Franchise Tax Board

ANALYSIS OF AMENDED BILL

Author:	Maze	Analyst:	Jane Tolman	Bill Number:	AB 988
Related Bills:	See Legislative History	Telephone:	845-6111	Amended Date:	03-25-2003
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Health Professional Shortage Area Medical Care Professionals Credit

SUMMARY

This bill would allow a tax credit for doctors that treat Medi-Cal beneficiaries in specified counties.

This is the department's first analysis of this bill.

SUMMARY OF AMENDMENTS

The March 25, 2003, amendment removed the "15 percent of qualified medical expenses incurred" and instead provides that the credit be "20 percent of total income derived from treating Medi-Cal beneficiaries during the taxable year by a qualified doctor, who practices in a qualified county."

The March 25, 2003, amendment also removed the terms and definitions for "qualified medical expenses" and "qualified health professional shortage" and replaced them with the terms and definitions for "qualified county" and "qualified doctor."

In addition, the amendment modified the repeal date from January 1, 2008, to January 1, 2009.

PURPOSE OF THE BILL

According to the author's office, the purpose of this bill is to increase access to medical care in communities that have children receiving Medi-Cal benefits.

EFFECTIVE/OPERATIVE DATE

This bill would take effect immediately as a tax levy. It would be operative for taxable years beginning on or after January 1, 2003, and before January 1, 2008.

POSITION

Pending.

Board Position:			Department Director	Date
_______ S	_______ NA	_______ NP	Gerald H. Goldberg	4/10/03
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ANALYSIS

FEDERAL/STATE LAW

Existing federal and state laws provide various tax credits, designed to provide tax relief for taxpayers that incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits or economic development area hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they might not otherwise undertake.

Current state law allows only one tax credit based on the taxpayer's profession, the Teacher Retention Tax Credit. The credit amount varies from $250 to $1,500 depending on the credentialed teacher's years of service. The credit cannot exceed 50% of the amount of tax that would be imposed on a teacher's salary, excluding pension or other deferred compensation, after application of the standard deduction or itemized deductions. This credit was suspended for 2002.

THIS BILL

This bill would allow a credit of 20 percent of total income derived from treating Medi-Cal beneficiaries during the taxable year by a qualified doctor who practices in a qualified county.

This bill would define a:

- "qualified county" to mean a county, within California, where at least 25 percent of the population are Medi-Cal beneficiaries and unemployment is at least 10 percent.
- "qualified doctor" to mean a physician, surgeon, optometrist, or dentist, who is not salaried and who works on a fee-for-service basis.

This bill would allow any unused credit to be carried over until exhausted.

IMPLEMENTATION CONSIDERATIONS

The department has identified the following implementation concerns. Department staff is available to work with the author's office to resolve these and other concerns that may be identified.

This bill uses undefined terms, "total income" and "income derived from treating Medi-Cal beneficiaries". Without clear definitions this bill could lead to disputes between taxpayers and the department concerning the appropriate amount of credit.

The credit would be allowed against the income of a qualified doctor. A qualified doctor may have income from other sources, such as interest income. It is unclear whether the credit would be based only on the tax liability associated with the income from the medical practice. For a married taxpayer, the spouse may be working in another profession, and the couple may have joint income from other sources. It is unclear whether the credit would be based only on the qualified doctor's tax liability, or the couple's total tax liability.

There is no requirement for the Medi-Cal beneficiaries to reside within the qualified county. Practice within the county is enough for the credit, even if a doctor with a multi-county practice never provides medical care to Medi-Cal beneficiaries within the qualified county.

Currently, qualified doctors practicing in a professional corporation in a qualified county are entitled to a 20 percent credit of the total income derived from treating Medi-Cal beneficiaries. The credit proposed by this bill would provide a double benefit for the same income.

LEGISLATIVE HISTORY

AB 2164 (Cogdill, 2001/2002) would have allowed a tax credit to medical professionals who work in rural communities. This bill failed to pass out of the Assembly Revenue and Taxation Committee.

OTHER STATES' INFORMATION

The states surveyed include *Illinois, Michigan, Massachusetts, Minnesota,* and *New York.* These states were selected due to their similarities to California's economy, business entity types, and tax laws. These states do not provide a tax credit or deduction comparable to the one proposed by this bill.

FISCAL IMPACT

If the implementation considerations addressed in this analysis are resolved, the bill would not significantly impact the department's costs.

Revenue Estimate

Due to data limitations, revenue losses reflect general orders of magnitude. The total revenue loss associated with this bill would be on the order of $7 million annually beginning in 2003-04.

It is estimated that a credit equal to 20 percent of a physician's income from Medi-Cal will result in losses on the order of $7 million per year (450 physicians x $10,000 average tax liability, 300 dentists x $6,200 average tax liability, 80 Optometrists x $4,500 average tax liability) beginning in 2003-04.

Revenue losses that will result from this proposal depend on several factors such as the number of qualified medical care professionals that provide or would start to provide medical services in the area that qualify under this bill, the amount of income derived from treating Medi-Cal beneficiaries in these areas, the taxable income reported by these medical professionals in any given year, as well as the utilization of the credit for each taxable year.

Revenue Discussion

A qualified medical care professional is a physician, surgeon, dentist, or optometrist. A 20 percent tax credit is not expected to create a significant incentive inducement in promoting rural care needs.

This bill covers qualified counties in California, where at least 25 percent of the population are Medi-Cal beneficiaries and unemployment is at least 10 percent. For this analysis it is assumed that the area has a population to full-time-equivalent primary care physician ratio of at least 3,500 to 1, a population to full-time-equivalent general practice dentist ratio of at least 5,000 to 1, and a population to full-time-equivalent optometrist ratio of 20,000 to 1. These ratios are based on the federal requirements for determining whether an area has a health care professional shortage.

Credit

Using the criteria of a qualified county specified in this bill only five counties would currently be eligible. These are Fresno, Imperial, Merced, Yuba, and Tulare. Based on population data from the 2000 census the population in these five counties was approximately 1.6 million. If it is assumed there is exactly a 3,500 to 1 ratio for physicians, there are approximately 450 physicians practicing in these areas. For purposes of this analysis, it is assumed that virtually all of these physicians provide services to Medi-Cal beneficiaries. Further, it is assumed that there is 1 dentist for every 5,000 persons and 1 optometrist for every 20,000 persons and they also provide services to Medi-Cal beneficiaries.

For purposes of this bill, it was assumed that the average income tax liability for physicians who would take the credit would be approximately $10,000 (average income of $200,000 x .05 average tax rate), the average income tax liability for dentists who would take the credit would be approximately $6,200 (average income of $124,000 x .05 average tax rate), and the average income tax liability for optometrists who would take the credit would be approximately $4,500 (average income of $90,000 x .05 average tax rate). Further, it was assumed that if only 25 percent of their income was derived from Medi-Cal beneficiaries that the 20 percent credit would effectively eliminate their tax liability.

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