

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE
Revised

House Bill 668

(Chair, Health and Government Operations
Committee)(By Request - Departmental - Health and
Mental Hygiene)

Health and Government Operations

Budget and Taxation

Income Tax Credit - Health Enterprise Zones - Modifications

This departmental bill expands eligibility for hiring tax credits under the Health Enterprise Zone (HEZ) initiative to include “health enterprise zone employers.” The Department of Health and Mental Hygiene (DHMH) must certify to the Comptroller the applicability of the credit provided for each HEZ employer and the amount of each credit assigned to an HEZ employer, for each taxable year. The bill also extends the applicability of the tax credit through tax year 2016 and extends the termination date of the HEZ program by one year until June 30, 2017.

The bill takes effect June 1, 2014.

Fiscal Summary

State Effect: The bill primarily expands the purposes for which existing funds may be used and conforms the timeframe for which funds will be available to the final tax year. No additional expenditures are anticipated. Any additional administrative workload can be handled with existing resources. The Governor’s proposed FY 2015 budget includes \$4.0 million for the HEZ initiative.

Local Effect: None.

Small Business Effect: DHMH has determined that this bill has a meaningful impact on small business (attached). The Department of Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Bill Summary: “Health enterprise zone employer” means an HEZ practitioner, a for-profit entity, or a nonprofit entity that employs qualified employees and provides health care services in an HEZ.

When certifying applications for hiring tax credits, DHMH, in consultation with the Maryland Community Health Resources Commission (MCHRC), must give special consideration to applicants that are community-based and serve the overall goals of the HEZ the applicant seeks to serve.

Current Law: Chapter 3 of 2012 established the HEZ initiative, a four-year pilot program that provides public incentives and resources to help attract private health care practitioners to serve in underserved communities. An HEZ is a contiguous geographic area that (1) demonstrates measurable and documented health disparities and poor health outcomes; (2) is small enough to allow for the incentives offered under the bill to have a significant impact on improving health outcomes and reducing racial, ethnic, and geographic health disparities; and (3) is designated as an HEZ by MCHRC and the Secretary of Health and Mental Hygiene.

There are two tax credits available under the HEZ initiative: an income tax credit for HEZ practitioners and a hiring tax credit. A qualified HEZ practitioner (an individual licensed or certified under the Health Occupations Article who provides primary care, behavioral health services, or dental services) can claim a credit against the State income tax in an amount equal to 100% of the amount of the tax expected to be due from the HEZ practitioner from income to be derived from practice in the HEZ (as certified by DHMH) for the taxable year. MCHRC is in the process of promulgating regulations for the income tax credits, which should take effect mid-March.

An HEZ practitioner may additionally claim a refundable credit of \$10,000 against the State income tax for hiring for a “qualified position” in the HEZ (as certified by DHMH) for the taxable year. An HEZ practitioner may create one or more qualified positions during any 24-month period. This refundable credit must be taken over a 24-month period, with one-half of the credit amount allowed each year. If the qualified position is filled for less than 24 months, the tax credit must be recaptured. A “qualified position” means a “qualified employee” position that pays at least 150% of the federal minimum wage, is full time and of indefinite duration, is located in an HEZ, is newly created as a result of the establishment or expansion of services in an HEZ, and is filled. A qualified position does not include a position that is filled for less than 12 months. A “qualified employee” means an HEZ practitioner, community health worker, or interpreter who provides direct support to an HEZ practitioner and expands access to services in an HEZ.

Eligibility for these tax credits is limited by availability of budgeted funds, as determined by DHMH. Certificates of eligibility are subject to approval by DHMH on a first-come, first-served basis, as determined by DHMH in its sole discretion. DHMH must certify to the Comptroller the applicability of the credit provided for each HEZ practitioner and the amount of each credit assigned to an HEZ practitioner for each taxable year. The tax credits issued in any fiscal year may not exceed the amount provided in the State budget for that fiscal year. DHMH, in consultation with the Comptroller, must adopt regulations to implement the tax credit. The tax credit applies to tax years 2013 through 2015.

The MCHRC Fund receives a portion of the premium tax exemption subsidy provided by CareFirst. Section 14-106(d)(2)(ii)(2) of the Insurance Article prohibits the subsidy from being less than \$8.0 million in fiscal 2014 and each fiscal year thereafter. In fiscal 2014 through 2016, approximately \$4.0 million annually is dedicated to HEZ projects; this amount was also provided in fiscal 2013.

Background: To date, DHMH has designated five HEZs, as shown in **Appendix 1**. Although Chapter 3 specified that the program would run for four *fiscal* years, as implemented by DHMH the program will be financed at approximately \$4.0 million annually for *calendar* 2013 through 2016. Beyond calendar 2016, an HEZ is required to develop alternative funding sources. The Department of Legislative Services' fiscal 2014 budget analysis of the Health Regulatory Commissions (which includes MCHRC) recommended that statute be amended to clarify that the HEZ pilot will run for four *calendar* years rather than the four *fiscal* years specified in Chapter 3. The analysis also recommended that tax benefits should be available for the full four-year period as opposed to only through tax year 2015, as provided under Chapter 3. This bill implements those recommendations. Additionally, the bill expands eligibility for hiring tax credits to include both HEZ practitioners and HEZ employers in order to allow hiring entities such as federally qualified health centers, hospitals, and behavioral health clinics to expand their hiring efforts and take advantage of the tax credit.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - February 14, 2014
ncs/ljm Revised - House Third Reader - March 28, 2014

Analysis by: Jennifer B. Chasse

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

Appendix 1 – Calendar 2014 Health Enterprise Zones

<u>Health Enterprise Zone</u>	<u>Brief Description</u>	<u>Funding for CY 2014/CY 2013-2016</u>	<u>Estimated Funding for Tax Credits</u>
Dorchester-Caroline	Addition of 18 new health care providers and creation of a new mobile mental health crisis team in Dorchester and Caroline counties. (Mobile mental health crisis team is funded by the Department of Health and Mental Hygiene outside of the HEZ Reserve Fund.)	\$740,000/\$2,936,000	\$240,000
Greater Lexington Park	Creation of a new community health center in Lexington Park to include adding 8 new health care providers.	\$750,000/\$3,000,000	\$150,000
Prince George's County Health Department/ Capital Heights	Creation of 5 new patient centered medical homes in Capitol Heights including the addition of 25 new health care providers.	\$1,100,000/\$4,400,000	\$267,305
West Baltimore	Expansion of access to primary and preventive care in West Baltimore through the addition of 18 primary care providers and the creation of a community health infrastructure through the deployment of 11 community health workers.	\$1,073,208/\$4,199,997	\$260,000
Annapolis	Creation of a patient-centered medical home with 2 health care practitioners located within Morris Blum public housing in Annapolis.	\$200,000/\$800,000	\$0

Source: Maryland Community Health Resources Commission

ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Health Enterprise Zones – Modifications

BILL NUMBER: HB 668

PREPARED BY: Department of Health and Mental Hygiene

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

This legislation will positively impact small businesses by allowing them to access the hiring tax credits. Non-profits and healthcare entities will be able to apply for the HEZ hiring tax credit, allowing entities within the HEZ to take advantage of tax credits.