Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author:	Calderon	Analyst:	Jennifer Bettencourt	Bill Number:	SB 1026
Related Bills:	See Legislative History	Telephone:	845-5163	Introduced Date:	February 23, 2007
		Attorney:	Tommy Leung	Sponsor:	

SUBJECT: Qualified Health Care Provider Credit

SUMMARY

This bill would allow a tax credit to qualified health care providers for the costs to provide health care to certain California residents.

PURPOSE OF THE BILL

It appears the purpose of this bill is to increase access to medical care for California residents who do not have health insurance and provide relief for physicians who incur expenses to provide health care for the uninsured.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment and operative for taxable years beginning on or after January 1, 2007, and before January 1, 2012.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Current federal and state laws generally allow taxpayers engaged in a trade or business to deduct all expenses that are considered ordinary and necessary in conducting that trade or business.

Current federal and state laws also provide various tax credits designed to provide a tax incentive to 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. Federal and state law currently does not provide a credit similar to the credit proposed by this bill.

Board Position:			Department Director	Date
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THIS BILL

This bill would allow a credit for a qualified health care provider in an amount equal to 100% of the amount paid or incurred during the taxable year to provide health care to residents of the state whose health care was not covered by a health care service plan or health insurance.

This bill would define “qualified health care provider” as a practicing doctor or practicing physician’s group.

Any excess credit could be carried forward until the credit is exhausted.

This credit would be repealed as of December 1, 2012.

IMPLEMENTATION CONSIDERATION

This bill uses terms that are undefined, i.e., “amount paid or incurred“, “health care,” “health care service plan,” and “health insurance.” The absence of definitions to clarify these terms could lead to disputes with taxpayers and would complicate the administration of this credit.

LEGISLATIVE HISTORY

AB 383 (Aanestad, 2007/2008) declares the intent of the Legislature to provide an income tax credit for health care providers that provide care to uninsured patients at no cost to the patient. This bill is currently with the Assembly Rules Committee.

AB 218 (Maze, 2005/2006) and AB 293 (Maze, Parra 2005/2006) would have allowed a tax credit for doctors that treat Medi-Cal beneficiaries in specified counties. Both bills failed to pass out of the Assembly Revenue and Taxation Committee.

AB 988 (Maze, 2003/2004) would have allowed a tax credit for doctors that treat Medi-Cal beneficiaries in specified counties. AB 988 failed passage out of the first house by the constitutional deadline.

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

OTHER STATES’ INFORMATION

Florida, Illinois, Massachusetts, Michigan, Minnesota, and *New York* laws do not provide a credit comparable to the credit allowed by this bill. The laws of these states were reviewed because their tax laws are similar to California’s income tax laws.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue losses:

Revenue Impact Of SB 1026 Enactment Assumed After June 30, 2007 ($ in Millions)			
	2007-08	2008-09	2009-10
Qualified Health Care Credit	-$670	-$790	-$870

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill.

Revenue Discussion

Based on a literature search, it was projected that the total uncompensated expenditures incurred by California practicing doctors and physician groups for the year 2007 would be approximately $750 million.

It is assumed that credits in the amount of 80% of the total uncompensated expenses allowed under this bill would be utilized to reduce tax liabilities in the year in which the credit is earned (80% x $750 million = $600 million). Any excess would be carried over and used against future tax liabilities.

It was assumed that physicians and physician groups can potentially deduct 10% of these same expenses under current law. Assuming a tax rate of 7% would result in an offset amount of approximately $4 million ($600 million x 10% x 7%) for 2007. The numbers in the table above have been adjusted to reflect revenue estimates for fiscal years.

ARGUMENTS/POLICY CONCERNS

Generally, credits are limited as a percentage of amounts paid or incurred. This bill would allow a 100% credit, which is unprecedented.

To qualify for this credit, this bill would require the health care to be provided to a California resident; but fails to specify where the services are to be performed or where the “qualified health care provider” is to be located. As a result, this credit could be allowed for any practicing doctor who provides health care for a California resident, regardless of whether the doctor is a state resident, which may be contrary to the author’s intent.

This bill would allow for an unlimited carryover period. Consequently, the department would be required to retain the carryover on the tax forms indefinitely. Recent credits have been enacted with a carryover period limitation because experience shows credits typically are exhausted within eight years of being earned.

This bill would allow taxpayers in certain circumstances to claim multiple tax benefits for the same item of expense. It is recommended the author specify that the deduction allowed under this section would be taken in lieu of any other credit or deduction allowed under other provisions for the same expenses.

LEGISLATIVE STAFF CONTACT

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