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SFA**BILL ANALYSIS**

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Senate Bill 479 (Substitute S-2)
Sponsor: Senator Walter H. North
First Committee: Health Policy and Senior Citizens
Second Committee: Finance

Date Completed: 5-12-98

CONTENT

The bill would amend the Income Tax Act to allow certain full-time and part-time physicians 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).

The bill provides that for the 1998 tax year and thereafter, a “qualified taxpayer” with a full-time primary care medical 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 care medical 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 and any unused carryforward of the credit exceeded the taxpayer’s tax liability for the tax year, the excess could not be refunded, but could be carried forward to offset tax liability in subsequent tax years for five years or until used up, whichever occurred first.

“Qualified taxpayer” would mean a physician who had a “full-time or part-time primary care medical practice” in a designated area and accepted Medicaid or Medicare eligible patients, and whose practice included Medicaid or Medicare eligible patients. A “full-time primary medical care practice” would mean a medical practice of 40 hours or more per week by a physician who was board certified in family practice, general practice, pediatrics, or internal medicine. A “part-time primary care medical practice” would mean a medical practice of less than 40 hours per week by a physician who was board certified 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 with a full-time or part-time primary care medical 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 the 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, 2001, 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, 2001, the DCH would have to report to those committees the number, location, and practice specialties of the physicians who claimed the credit.

Proposed MCL 206.266

Legislative Analyst: G. Towne

FISCAL IMPACT

The total cost of this income tax credit would depend on the number of physicians currently practicing medicine in a primary care shortage area in Michigan, as well as the number of new physicians who would be attracted to a shortage area. It is not known how many new physicians would begin to practice medicine in a shortage area. This is very hard to estimate because there are obviously many factors that enter into a physician's decision on where to establish a practice. It is known, however, that there are currently 508 physicians (on a full-time equated basis) practicing medicine in a primary care shortage area in Michigan. It is estimated that of these physicians, 488 would be eligible for this \$5,000 refundable income tax credit. Therefore, based on the current number of physicians practicing medicine in a shortage area, it is estimated that this credit would reduce income tax revenue \$2.4 million in FY 1998-99. For every 1% increase in the number of physicians practicing medicine in a shortage area, the cost of the credit would increase by \$24,000.

Revenue generated by the income tax goes into the General Fund/General Purpose and School Aid Fund budgets. In FY 1998-99, the \$2.4 million reduction in income tax revenue due to this credit would entirely affect General Fund/General Purpose revenue. The credit would be realized by the physicians on their 1998 annual returns through higher income tax refunds, and refunds are paid out of GF/GP revenue. In subsequent years, physicians would have the option of reducing their income tax withholding payments or their quarterly estimated tax payments. As these payments were reduced, gross income tax collections would be decreased and as a result some of the cost of this bill would be shifted to the School Aid Fund, which receives 23% of gross income tax collections.

Fiscal Analyst: J. Wortley

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.