure	\$100,000	\$100,000	\$100,000	\$64,700	\$0
Net Effect	(\$185,000)	(\$114,600)	(\$115,000)	(\$115,400)	(\$115,900)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: Minimal. Licensed physicians who serve without compensation as physician preceptors would benefit from the tax credit program.

Analysis

Bill Summary: To qualify, the licensed physician must have worked at least three rotations with each rotation consisting of 160 hours of community-based clinical training and in an area that DHMH, in consultation with the Governor's Workforce Investment Board, has identified as having a health care workforce shortage.

DHMH is required to approve tax credit applications and notify a taxpayer of its tax credit approval or denial within 45 days of receiving the application. Tax credit applications are approved on a first-come, first-served basis until the cap of \$100,000 for the year is reached. If the aggregate amount of tax credit certificates issued in a year is less than \$100,000, the excess amount may be issued in the next taxable year. DHMH must report to the Comptroller and the General Assembly by January 31 of each year on the credit, and DHMH, in consultation with the Governor's Workforce Investment Board, must adopt regulations to implement the credit.

Current Law: HPSIG is funded by a percentage of physicians' fees collected annually by the State Board of Physicians. HPSIG provides grants to eligible institutions of higher education that have programs leading to licensure, certification, or registration in health personnel shortage areas. The Secretary of Health and Mental Hygiene must annually certify health occupations experiencing shortages. Only the following health occupations may qualify: (1) physical therapist or physical therapist assistant who has at least an associate's degree in physical therapy; (2) occupational therapist or occupational therapist assistant who has at least an associate's degree in occupational therapy; (3) radiographer; (4) respiratory therapist; (5) laboratory technician; (6) medical technologist; (7) pharmacist; (8) registered nurse or licensed practical nurse; or (9) physician who engages in family practice or pediatrics. Program awards are calculated based on a formula established in statute. The projected cumulative balance for HPSIF in fiscal 2017 is \$364,727. The [Fiscal 2017 Maryland Higher Education Commission Operating Budget Analysis](#) provides more details on HPSIG.

The Health Enterprise Zone (HEZ) Program, which terminates on June 30, 2017, provides public incentives and resources to help attract health care practitioners to serve in underserved communities. A HEZ is a designated contiguous geographic area that (1) demonstrates measurable and documented health disparities and poor health outcomes

and (2) is small enough to allow for the incentives offered to have a significant impact on improving health outcomes and reducing racial, ethnic, and geographic health disparities.

There are two tax credits available under the HEZ initiative: an income tax credit for HEZ practitioners and a hiring tax credit. A qualified HEZ practitioner can claim a credit against the State income tax in an amount equal to 100% of the amount of the tax expected to be due from the HEZ practitioner from income to be derived from practice in the HEZ (as certified by DHMH) for the taxable year. A HEZ employer may claim a refundable credit of \$10,000 against the State income tax for hiring for a qualified position in the HEZ (as certified by DHMH) for the taxable year. A HEZ practitioner may create one or more qualified positions during any 24-month period. This refundable credit must be taken over a 24-month period, with one-half of the credit amount allowed each year. If the qualified position is filled for less than 24 months, the tax credit must be recaptured. Eligibility for these tax credits is limited by the availability of budgeted funds, as determined by DHMH. Certificates of eligibility are subject to approval by DHMH on a first-come, first-served basis, as determined by DHMH in its sole discretion.

State Fiscal Effect: The bill authorizes an annual maximum of \$100,000 in credits beginning in tax year 2016, and unspent HPSIG funds may be transferred or reverted to the general fund to offset the costs of the tax credit. It is assumed that special fund revenues to HPSIG will be spent on grants each year, so the only funds available will be the current fund balance of \$364,727. As a result, annual special fund expenditures will increase by \$100,000 in fiscal 2017 through 2019, assuming the maximum amount of credits is claimed against the personal income tax. Special fund expenditures will increase by \$64,727, depleting the HPSIG fund balance, and general fund revenues decrease by \$35,273 in fiscal 2020. In fiscal 2021, general fund revenues will decrease by \$100,000. To the extent DHMH does not award the maximum amount of credits in each year, special fund expenditures and general fund revenue losses will be less than estimated. Additionally, current legislation, SB 217 of 2016, is being considered that may impact HPSIG funding levels.

General fund expenditures increase by \$85,000 in fiscal 2017 due to implementation costs at DHMH and the Comptroller's Office.

DHMH advises that it would incur additional costs as a result of hiring one part-time contractual program administrator. As a result, general fund expenditures may increase minimally beginning in fiscal 2017. The Comptroller's Office reports that it will incur a one-time expenditure increase of \$50,900 in fiscal 2017 to add the tax credit to the personal income tax form. This amount includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

Seasonal Contractual Position	0.50
Salary and Fringe Benefits	\$24,073
Operating Expenses	9,977
DHMH Expenditures	34,050
Comptroller Expenditures	<u>50,938</u>
Total FY 2017 Expenditures	\$84,988

Future year expenditures reflect full salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

This estimate does not include any health insurance costs that could be incurred for specified contractual employees under the State's implementation of the federal Patient Protection and Affordable Care Act.

Additional Information

Prior Introductions: None.

Cross File: HB 1494 (Delegate Sample-Hughes, *et al.*) – Ways and Means.

Information Source(s): Comptroller's Office; Maryland Higher Education Commission; Department of Health and Mental Hygiene; Department of Labor, Licensing, and Regulation; Department of Legislative Services

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