

**Department of Legislative Services  
Maryland General Assembly  
2008 Session**

**FISCAL AND POLICY NOTE**

House Bill 124  
Ways and Means

(Delegate Hixson, *et al.*)

**Income Tax Credit for Services Donated to Community Health Organizations**

This bill creates a State income tax credit for physicians and dentists who donate services to community health organizations (CHOs) that provide health care services to low income individuals at reduced or no charges. The bill provides that CHOs may submit proposals to the Department of Health and Mental Hygiene (DHMH) for the allocation of tax credits for physicians and dentists who donate services to the eligible organization. DHMH is authorized to award a maximum of \$250,000 in credits each year.

The bill takes effect July 1, 2008 and applies to tax years 2008 through 2011. The bill terminates June 30, 2012.

**Fiscal Summary**

**State Effect:** General fund revenues would decrease by \$250,000 annually in FY 2009 through FY 2012. General fund expenditures would increase by \$81,700 in FY 2009, which includes implementation costs at DHMH and one-time tax form changes and computer expenses at the Comptroller’s Office.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
GF Revenue	(\$250,000)	(\$250,000)	(\$250,000)	(\$250,000)	\$0
GF Expenditure	81,700	45,400	47,300	49,400	0
Net Effect	(\$331,700)	(\$295,400)	(\$297,300)	(\$299,400)	\$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 a dentist or a physician.

A proposal for tax credits submitted by CHOs 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 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 50% 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. DHMH is required to certify the eligibility of the health care professional claiming the credit.

The value of the time donated cannot exceed the reasonable cost for similar services from other providers or \$75 per hour; and the maximum value of the credit claimed cannot exceed \$1,000 or the income tax liability in the tax year. Any unused amount of credit cannot be carried forward to any other tax year. 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 adopt regulations to implement the program, evaluate the effectiveness of the tax credit, and report specified information to the Senate Budget and Taxation Committee and the House Ways and Means Committee by November 1, 2010.

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

**State Revenues:** The bill limits the total amount of credits that can be approved in each year to \$250,000 in tax years 2008 through 2011. Based on the requirement that a health care professional donate a minimum of \$5,000 annually and assuming each individual claims the maximum \$75 per hour, a maximum of 50 individuals could claim the credit in

each year. 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 2009 through 2012.

**State Expenditures:** DHMH estimates that 20 CHOs could qualify for allocations of tax credits provided by the bill. DHMH advises that it would incur additional costs beginning in fiscal 2009 as a result of hiring a contractual employee, a coordinator of special programs, to administer the program and satisfy the bill's reporting requirements. As a result, general fund expenditures could increase by \$47,748 in fiscal 2009, which accounts for the bill's July 1, 2008 effective date. This estimate includes a salary, fringe benefits, and ongoing operating expenses.

Positions	1
Salary and Fringe Benefits	\$42,873
Operating Expenses	<u>4,875</u>
<b>Total FY 2009 DHMH Expenditures</b>	<b>\$47,748</b>

Future year expenditures reflect: • a full salary with 4.4% annual increases and 6.8% employee turnover; and • 2% annual increases in ongoing operating expenses.

The Comptroller's Office reports that it would incur a one-time expenditure increase of \$34,000 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:** HB 40 of 2007, an identical bill, was not reported from the House Ways and Means Committee. Similar bills were introduced in the 2006, 2005, 2004, 2002, and 2001 sessions. HB 722 of 2006, HB 203 of 2005, and HB 561 of 2002 were not reported from Ways and Means. HB 1514 of 2004 was not reported from the House Rules and Executive Nominations Committee. HB 292 of 2001 received a favorable with amendments report from Ways and Means, 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 - January 25, 2008  
mam/hlb

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