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SFA BILL ANALYSIS

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Senate Bill 479 (Substitute S-8 as passed by the Senate)
Sponsor: Senator Walter H. North
First Committee: Health Policy and Senior Citizens
Second Committee: Finance

Date Completed: 9-9-98

RATIONALE

Because of geographic isolation, undesirable locations, lack of income potential, or any number of other reasons, some areas of the State have long been hindered by a shortage of health care providers. Both the State and the Federal government have made attempts to make health care more accessible in underserved areas. For instance, a foreign-born physician who is in the U.S. to further his or her education on a J-1 visa, and who is required to return home, can obtain a waiver if he or she agrees to work in a designated health professional shortage area. There also are Federal and State programs to help repay the medical education loans of medical providers who agree to work for two years at a nonprofit agency in a shortage area. In addition, the Michigan Rural Health Center makes efforts to recruit primary care physicians to underserved areas. Despite these efforts, reportedly it can take over two years for some rural communities to find a primary care doctor who is willing to locate in the area, and well over half of the State's counties are designated as medically underserved. Some people believe that offering certain health care providers income tax credits for locating in underserved areas would encourage those providers to consider practicing in such areas.

CONTENT

The bill would amend the Income Tax Act to allow certain full-time and part-time physicians, nurse practitioners, and nurse midwives to claim a credit against the income tax if they practiced in a "designated area", that is, a health professional shortage area as certified by the Director of the Department of Community Health (DCH); and did not perform abortions except in cases of medical emergency.

The bill provides that for the 2000 tax year through the 2010 tax year, a "qualified taxpayer" with a full-time primary health care practice could claim a $5,000 credit against the tax for up to five consecutive tax years. A qualified taxpayer with a part-time primary health care practice could claim a credit calculated by multiplying $5,000 by a fraction that equaled the average number of hours worked per week divided by 40. If the credit for the tax year exceeded the taxpayer's tax liability for the tax year, the excess could not be refunded or carried forward. A qualified taxpayer who was an intern or resident in a designated area for at least six months could claim the credit for an amount of time that he or she practiced in the designated area, in addition to the five years allowed other qualified taxpayers. The additional credit amount would be equal to the number of consecutive months the taxpayer spent in the designated area as an intern or resident, up to one year.

The bill would define "qualified taxpayer" as a physician, nurse practitioner, or nurse midwife who met either of the following conditions:

-- Was a physician who had a "full-time or part-time primary health care practice" in a designated area; and accepted and included in his or her practice Medicaid or Medicare eligible patients.
-- Any other physician if 50% of his or her practice consisted of Medicaid eligible patients.
-- Was a physician who did not perform abortions except in cases of medical emergency.

"Full-time primary health care practice" would mean a health care practice of 40 hours or more per week by a physician, nurse practitioner, or

nurse midwife who practiced in family practice, general practice, pediatrics, internal medicine, or obstetrics and gynecology. "Part-time primary health care practice" would mean a health care practice of less than 40 hours per week by a physician, nurse practitioner, or nurse midwife who practiced in family practice, general practice, pediatrics, internal medicine, or obstetrics and gynecology.

A taxpayer who claimed the credit would have to attach to his or her annual return (on which the credit was claimed) an affidavit, in a form prescribed by the Department of Treasury or a form that contained substantially the same information, stating that the taxpayer met all of the conditions and criteria for claiming the credit. The DCH would have to certify to the Department of Treasury that a taxpayer who claimed a credit under the bill was a physician, nurse practitioner, or nurse midwife with a full-time or part-time primary health care practice in a designated area. If the DCH changed the designation of an area from that of a designated area to a nondesignated area, the qualified taxpayer could continue to claim the credit.

A qualified taxpayer who was participating in the Michigan Essential Health Provider Program or J-1 visa program could claim the credit only in the five tax years beginning in the year after which the taxpayer had completed his or her obligation under the program. (The Michigan Essential Health Provider Recruitment Strategy Act creates the Essential Health Provider Program in the DCH to facilitate the placement and retention of physicians and other health professionals in health resource shortage areas.)

If a qualified taxpayer interrupted his or her practice to participate in a continuing education program, or a medically related sabbatical that lasted more than one year, the qualified taxpayer could claim the credit for any five tax years within the eight consecutive tax years that included the program or sabbatical and that began with the first year that the qualified taxpayer claimed a credit.

By December 31, 2003, the Department of Treasury would have to report the number and cost of credits allowed under the bill to the committees of the Senate and House of Representatives responsible for health care issues, and to the Director of the DCH. By December 31, 2003, the DCH would have to report to those committees the number, location, and practice specialties of the physicians, nurse practitioners, and nurse midwives who claimed the credit.

Proposed MCL 206.266

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The continuing number of medically underserved areas is a serious problem that needs to be addressed in any reasonable way. Currently, there are far greater economic incentives for physicians to enter a specialized type of medicine rather than to become and remain a primary care doctor. The problem is compounded by the fact that medical students, upon completing their training, can have enormous debts and therefore often seek to work in fields, and geographic areas, that offer the greatest potential for income. Further complicating the efforts of some areas to attract health care providers may be geographic isolation, or a perception that some areas have an undesirable climate. By offering substantial income tax credits for physicians, nurse practitioners, and nurse midwives to practice in underserved areas, the bill would create an incentive to those health care providers to work in underserved areas. In turn, this would increase the number of primary health care providers in health care shortage areas, and thus increase access to health care for individuals who live in areas that have inadequate numbers of providers.

Opposing Argument

The bill, while admirable in purpose, would not provide a level of financial incentive that is offered by some of the programs already in place that attempt to recruit health care providers to shortage areas. This would make the effectiveness of the bill questionable. Further, the bill would not produce good tax policy because it could offer a tax break to one of the highest-income residents in an area.

Opposing Argument

The bill contains a provision that would restrict the credit to those physicians who did not perform abortions. If the bill is attempting to increase access to health care, then this provision does not belong in the bill because it means that a doctor could not provide his or her full range of legal medical procedures. Further, the provision would prevent some women from receiving the full range of legal medical services available to women with

access to doctors who did not claim the credit. In effect, the provision would interfere with the doctor/patient relationship, and go way beyond other efforts the State has made to restrict access to abortion.

Response: The bill would do nothing to restrict the doctor/patient relationship. What it does say is that if a physician in a medically underserved areas wished to claim the tax credit, then he or she could not perform abortions, except in a medical emergency. Since the taxpayers do not want to pay for abortion services, this tax credit should not be available to those who perform abortions.

Legislative Analyst: G. Towne

FISCAL IMPACT

The total cost of this income tax credit would depend on the number of physicians, interns, nurse practitioners, and midwives who are currently practicing medicine in a primary care shortage area in Michigan, as well as the number of new physicians, interns, nurse practitioners, and midwives who would be attracted to a shortage area. It is not known how many new physicians or other health professionals would begin to practice medicine in a shortage area due to this tax credit. This is very hard to estimate because there are obviously many factors that enter into a physician's or other health professional's decision on where to establish a practice. It is known, however, that there are currently 372 physicians (on a full-time equated basis) practicing medicine in a primary care shortage area in Michigan. It is estimated that of these physicians, 352 would be eligible for this $5,000 refundable income tax credit. Therefore, based only on the current number of physicians practicing medicine in a shortage area, it is estimated this credit would reduce income tax revenue $1.8 million in FY 2000-01. Including these other health professionals, the cost of this credit would increase to an estimated $2.5 million.

Fiscal Analyst: J. Walker

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