Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author:	Runner/Harman	Analyst:	Angela Raygoza	Bill Number:	SBX1 20
Related Bills:	See Legislative History	Telephone:	845-7814	Introduced Date:	October 11, 2007
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Tax Credit For Primary Care Providers

SUMMARY

This bill would provide a personal income tax credit for primary care providers in California.

PURPOSE OF THE BILL

It appears the author's intent for the bill is to increase the number of primary health care providers in California to improve access to health care.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment and, if enacted before January 1, 2008, operative for taxable years beginning on or after January 1, 2007.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Current federal and state tax laws provide various tax credits designed to provide tax relief for taxpayers that incur certain expenses (e.g., child and dependent care credits) or to influence business practices and decisions or to achieve social goals.

Current federal and state tax laws do not provide credits measured by the percentage of taxes imposed.

THIS BILL

This bill would provide a personal income tax credit against the "net tax" in an amount equal to ten percent of the "net tax" for the taxable year to primary care providers who first commence providing primary care for patients in this state on or after January 1, 2007.

Board Position:			Department Director	Date
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This bill defines “primary care provider” as a physician and surgeon, a nurse practitioner, or a physician’s assistant.

This bill stipulates that the credit would only be allowed for the first ten years for which the primary care provider provides primary care services in this state.

This bill specifies that any credit previously allowed by this section would be recaptured by adding the amount of the credit to the “net tax” for the taxable year if a physician or surgeon changes his or her practice from primary care to specialty care.

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.

The term “primary care provider” is defined using broad terms such as physician and surgeon, a nurse practitioner, or a physician’s assistant and is unclear whether the “primary care provider” should be licensed. In addition, this bill fails to define the term “primary care services.” The absence of definitions to clarify these terms could lead to disputes with taxpayers and complicate the administration of this credit. The author may wish to narrow the definition for “primary care provider” and provide a definition for “primary care services” to ensure the intent is satisfied.

This bill would allow the credit to be recaptured if a physician or surgeon changes his or her practice from primary care to specialty care. Also, a credit would be allowed for a primary care provider that commences primary care services on or after January 1, 2007, in this state. It is unclear how the department would determine the change of practice or commencement of services. Typically, credits involving areas for which the department lacks expertise are certified by another agency or agencies that possess the relevant expertise. The certification language would specify the responsibilities of both the certifying agency and the taxpayer.

LEGISLATIVE HISTORY

SBX1 21 (Cogdill, 2007/2008) would provide a tax credit for a medical care professional that provides medical care in a rural area. This bill is currently in the Senate Revenue and Taxation Committee.

SB 1026 (Calderon, 2007/2008) would have provided an income tax credit for a “qualified health care provider” in an amount equal to the amount paid or incurred during a taxable year to provide health care to residents of the state whose health care is not covered by a health care service plan or health insurance. This bill was held in the Health Revenue and Taxation Committee.

AB 293 (Maze, 2005/2006) and AB 218 (Maze, 2005/2006) would have provided an income tax credit for medical care professionals that treat Medi-Cal beneficiaries in specified counties. Both bills failed to pass out of the Assembly Revenue and Taxation Committee.

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

OTHER STATES' INFORMATION

Florida, Illinois, Massachusetts, Michigan, Minnesota, and *New York* laws lack 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.

FISCAL IMPACT

The present forms have limited space available for additional lines. If these changes, along with other pending legislation, increase the forms from two to three pages, the department would incur costs of over $2 million for revising the forms and instructions, printing, systems changes, and processing.
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ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue losses:

Estimated Revenue Impact of SBX1 20 Effective On Or After January 1, 2007 Assumed Immediate Enactment ($ in Millions)			
Primary Care	2007-08	2008-09	2009-10
Providers' Credit	-$3	-$4	-$6

This estimate does not consider the possible changes in employment, personal income, or gross state product that could result from this bill.

Revenue Discussion

The revenue impact of this bill is determined by the number of Primary Care Providers (PCPs) who provide primary care services for ten taxable years and who start offering primary care services on or after January 1, 2007.

In 2007, there were an estimated 24,900 physicians and surgeons, and an estimated 995 annual new entrants into these fields. The Bureau of Labor Statistics indicated the annual average salary for physicians and surgeons is $153,900. This amount was reduced by 20% to $123,200 ($153,900 x .80 = approximately $123,200) to take into account that the physicians and surgeons have just commenced providing services. The salary was multiplied by the number of new physicians and surgeons for a total salary of $122 million (995 physicians/surgeons x $123,200 average salary = approximately $122 million). A marginal tax rate of 9% was applied for a total tax liability of $11 million ($122 million x .09 = approximately $11 million). It is assumed that any credit recapture would begin outside the budget window because it could take a few years for new hires to decide to specialize and to acquire the needed certification.

In 2007, there were an estimated 12,100 nurse practitioners (NPs), and 485 annual new entrants into this field. The Bureau of Labor Statistics indicated the annual average salary of NPs is $77,000. This amount was reduced by 20% to $61,600 ($77,000 x .80 = $61,600) to take into account that the NPs just commenced providing services. The salary was multiplied by the number of new NPs for a total salary of $30 million (485 NPs x $61,600 = approximately $30 million). A marginal tax rate of 6% was applied for a total tax liability of $2 million ($30 million x .06 = approximately $2 million).

In 2007, there were an estimated 6,100 physician's assistants (PAs), and 245 annual new entrants into this field. The Bureau of Labor Statistics indicated the annual average salary of a PA is $85,250. This amount was reduced by 20% to $68,200 ($85,250 x .80 = $68,200) to take into account that the PA has just commenced providing services. The salary was multiplied by the number of new PAs for a total salary of $17 million (245 PAs x $68,200 = approximately $17 million). A marginal tax rate of 6% was applied for a total tax liability of $1 million ($17 million x .06 = $1 million).

The tax liability of each group was summed for a total of $14 million ($11 million + $2 million + $1 million = $14 million). The total tax liability was increased to $17 million--10% to account for second incomes on jointly filed returns, and then increased by an additional 10% to account for other income earned by the healthcare professional. ($14 million x 1.10 x 1.10 = approximately $17 million.)

Each year will have new taxpayers claiming this credit in addition to the continuing claims of the 2007 tax year claimants. Therefore, in taxable year 2008, there will be 10% claimed from taxpayers who started in 2007, in addition to 10% claimed from 2008 taxpayers, totaling approximately $3.4 million ($17 million x 10% = $1.7 million) + ($17 million x 10% = $1.7 million) = $3.4 million approximately).

The tax years were converted to fiscal years. Each tax year, there will be an additional number of new primary care providers claiming the credit, thereby increasing the revenue impact until the credit is fully phased in after ten years.

POLICY CONCERNS

This bill lacks a sunset date. Sunset dates generally are provided to allow periodic review of the effectiveness of the credit by the Legislature.

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.

The “net tax” credit for primary care providers would be allowed whether 100% of the taxpayer’s income is exclusive to primary care services or if 10% of the income is from those services. This bill lacks a correlation between the amount of the benefit given, 10% net tax credit, and the unspecified amount of provided primary care services so as long as there’s no change in practice to specialty care.

LEGISLATIVE STAFF CONTACT

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