

**Department of Legislative Services**  
 Maryland General Assembly  
 2005 Session

**FISCAL AND POLICY NOTE**

House Bill 203  
 Ways and Means

(Delegate Hixson, *et al.*)

**Income Tax Credit for Services Donated by Health Care Professionals**

This bill allows a State income tax credit for health care professionals who donate services to community health organizations (CHOs) or local health departments that provide health care services to low-income individuals at reduced or no charges. The maximum credit amount available for each year is limited to \$250,000. The bill provides that CHOs and local health departments are authorized to submit proposals to the Department of Health and Mental Hygiene (DHMH) for the allocation of tax credits for health care professionals who donate services to the eligible organization.

The bill takes effect July 1, 2005 and applies to tax years 2005 through 2008. The bill terminates June 30, 2009.

**Fiscal Summary**

**State Effect:** General fund revenues would decrease by \$250,000 annually in FY 2006 through 2009. Special fund expenditures would increase by approximately \$102,300 in FY 2006, which includes one-time tax form changes and the hiring of a contractual employee at DHMH to administer the program. Future year expenditures reflect salaries, operating costs, and inflation.

| (in dollars)   | FY 2006     | FY 2007     | FY 2008     | FY 2009     | FY 2010 |
|----------------|-------------|-------------|-------------|-------------|---------|
| GF Revenue     | (\$250,000) | (\$250,000) | (\$250,000) | (\$250,000) | \$0     |
| SF Expenditure | 102,300     | 53,500      | 56,000      | 58,500      | 0       |
| Net Effect     | (\$352,300) | (\$303,500) | (\$306,000) | (\$308,500) | \$0     |

*Note: ( ) = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect*

**Local Effect:** None. The credit is taken against the State income tax only.

**Small Business Effect:** Minimal.

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## Analysis

**Bill Summary:** A health care professional is defined as an individual providing health care services who is licensed, certified, or otherwise authorized to provide health care services as: (1) an audiologist, hearing aid dispenser, or speech-language pathologist; (2) a dentist; (3) a nurse; (4) an optometrist; (5) a physical therapist; (6) a physician; (7) a physician's assistant; (8) a social worker; (9) a professional counselor or therapist; and (10) a psychologist.

The proposals submitted by CHOs or local health departments to DHMH are required to outline the program to be conducted, the low-income population to be assisted, the estimated value of services to be donated to the program, and the plans for implementing the program. Upon approval of the plan by DHMH, the CHO or local health departments may assign tax credit amounts allocated to the program for a taxable year to health care professionals who donate services to the approved program.

The amount of the credit that can be claimed by a health care professional is equal to the lesser of 25% of the value of health care services donated during the taxable year or the amount of the credit assigned by the eligible organization to the health care professional for the taxable year. The bill provides that the value of the time donated cannot exceed the reasonable cost for similar services from other providers or \$50 per hour. The maximum value of the credit claimed cannot exceed \$500 or the income tax liability. No credit may be assigned to a health care professional who donates less than \$5,000 worth of services.

DHMH, in consultation with the Comptroller, is required to evaluate the effectiveness of the tax credit and report to the Senate Budget and Taxation Committee and the House Ways and Means Committee by November 1, 2007.

**Current Law:** No State tax credit of this type exists.

**State Revenues:** The bill limits the total number of credits that can be approved in each year to \$250,000 in tax year 2005 through 2008. Legislative Services estimates that the total amount of credits available in each year will be allocated. As a result, general fund revenues would decrease by \$250,000 in fiscal 2006 through 2009.

**State Expenditures:** DHMH estimates that 54 organizations could qualify for allocations of tax credit provided by the bill – 24 local health departments and 30 CHOs.

DHMH reports that it would incur additional costs of \$103,714 in fiscal 2006 as a result of hiring three contractual employees, a program administrator, an accountant, and a clerk, to administer the program and report the information required by the bill. Legislative Services estimates that, based on the total number of eligible organizations and credits available in each year, the requirements of the program that cannot be absorbed within existing budgeted resources necessitate the hiring of one program administrator only. Special fund expenditures would increase by approximately \$58,000 in fiscal 2006. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses. Future year expenditures reflect: (1) a full salary with 4.6% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

The Comptroller's Office reports that it would incur a one-time expenditure increase of \$44,400 to add the tax credit to the personal income tax form. This includes data processing changes to the SMART income tax return and processing systems, and systems testing.

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### **Additional Information**

**Prior Introductions:** Similar bills were introduced in the 2004, 2002, and 2001 sessions. HB 1514 of 2004 was not reported from the House Rules and Executive Nominations Committee. HB 561 of 2002 was not reported from the House Ways and Means Committee. HB 292 of 2001 passed the House but was not reported from the Senate Budget and Taxation Committee.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, Department of Health and Mental Hygiene, Department of Legislative Services

**Fiscal Note History:** First Reader - February 17, 2005  
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