

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4342S.01I
 Bill No.: SB 801
 Subject: Taxation and Revenue - Income; Tax Credits; Physicians
 Type: Original
 Date: February 24, 2022

Bill Summary: This proposal authorizes a tax credit for medical preceptorships.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
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 2023	FY 2024	FY 2025
Medical Preceptor Fund	\$0	Up to or could exceed \$501	Up to or could exceed \$12
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	Up to or could exceed \$501	Up to or could exceed \$12

*The fee increase (additional revenue) to the Medical Preceptor Fund (license fee increase(s)) is offset by Transfers Out (reimbursement to General Revenue Fund for tax credit program) equal to the estimated number of \$1,000 values available after Missouri Department of Commerce and Insurance's administrative costs.

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Medical Preceptor Fund	0 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	0 FTE	1 FTE	1 FTE

- 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 2023	FY 2024	FY 2025
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration – Budget & Planning (B&P)** assume the proposal 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 TSR if the program cap is exceeded.

Effective January 1, 2023, 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 GR. Any excess money shall remain in the fund.

This proposal will lead to an increase in total state revenues, as additional fees are collected and deposited in the Medical Preceptor Fund. Concurrently, general and total state revenues 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 general revenue 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).

Officials from the **Missouri Department of Commerce and Insurance (DCI)** state there are approximately 30,095 active physicians licensed in Missouri. A seven dollar (\$7) fee increase would generate approximately \$210,665. Furthermore, there are approximately 1,830 active assistant physicians licensed in Missouri. A three dollar (\$3) fee increase would generate approximately \$5,490. DCI estimates a total of \$216,155 would be generated as a result of the fee increase(s).

DCI states, a community based faculty preceptor shall claim the tax credit (\$1,000 up to maximum of \$3,000) in the tax year which he or she completes the preceptorship rotations and shall submit supporting documentation to the Division of Professional Registration.

No more than 200 preceptorship tax credits shall be authorized by the Division of Professional Registration 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 2023**. Appropriation will not be received until July 2024.

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

DCI anticipates the need for one (1) FTE Regulatory Auditor to administer the tax credit program.

Oversight will include the Missouri Department of Commerce and Insurance's administrative costs (FTE). Oversight will report the administrative cost being paid from the Medical Preceptor Fund as this proposed legislation states the funds in the Medical Preceptor Fund may be used by the Division of Professional Registration for the administration of the tax credit program created.

Furthermore, since the cost will be paid from the Medical Preceptor Fund, the amount of revenue available to be transferred to GR, to reimburse the cost of the tax credit program, will be reduced by all administrative costs, which could result in a reduction in the number of tax credits that may be awarded. Based on the estimated revenue gain from the license fee increase(s), in conjunction with the Missouri Department of Commerce and Insurance's administrative costs, **Oversight** estimates a range of 125 tax credits (at \$1,000) or 41 tax credits (at \$3,000) will be available in the Fiscal Year 2023. Consequently, **Oversight** estimates a range of 135 tax credits (\$1,000) and 45 tax credits (at \$3,000) will be available in the Fiscal Year 2024.

Officials from the **Department of Revenue (DOR)** assume Beginning January 1, 2023, 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, 2024 (FY 2024).

The Department reached out to the University of Missouri's Medical School in 2020, to determine if any of their medical students participate in such a program. They stated they have 250 certified physicians registered to serve as a community-based faculty preceptor and that the University does not provide any compensation for these duties. They have 25 first year students, 25 third year students and 25 fourth year students 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 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 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, 2023. These fees are to be transferred into the Medical Preceptor Fund. The Department checked with the 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 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 2024 (November 2023) annually.

This proposal states that the money received into the Medical Preceptor Fund is to cover the administration costs 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 that based on the possible usage of the program the entire \$200,000 would need to be transferred to General Revenue to cover the tax credit program.

This proposal allows that if the Medical Preceptor Fund collects more money than the \$200,000 cap on the tax credit, the Department of Commerce and Insurance can allow additional preceptorship credits to be claimed.

This proposal requires the Department of Commerce and Insurance to administer the tax credit including determining who is eligible for the credit.

This is a new tax credit that will need to be added to the MO-TC form as well as into the individual income tax filing system. The estimated cost of this credit is \$3,596.

This legislation will result in a maximum increase of 200 tax credits redeemed and an unknown, but minimal increase errors/correspondences generated. The Department anticipates being able to absorb this increase. If the increase is significant or if multiple bills pass that increase the number of tax credits redeemed, the Department will request FTE through the appropriations process based on the following:

1 FTE Associate Customer Service Rep for every 6,000 credits redeemed
1 FTE Associate Customer Service Rep for every 7,600 errors/correspondence generated

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

Oversight notes Tax Year 2023 tax returns will not be filed claiming the credit until after January 1, 2024 (Fiscal Year 2024).

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.

Oversight notes there are currently six medical schools in Missouri. The potential 125 tax credit applicants, as provided by the DOR, only represent the credits potentially awarded for applicants of one school. Given there are 5 other medical schools, and potential for more physician or assistants physicians in other schools who could potentially apply for this tax credit, it is probable that Medical Preceptor Fund will be able to issue up to maximum amount and exhausting all the funds collected annually. This bill specifically notes that the application for such a tax credits will be handled on first-come - first-serve basis. The current projection shows, after paying all administrative costs, this fund will be able to provide tax credit for about 125 to 135 applicants in FY 2024 & FY 2025 respectively (at \$1,000 per applicant).

Oversight will report a revenue gain to the Medical Preceptor Fund by an amount “Up to \$216,155” beginning in Fiscal Year 2024. Oversight will report a cost to the Medical Preceptor Fund by the amount(s) reported as administrative costs for the Missouri Department of Commerce and Insurance totaling \$90,654 in FY 2024 & \$81,143 in FY 2024 for (1) FTE. Oversight will report a revenue reduction to the Medical Preceptor Fund by an amount up to the difference between the revenue gain and the cost(s); 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 **Missouri State Treasurer’s Office, Department of Economic Development**, and the **Department of Health and Senior Services** each do not anticipate this proposed legislation will result in a fiscal impact on their organizations. Oversight does not have any information to the contrary. Therefore, **Oversight** will not report a fiscal impact for these organizations.

Rule Promulgation:

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 **Office of the Secretary of State (SOS)** assume 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 SOS 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 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.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
GENERAL REVENUE FUND			
<u>Revenue Reduction – Section 135.690 – Preceptorship Tax Credit</u>	\$0	(\$125,000)	(\$135,000)
<u>Revenue Gain/Transfer In – Section 135.690 – Reimbursement For Tax Credit From Medical Preceptor Fund</u>	<u>\$0</u>	<u>\$125,000</u>	<u>\$135,000</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>FISCAL IMPACT – State Government (continued)</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
MEDICAL PRECEPTOR FUND			
<u>Revenue Gain – Section 135.690 – Increase In License Fee For Physicians, Surgeons, and Physician Assistants</u>	\$0	Up to \$216,155	Up to \$216,155
<u>Cost – Section 135.690 – DCI</u>			
Personnel Services	\$0	(\$44,005)	(\$44,890)
Fringe Benefits	\$0	(\$29,547)	(\$29,844)
Equipment & Expense	\$0	(\$15,878)	(\$5,154)
Other Cost (PR Transfer Cost + OA Allocation Cost)	\$0	(\$1,224)	(\$1,255)
<u>Total Cost - DCI</u>	\$0	(\$90,654)	(\$81,143)
FTE Change – DCI	0 FTE	1 FTE	1 FTE

<u>Revenue Reduction/Transfer Out – Section 135.690 – Reimbursement To GR For Cost Of Tax Credits</u>	<u>\$0</u>	<u>Up to (\$125,000)</u>	<u>Up to (\$135,000)</u>
ESTIMATED NET EFFECT ON MEDICAL PRECEPTOR FUND	<u>\$0</u>	<u>Up to or could exceed \$501</u>	<u>Up to or could exceed \$12</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
	<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

For all tax years beginning on or after January 1, 2023, this act authorizes a taxpayer to claim a tax credit for serving as a community-based faculty preceptor for a medical student core preceptorship or a physician assistant student core preceptorship, as such terms are defined in the act. The tax credit shall be equal to \$1,000 for each preceptorship, but not to exceed \$3,000 in any tax year. Tax credits authorized by the act shall not be refundable or transferable, and shall not be carried forward or backward to any other tax year. The total amount of tax credits authorized in a given year shall not exceed \$200,000. Additional tax credits may be authorized provided in amount not to exceed the excess funds available in the Medical Preceptor Fund, as created by the act.

Beginning January 1, 2023, the Division of Professional Registration of the Missouri Department of Commerce and Insurance shall increase the license fees for physicians and surgeons by \$7 and for physician assistants by \$3, with such revenues to be deposited in the Medical Preceptor Fund. At the end of each tax year, an amount equal to the total dollar amount of tax credits claimed during the tax year shall be transferred to the General Revenue Fund. (Section 135.690)

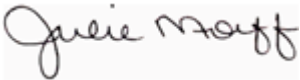
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

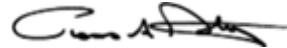
Office of Administration – Budget & Planning Division
 Missouri Department of Commerce and Insurance

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Missouri Department of Revenue
Department of Economic Development
Department of Health and Senior Services
Missouri Secretary of State's Office
Missouri State Treasurer's Office
Joint Committee on Administrative Rules



Julie Morff
Director
February 24, 2022



Ross Strobe
Assistant Director
February 24, 2022