

Department of Legislative Services
 Maryland General Assembly
 2007 Session

FISCAL AND POLICY NOTE

House Bill 40
 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, 2007 and applies to tax years 2007 through 2010. The bill terminates June 30, 2011.

Fiscal Summary

State Effect: General fund revenues would decrease by \$250,000 annually in FY 2008 through 2011. General fund expenditures would increase by approximately \$107,200 in FY 2008, which includes implementation costs at DHMH and one-time tax form changes and computer expenses at the Comptroller’s Office.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	(\$250,000)	(\$250,000)	(\$250,000)	(\$250,000)	\$0
GF Expenditure	107,200	70,200	73,800	77,700	0
Net Effect	(\$357,200)	(\$320,200)	(\$323,800)	(\$327,700)	\$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.

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 to the Comptroller 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, 2009.

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 year 2007 through 2010. 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 2008 through 2011.

State Expenditures: DHMH estimates that 30 CHOs could qualify for allocations of tax credits provided by the bill. DHMH advises that it would incur additional costs of \$139,164 in fiscal 2008 as a result of hiring three contractual employees, a program administrator, an accountant, and a clerk, to administer the program and satisfy the bill's reporting requirements. Legislative Services estimates that, based on the total number of eligible organizations and credits available in each year and existing tax credit programs, the requirements of the program that cannot be absorbed within existing budgeted resources necessitate the hiring of one program administrator only. General fund expenditures could increase by \$73,200 in fiscal 2008, which accounts for the bill's July 1, 2007 effective date. This estimate includes salaries, fringe benefits, and ongoing operating expenses.

Positions	1
Salaries and Fringe Benefits	\$68,280
Operating Expenses	<u>4,875</u>
Total FY 2008 DHMH Expenditures	\$73,155

Future year expenditures reflect: (1) a full salary with 4.5% 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 \$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.

Additional Information

Prior Introductions: 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 the House Ways and Means Committee. 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 - February 12, 2007
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