

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1540H.02C
Bill No.: HCS for HB 689
Subject: Taxation and Revenue - General; Tax Credits; Education, Higher; Physicians;
Revenue, Department of; Commerce and Insurance, Department of
Type: Original
Date: February 24, 2021

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
General Revenue*	\$0	\$0	\$0
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

*The fiscal impact to General Revenue nets 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.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Medical Preceptor Fund	\$0	Up to or could exceed \$399	Up to or could exceed \$399
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	Up to or could exceed \$399	Up to or could exceed \$399

*The fee increase (additional revenue) to the Medical Preceptor Fund (license fee increase(s)) is offset by Transfers Out (Reimbursement to GR for tax credit program) equal to the estimated number of \$1,000 values available from license fee increase(s).

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

☐ Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

In response to the previous version of this proposed legislation, officials from the **Office of Administration – Budget & Planning Division (B&P)** stated 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 (3) 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 \$200,000 program cap can be exceeded 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, 2022, 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 fund.

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

In response to the previous version of this proposed legislation, officials from the **Missouri Department of Commerce and Insurance (DCI)** stated there are approximately 29,080 active physicians licensed in Missouri. A seven dollar (\$7) fee increase would generate approximately \$203,560. Furthermore, there are approximately 1,613 active assistant physicians licensed in Missouri. A three dollar (\$3) fee increase would generate approximately \$4,839. DCI estimates a total of \$208,399 would be generated as a result of the fee increase(s).

No more than 200 preceptorship tax credits shall be authorized in a calendar year. The cumulative amount of tax credits awarded shall not exceed \$200,000.

It is estimated that the collection of fee increase(s) will begin at annual renewal in **November 2022**.

If the number of licenses largely vary from the number estimated above, the licensure fee(s) will be adjusted accordingly.

Officials from the **Missouri Department of Revenue (DOR)** state, beginning January 1, 2022, 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 (3) 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, 2023 (Fiscal Year 2023).

DOR contacted the University of Missouri's Medical School in 2020, to determine if any of their medical students participate in such a program. The University of Missouri stated there are 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 University of Missouri has 25 first year students, 25 third year students and 25 fourth year students participate in the Rural Track program at the University of Missouri. Those 75 students meet the definition outlined in the bill. Each of the 25 first year and 25 fourth year students work with 1 each community-based faculty preceptor. The 25 third year students each work with at least 3 community-based faculty preceptors each. Therefore, at least the 125 physicians a year that are working with the University Medical School could potentially qualify for this tax credit.

DOR notes that the University of Missouri 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 proposed legislation 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, 2022. These fees are to be transferred into the Medical Preceptor Fund. DOR contacted the Missouri Department of Commerce and Insurance, who informed DOR that there are 29,080 active physicians and 1,613 assistant physicians.

Therefore, this fund could result in \$203,560 in physician fees and \$4,839 in assistant physician fees being collected annually. The Missouri 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 2023 (November 2022); \$208,399 annually.

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

DOR states this proposed legislation requires DOR to administer the tax credit program created. DOR notes, DOR does not administer tax credit programs that require taxpayers to meet certain criteria. DOR hopes to be able to administer this program with existing resources.

DOR states this proposed legislation will result in a maximum increase of 200 tax credit redemptions and an unknown, but minimal increase to errors/correspondence generated. DOR assume the responsibilities of the tax credit program created can be absorbed with existing resources. If the increase is significant or if multiple bills pass that increase the number of tax credits redeemed, DOR will request FTE through the appropriation process based on the following: one (1) FTE Associate Customer Service Representative for every 6,000 tax credits redeemed, one (1) FTE Associate Customer Service Representative for every 7,600 errors/correspondence generated and \$2,000 for forms and programming changes.

Oversight notes the Missouri Department of Revenue assumes the responsibilities of the tax credit program created under this version of the proposed legislation and can be absorbed with existing resources. Oversight does not have any information to the contrary.

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 (200) preceptorship tax credits may be authorized in any one (1) calendar year. For purposes of this fiscal note, when reporting the estimated impact(s), Oversight will assume some taxpayer's will claim more than one (1) tax credit for the completion of more than one (1) preceptorship rotations.

Oversight notes, based on information reported by the Missouri Department of Commerce and Insurance, the revenues from the license fee increase would not be recognized until November 2022 (Fiscal Year 2023) when the license renewals occur. Thus, Oversight assumes the first deposit(s) into the Medical Preceptor Fund would occur in Fiscal Year 2023.

Oversight notes Tax Year 2022 tax returns will not be filed claiming the credit until after January 1, 2023 (Fiscal Year 2023).

This proposed legislation creates the Medical Preceptor Fund, which shall fund the tax credit program created 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, 2022.

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 (could exceed \$200,000) and the total amount of revenue generated as a result of the license fee increase(s), as estimated by the Missouri Department of Commerce and Insurance and the Missouri Department of Revenue (\$208,399), Oversight assumes \$200,000 or more in tax credits could be claimed each year.

Oversight notes that the proposed legislation states the Medical Preceptor Fund shall be used solely by the Missouri Department of Revenue for the administration of the tax credit program. Oversight assumes, then, that the Missouri Department of Revenue could collect administrative cost(s) (FTE, equipment & expense) from the Medical Preceptor Fund.

Oversight notes, however, the Missouri Department of Revenue assumes the responsibilities of the new tax credit program created can be absorbed with existing resources. Therefore, Oversight does not anticipate the Medical Preceptor Fund will be reduced as a result of payment(s) for administrative cost(s).

For purposes of this fiscal note, Oversight will report a revenue reduction to GR (transfer out – tax credit allowances) and a revenue gain to GR (transfer in – reimbursement from Medical Preceptor Fund) equal to \$208,000 beginning in Fiscal Year 2023 (the largest number of \$1,000 values that could be awarded in tax credits from the estimated license fee increase(s)). Oversight assumes, then, GR will net zero (\$0).

Oversight will report a revenue gain to the Medical Preceptor Fund by an amount “Up to \$208,399” beginning in Fiscal Year 2023. Oversight will report a revenue reduction to the Medical Preceptor Fund by an amount up to the amount that would be transferred to GR to reimburse GR for the tax credit(s) awarded.

Oversight notes, if the total amount of tax credits claimed in any given year is less than the amount readily available in the Medical Preceptor Fund, the excess amount(s) shall remain in the Medical Preceptor Fund.

Officials from the **Office of the Secretary of State (SOS)** note many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. 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 SOS for administrative rules is less than \$5,000. SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, 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 SOS can sustain with SOS's core budget. Therefore, 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 proposed legislation. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriations process.

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

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

Officials from the **Missouri State Treasurer's Office** do not anticipate this proposed legislation will result in a fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will not report a fiscal impact for this organization.

<u>FISCAL IMPACT –</u> <u>State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
GENERAL REVENUE FUND			
<u>Revenue Reduction –</u> Section 135.690 – Preceptorship Tax Credit	\$0	(\$208,000)	(\$208,000)
<u>Revenue</u> <u>Gain/Transfer In –</u> Section 135.690 – Reimbursement For Tax Credit From Medical Preceptor Fund	\$0	\$208,000	\$208,000
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

MEDICAL PRECEPTOR FUND			
<u>Revenue Gain – Section 135.690 – Increase In License Fee For Physicians, Surgeons, and Physician Assistants</u>	\$0	Up to \$208,399	Up to \$208,399
<u>Revenue Reduction/Transfer Out – Section 135.690 – Reimbursement To GR For Cost Of Tax Credits</u>	\$0	Up to (\$208,000)	Up to (\$208,000)
ESTIMATED NET EFFECT ON MEDICAL PRECEPTOR FUND	\$0	<u>Up to or could exceed \$399</u>	<u>Up to or could exceed \$399</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
	<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, 2022, 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.

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.

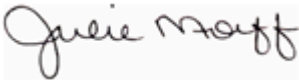
Additionally, this bill creates a "Medical Preceptor Fund" which is funded from a license fee increase of seven dollars per license for physicians and surgeons and from a license fee increase of three dollars per license for physician assistants. This will be a dedicated fund designed to fund additional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

The Department of Revenue 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.

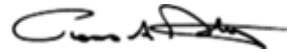
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

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



Julie Morff
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February 24, 2021



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