

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4136-01
Bill No.: HB 2036
Subject: Taxation and Revenue - General; Tax Credits; Higher Education; Physicians;
 Department of Revenue; Department of Commerce and Insurance
Type: Original
Date: February 25, 2020

Bill Summary: This proposal authorizes a tax credit for certain physicians providing preceptorships.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
General Revenue*	\$0	\$0	\$0
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

*Fiscal impact to General Revenue to net to zero as a result of the revenue loss equal to the amount of tax credits awarded which is later reimbursed from the Medical Preceptor Fund by an amount equal to the amount of tax credits awarded.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Medical Preceptor Fund	\$0	\$4 to \$203,051	\$852 to \$203,051
Total Estimated Net Effect on Other State Funds	\$0	\$4 to \$203,051	\$852 to \$203,051

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Medical Preceptor Fund	0 FTE	0 to 2 FTE	0 to 2 FTE
Total Estimated Net Effect on FTE	0 FTE	0 to 2 FTE	0 to 2 FTE

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget & Planning Division (B&P)** state this proposed legislation would create a tax credit for any community-based faculty preceptor who serves as the community-based faculty preceptor for a medical student core preceptorship or a physician assistant student core preceptorship. The credit is equal to \$1,000 for each preceptorship, up to a maximum of \$3,000 per tax year if he or she completes up to three preceptorship rotations and did not receive any direct compensation for the preceptorships. The cumulative amount of tax credits awarded under this section shall not exceed \$200,000 per year.

The Division of Professional Registration is authorized to exceed the \$200,000 program cap in any amount not to exceed the amount of funds remaining in the Medical Preceptor Fund. This would result in an unknown negative impact on Total State Revenue (TSR) if the program cap is exceeded.

Effective January 1, 2021, funding for the tax credit program shall be generated from a license fee increase of \$7 per license for physicians and surgeons and from a license fee increase of \$3 per license for physician assistants. This money would be deposited into the Medical Preceptor Fund. At the end of every tax year, an amount equal to the dollar amount of all tax credits claimed under this section shall be transferred from the Medical Preceptor Fund to General Revenue (GR). Any excess money shall remain in the Medical Preceptor Fund.

This proposal will lead to an increase in TSR, as additional fees are collected and deposited in the Medical Preceptor Fund. Concurrently, GR and TSR will decrease as tax credits are redeemed. The net impact to TSR could be positive or negative in a given year, depending on fees collected and credits redeemed. While GR collections will decrease, these losses are to be offset by a transfer from the Medical Preceptor Fund; such a transfer will be subject to appropriation. B&P defers to the Division of Professional Registration on specific revenue impacts.

This proposal could impact the calculation under Article X, Section 18(e).

Oversight notes B&P assumes TSR will increase as a result of the increase in the licensee fee(s) for physicians and surgeons and for physician assistants. Oversight notes B&P further assumes TSR will decrease as a result of the tax credit authorized under this proposed legislation.

Officials from the **Missouri Department of Commerce and Insurance (DCI)** state the increased fee of \$7 per license for physicians and surgeons would generate approximately \$198,611 (28,373 active physicians * \$7 fee). DCI further states the increased fee of \$3 per license for physician assistants would generate approximately \$4,440 (1,480 active assistant physicians * \$3 fee).

ASSUMPTION (continued)

DCI further states this proposed legislation would allow a community based faculty preceptor to claim a tax credit in the tax year which he or she completes the preceptorship rotations and shall submit supporting documentation, as prescribed by the Division of Professional Registration (the Division) under DCI. No more than 200 preceptorship tax credits shall be authorized by the Division in a calendar year. The cumulative amount of tax credits awarded under this section shall not exceed \$200,000.

DCI assumes the fee increase will begin at the annual license renewal in November 2021 (Fiscal Year 2022). DCI further assumes appropriation would not occur until July 2022 (Fiscal Year 2023). If the number of licensees largely vary from the estimates provided by DCI above, the fee will be adjusted accordingly.

Oversight assumes an appropriation could occur as early as Fiscal Year 2022. Therefore, Oversight will report the fiscal impact of this proposed legislation beginning in Fiscal Year 2022.

DCI assumes two (2) FTE Executives I are needed to provide technical support, process applications for licensure and respond to inquiry related to licensure law and/or rules and regulations.

Oversight notes DCI assumes two (2) FTE Executives I are required in order to administer the responsibilities of the tax credit authorized under this proposed legislation. This proposed legislation would require that the Division under DCI authorize tax credits to taxpayers who complete preceptorship rotations, review aggregate authorizations in conjunction with the cap(s) established, provide priority to taxpayers who provide preceptorships in rural areas of Missouri and evaluate the fee increase annually.

Oversight will include DCI's FTE cost in this fiscal note. Oversight will report the FTE cost being credited to the Medical Preceptor Fund as this proposed legislation states, upon appropriation, the funds in the Medical Preceptor Fund shall be used by the Division for the administration of the tax credit program.

Officials from the **Missouri Department of Revenue (DOR)** state, beginning January 1, 2021, any community-based faculty preceptor who serves as the community-based faculty preceptor for a medical student core preceptorship or a physician assistant student core preceptorship (and serves without direct compensation) shall be allowed a credit in an amount equal to one thousand dollars (\$1,000) for each preceptorship, up to a maximum of three thousand dollars (\$3,000) per tax year (for three students). No more than 200 preceptorship tax credits (\$200,000) shall be authorized annually. DOR notes the first tax returns reporting this tax credit will be filed starting January 1, 2022 (FY 2022).

ASSUMPTION (continued)

DOR contacted the University of Missouri's Medical School (the School) to determine if any of their medical students participate in such a program. The School stated they have 250 certified physicians registered to serve as a community-based faculty preceptor and that the University of Missouri does not provide any compensation for these duties. The School has 25 first year students, 25 third year students and 25 fourth year students who participate in the Rural Track Program at the University. Those 75 students meet the definition outlined in the bill. Each of the 25 first year and 25 fourth year students work with one community-based faculty preceptor. The 25 third year students each work with at least three community-based faculty preceptors each. Therefore, at least the 125 physicians a year that are working with the School could potentially qualify for this tax credit.

DOR notes that the School is not the only medical school in Missouri that has such a program. Therefore, DOR assumes the full \$200,000 in tax credits may be utilized annually.

This proposal also creates funding for the administration of the tax credit. An additional license fee of \$7.00 per physician and surgeon and an additional license fee of \$3.00 per physician assistant is to be assessed starting January 1, 2021. These fees are to be transferred into the Medical Preceptor Fund. DOR contacted the Department of Commerce and Insurance who informed DOR that there are 28,373 active physicians and 1,480 assistant physicians. Therefore, this fund could result in \$198,611 in physician fees and \$4,440 in assistant physician fees being collected annually. The Department of Commerce and Insurance noted that the annual license fees are paid by the physicians and assistant physicians in November. The state would expect to receive the fees starting in Fiscal Year 2022 (November 2021) totaling \$203,051 annually.

This proposed legislation states that the money received into the Medical Preceptor Fund is to be used for the administration of the tax credit. Additionally, this proposal states that the money collected at the end of each tax year is to be transferred from the Medical Preceptor Fund to General Revenue in an amount equal to the total dollar amount of credits claimed. DOR assumes, based on the possible usage of the program, the entire \$200,000 would need to be transferred to General Revenue.

DOR assumes this proposed legislation will result in a maximum increase of 200 tax credit redemptions and an unknown, but minimal, increase in errors and correspondence. DOR anticipates the additional responsibilities of this proposed legislation can be absorbed with existing resources. However, if the increase is significant, or if multiple bills pass increasing the number of tax credit redemptions, DOR will request additional FTE through the appropriation process based on the following:

ASSUMPTION (continued)

One (1) Revenue Processing Technician I for every 6,000 tax credits redeemed, one (1) Revenue Processing Technician I for every 7,600 errors/correspondence generated.

DOR notes \$2,000 is required for forms and programming changes.

Oversight notes DOR assumes the additional responsibilities of the tax credit created under this proposed legislation can be absorbed with existing FTE. Oversight does not have any information to the contrary. Oversight further notes DOR requires \$2,000 for forms and programming changes. Oversight assumes the \$2,000 is minimal and can be absorbed by DOR with existing resources. However, should the cost become significant, DOR may seek additional expense and equipment through the appropriation process.

Officials from the **Joint Committee on Administrative Rules (JCAR)** assume this proposal is not anticipated to cause a fiscal impact beyond current appropriations.

Oversight assumes JCAR will be able to administer any rules resulting from this proposal with existing resources.

Officials from the **Office of the Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Oversight notes the **Missouri State Treasurer's Office** has stated the proposed legislation would not have a direct fiscal impact on their respective organization. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for this organization.

ASSUMPTION (continued)

Oversight notes, even as the cumulative amount of tax credits is permitted to exceed the \$200,000 cap established under this proposed legislation, it is unclear whether more than two hundred preceptorship tax credits may be authorized by the Division for any one calendar year.

Oversight notes Tax Year 2021 tax returns will not be filed claiming the credit until after January 1, 2022 (Fiscal Year 2022).

Oversight further notes the tax credits would be awarded to a community-based faculty preceptor, which is defined as “a physician or physician assistant who is licensed in Missouri and provides preceptorships to a Missouri medical student or physician assistant student without direct compensation for the work of precepting”. Oversight further notes “taxpayer” is defined as “any individual, firm, partner in a firm, corporation, or shareholder in an S corporation doing business in this state and subject to the state income tax imposed under Chapter 143, excluding withholding tax imposed under Sections 143.191 to 143.265”. Oversight assumes, then, only individual taxpayer(s) would receive a tax credit authorized under this proposed legislation; having no direct impact to business entities.

This proposed legislation creates the Medical Preceptor Fund which is created to fund the tax credit program created under this proposed legislation by obtaining and later transferring (or retaining amounts in excess of the total amount of tax credits claimed in any given year) revenues generated as a result of a license fee increase of \$7 for physicians and surgeons and a license fee increase of \$3 for physician assistants. The license fee increase shall take effect on January 1, 2021. Based on information stated by DCI, the revenues from the license fee increase would not be recognized until November 2021 (Fiscal Year 2022) when the license renewal occurs.

The Medical Preceptor Fund is to, at the end of each tax year, transfer an amount equal to the total dollar amount of tax credits claimed under this section from the Medical Preceptor Fund to GR. Any moneys in the Medical Preceptor Fund in excess of the amount of tax credits claimed shall remain in the fund.

As noted, this proposed legislation states the cumulative amount of tax credits that may be awarded each calendar year shall not exceed \$200,000 unless there are funds in excess of \$200,000 in the Medical Preceptor Fund that is readily available to be transferred to GR to provide additional tax credits.

Based on the cumulative amount of tax credits that may be authorized (\$200,000) and the total amount of revenue generated as a result of this proposed legislation, as estimated by DCI and DOR (\$203,051), Oversight assumes the cap of \$200,000 could be claimed each year.

ASSUMPTION (continued)

However, this proposed legislation requires that the revenue in the Medical Preceptor Fund be appropriated by the General Assembly in order for the funds to be used by the Division for the administration of the tax credit program.

Therefore, Oversight assumes, should there be no appropriation by the General Assembly, there would be no tax credits authorized/awarded to qualifying taxpayers.

Furthermore, as this proposed legislation states, upon appropriation, the revenues in the Medical Preceptor Fund shall be used by the Division for the administration of the tax credit, Oversight assumes DCI's FTE cost(s) will be credited to the Medical Preceptor Fund. This will decrease the amount of revenue available to be transferred to GR to reimburse the cost of the tax credit program and ultimately reduce the total amount of tax credits that may be awarded.

For purposes of this fiscal note, Oversight will show the fiscal impact to GR to net to zero (transfer out - tax credit allowances; transfer in - funds transferred from the Medical Preceptor Fund to GR) by reporting a revenue reduction equal to "\$0 to \$59,000" in Fiscal Year 2022 (subject to appropriation; \$200,000 tax credit cap less DCI FTE cost [total number of \$1,000 values remaining after DCI costs]) and reporting a revenue gain equal to "\$0 to \$59,000" in Fiscal Year 2022 (subject to appropriation; amounts transferred from the Medical Preceptor Fund for tax credits after DCI FTE costs [total number of \$1,000 values remaining after DCI costs]).

Oversight will show the fiscal impact to the Medical Preceptor Fund by reporting a revenue gain equal to an amount "Up to \$203,051" in Fiscal Year 2022 (estimated amount of revenue generated from license fee increase) and reporting a cost equal to the \$0 to the FTE cost(s) reported by DCI (subject to appropriation) and a revenue reduction by an amount equal to "0 to \$59,000" in Fiscal Year 2022 (subject to appropriation; reimbursement of GR cost of the tax credit program). Oversight will show the same in Fiscal Year 2023 using Fiscal Year 2023 FTE costs as reported by DCI.

<u>FISCAL IMPACT - State Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
GENERAL REVENUE FUND			
<u>Revenue Reduction</u> - Section 135.690 - Transfer Out - Tax credits to physicians providing preceptorships	\$0	\$0 to (\$59,000)	\$0 to (\$74,000)
<u>Revenue Gain</u> - Section 135.690 - Transfer In - Reimbursement of tax credit cost from the Medical Preceptor Fund	<u>\$0</u>	<u>\$0 to \$59,000</u>	<u>\$0 to \$74,000</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
MEDICAL PRECEPTOR FUND			
<u>Revenue Gain</u> - Section 135.690 - Transfer In - Increase in license fee for physicians and surgeon and physician assistants	\$0	Up to \$203,051	Up to \$203,051
<u>Cost</u> - Section 135.690 - DCI - Administration of tax credit program Personal Services (2 FTE) Fringe Benefits Equipment and Expense Total Cost - DCI	\$0	\$0 to (\$73,626)	\$0 to (\$75,106)
	\$0	\$0 to (\$47,491)	\$0 to (\$47,983)
	<u>\$0</u>	<u>\$0 to (\$22,930)</u>	<u>\$0 to (\$5,110)</u>
	\$0	\$0 to (\$144,047)	\$0 to (\$128,199)
<u>Revenue Reduction</u> - Section 135.690 - Transfer Out - Reimbursement of GR for cost of tax credits to physicians providing preceptorships	<u>\$0</u>	<u>\$0 to (\$59,000)</u>	<u>\$0 to (\$74,000)</u>
ESTIMATED NET EFFECT ON MEDICAL PRECEPTOR FUND	<u>\$0</u>	<u>\$4 to \$203,051</u>	<u>\$852 to \$203,051</u>
Estimated Net FTE Change - Medical Preceptor Fund - DCI	0 FTE	0 to 2 FTE	0 to 2 FTE

<u>FISCAL IMPACT - Local Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

Beginning January 1, 2021, this bill creates a tax credit for any community-based faculty preceptor, as defined in the bill, who serves as the community-based faculty preceptor for a medical student core preceptorship or a physician assistant student core preceptorship, as defined in the bill. The amount of the tax credit will be worth \$1000 for each preceptorship, up to a maximum of \$3000 per tax year, if he or she completes up to three preceptorship rotations during the tax year and did not receive any direct compensation for the preceptorships. To receive the credit, a community-based faculty preceptor must claim the credit on his or her return for the tax year in which he or she completes the preceptorship rotations and must submit supporting documentation as prescribed by the Division of Professional Registration within the Department of Commerce and Insurance.

This tax credit is nonrefundable, cannot be carried forward or carried back, transferred, assigned or sold. No more than 200 preceptorship tax credits will be authorized for any one calendar year and will be awarded on a first-come, first-served basis, capped at a total amount of \$200,000 per year. However, to the greatest extent possible, community-based faculty preceptors who provide preceptorships in rural areas of Missouri will be given first priority for awards of the tax credit.

Additionally, this bill creates a "Medical Preceptor Fund" which is funded from a license fee increase of \$7 per license for physicians and surgeons and from a license fee increase of \$3 per license for physician assistants. This will be a dedicated fund designed to fund additional tax credits that may exceed the established cap of \$200,000 per year.

The Division of Professional Registration will administer the tax credit and each taxpayer claiming a tax credit must file an affidavit with his or her income tax return, affirming that he or she is eligible for the tax credit. Additionally, the Department of Commerce and Insurance and the Department of Revenue will jointly promulgate rules to implement the provisions of this bill.

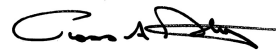
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration - Budget & Planning Division
Missouri Department of Commerce and Insurance
Missouri Department of Revenue
Joint Committee on Administrative Rules
Missouri Secretary of State's Office
Missouri State Treasurer's Office



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