

Department of Legislative Services
2012 Session

FISCAL AND POLICY NOTE

House Bill 227
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 health care services to community health organizations (CHOs). The Department of Health and Mental Hygiene (DHMH) is authorized to award a maximum of \$250,000 in credits each year.

The bill takes effect July 1, 2012, and applies to tax years 2012 through 2015. The bill terminates June 30, 2016.

Fiscal Summary

State Effect: General fund revenues decrease by \$250,000 annually in FY 2013 through FY 2016. General fund expenditures increase by \$79,500 in FY 2013, which reflects implementation costs at DHMH and one-time tax form changes and computer expenses at the Comptroller's Office. Expenditures discontinue after FY 2016 due to the bill's termination provision.

(in dollars)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
GF Revenue	(\$250,000)	(\$250,000)	(\$250,000)	(\$250,000)	\$0
GF Expenditure	\$79,500	\$33,400	\$35,700	\$37,300	\$0
Net Effect	(\$329,500)	(\$283,400)	(\$285,700)	(\$287,300)	\$0

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary: DHMH can award a maximum of \$250,000 in credits annually in tax years 2012 through 2015. In order to qualify, CHOs must (1) apply to DHMH for an allocation of credits; and (2) be a nonprofit organization that is organized in part or whole to provide health care services to low-income individuals at reduced or no charge. A proposal for tax credits must include information on the (1) program to be conducted; (2) low-income population to be assisted; (3) estimated value of services to be donated to the program; and (4) plans for implementing the program. Upon approval of the proposal by DHMH, the CHO may assign its allocated tax credits to health care professionals who donate services to the approved program during the year. A health care professional is defined as an individual who is licensed, certified, or otherwise authorized to provide health care services as a dentist or a physician.

CHOs may not assign a credit to a health care professional who donates less than \$5,000 worth of services to the 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 the 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 value of the time donated cannot exceed the reasonable cost for similar services from other providers or \$75 per hour.

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.

DHMH is required to certify to the Comptroller's Office the eligibility of the health care professional claiming the credit. DHMH, in consultation with the Comptroller, is also 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 December 1, 2014.

Current Law: Cash and noncash charitable contributions of property may be deductible for federal income tax purposes. The value of time donated to a charitable organization is not deductible; however, federal and State tax law provide that certain transportation expenses incurred while volunteering can be deducted.

Background: DHMH advises that the Family Health Administration's Office of Health Policy and Planning, Primary Care Office works with community health centers in federally designated areas to implement workforce programs to reduce provider shortages. One of the main goals of the Primary Care Office is to improve access to health care services for underserved communities.

In addition, the Maryland Community Health Resources Commission (MCHRC) was established in 2005 to increase access to health care for lower-income individuals and provide resources to community health resource centers. The MCHRC Fund receives a portion of the premium tax exemption subsidy provided by CareFirst. The fund is used to award grants and provide community assessments. Through community assessments, the commission helps communities develop more coordinated, integrated systems of community-based care, redirect nonemergency care from emergency rooms to other health care providers, and assist individuals in establishing medical homes.

State Revenues: The bill limits the total amount of credits that can be approved in each year to \$250,000 in tax years 2012 through 2015. It is estimated that DHMH will award the maximum amount of credits by the end of calendar 2012 and in each subsequent year. As a result, general fund revenues will decrease by \$250,000 annually in fiscal 2013 through 2016.

State Expenditures: DHMH advises that it would incur additional costs beginning in fiscal 2013 as a result of hiring a part-time contractual employee to administer the program and satisfy the bill's reporting requirements. As a result, general fund expenditures could increase by \$37,500 in fiscal 2013. It includes a salary, fringe benefits, and ongoing operating expenses.

Contractual Position	0.5
Salary and Fringe Benefits	\$32,165
Operating Expenses	<u>5,315</u>
Total FY 2013 DHMH Expenditures	\$37,480

The Comptroller's Office reports that it would incur a one-time expenditure increase of \$42,000 in fiscal 2013 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.

Additional Information

Prior Introductions: Similar legislation was proposed in the 2004 through 2009 sessions. HB 340 of 2009, HB 124 of 2008, HB 40 of 2007, HB 722 of 2006 and HB 203 of 2005 received a hearing in the House Ways and Means Committee, but no further action was taken. HB 1514 of 2004 was referred to the House Rules and Executive Nominations Committee but no further action was taken.

Cross File: None.

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

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ncs/jrb

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