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BILL ANALYSIS

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Senate Bill 43 (Substitute S-1 as reported)
Sponsor: Senator Buzz Thomas
Committee: Finance

Date Completed: 7-7-05

RATIONALE

There are currently more than 100 Federally classified medically underserved communities in the Michigan, including the City of Detroit and many of the State's rural counties. Residents in medically underserved areas often have difficulty finding doctors to provide them with preventative care, sometimes leaving them to rely on emergency room visits to address all of their medical needs. Some people believe that the State should encourage doctors to practice in Michigan's medically underserved areas by giving them a tax credit for the first few years they practice in the community.

CONTENT

The bill would amend the Income Tax Act to do the following:

- **Allow a physician with a medical care practice in a health professional shortage area to claim a $2,500 tax credit for up to three consecutive tax years.**
- **Reduce the amount of the credit for a physician with a part-time practice.**
- **Allow a physician to claim the credit for three years within an five-year period if he or she interrupted his or her practice for a continuing education program or a sabbatical.**
- **Require the Department of Community Health to certify whether a taxpayer was qualified to claim the credit.**

Specifically, for tax years beginning after December 31, 2005, a qualified taxpayer with a full-time or part-time medical care practice could credit $2,500 against the income tax for a maximum of three consecutive tax years. A credit claimed by a taxpayer with a part-time practice would have to equal $2,500 multiplied by a fraction whose numerator was the average number of hours per week of the practice and whose denominator was 40.

The bill would define "qualified taxpayer" as a physician who provides primary care to patients including indigent patients as part of his or her full-time (40 or more hours per week) or part-time (less than 40 hours per week) medical care practice in a designated area. "Designated area" would mean a health professional shortage area as certified by the Director of the Department of Community Health (DCH).

A qualified taxpayer who was participating in the Michigan Essential Health Provider Program could claim the credit only in the three tax years beginning in the year after which the taxpayer had completed his or her obligation under that program. (The Michigan Essential Health Provider Recruitment Strategy Act provides for the Essential Health Provider Program in the DCH to facilitate the placement and retention of physicians and other health professionals in health resource shortage areas.)

If a qualified taxpayer interrupted his or her full- or part-time medical care practice to participate in a continuing education program or a medically related sabbatical that lasted more than one year, the taxpayer could claim the credit for any three tax years within the five consecutive tax years that included the program or the sabbatical and that began with the first year that the taxpayer claimed a credit under the bill.

If the credit for a tax year and any unused carryforward of the credit exceeded the taxpayer's tax liability for the tax year, the excess portion of the credit could not be refunded but could be carried forward to offset tax liability in subsequent tax years for five years or until used up, whichever occurred first.

If, after a qualified taxpayer had claimed a credit, the DCH changed the designation of the area where the taxpayer's practice was located from a designated area to a nondesignated area, the taxpayer could continue to claim the credit as if the designation had not been changed.

The DCH would be required to certify to the Department of Treasury whether a taxpayer who claimed a credit was a qualified taxpayer or (as provided above) was a physician who had a full- or part-time medical care practice in a nondesignated area.

A taxpayer who claimed a credit under the bill would have to attach to his or her annual return on which the credit was claimed an affidavit stating that he or she met all of the conditions and criteria for claiming the credit. The affidavit would have to be in a form prescribed by the Department of Treasury or contain substantially the same information.

Proposed MCL 206.272

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

There is some evidence that people living in areas where there are few primary care physicians rely on emergency rooms for all of their health care because they lack access to local doctors to provide care for medical problems that do not require urgent treatment. There also is evidence that residents in these areas put off medical treatment until they require emergency treatment. Since emergency room visits are usually more expensive than a typical office appointment, patients, insurers, and the State (through Medicaid reimbursements) pay more for basic health care in those areas. The bill would provide an economic incentive for physicians to locate in designated health professional shortage areas and provide primary care services to the residents there, which would reduce the number of individuals depending on emergency rooms for all of their health care needs. Additionally, the bill would reduce the stress on doctors and other staff caused by overuse of emergency rooms for routine medical matters.

The bill also would help areas, such as Detroit, lure primary care providers back to the city. Apparently, the number of underinsured and uninsured residents in the city has forced most primary care providers, with the exception of the major hospitals, to leave the city, leaving hospital emergency rooms as the primary care providers in the city.

Legislative Analyst: J.P. Finet

FISCAL IMPACT

Based on preliminary estimates of the number of doctors currently serving in a designated shortage area, it is estimated that this bill would reduce income tax revenue in the range of $1 million to $2 million in each of the three fiscal years beginning in FY 2006-07 through FY 2008-09. After FY 2008-09, the cost of the credit would decline to a very small amount, probably less than $0.2 million, because the credit would apply only to doctors who are new to a designated shortage area. This loss in revenue primarily would have an impact on the General Purpose portion of the General Fund. The School Aid Fund also would be affected, but to a lesser extent. Local governments would not be directly affected by this bill.

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