COMMITTEE REPORT

February 22, 2017

**S. 351**

Introduced by Senator Alexander

S. Printed 2/22/17--S.

Read the first time February 2, 2017.

**THE COMMITTEE ON FINANCE**

To whom was referred a Bill (S. 351) to amend the Code of Laws of South Carolina, 1976, by adding Section 12‑6‑3790 so as to allow an income tax credit for each clinical rotation served, etc., respectfully

**REPORT:**

That they have duly and carefully considered the same and recommend that the same do pass with amendment:

Amend the bill, as and if amended, by striking SECTION 1 and inserting:

/ SECTION 1. A. Article 25, Chapter 6, Title 12 of the 1976 Code is amended by adding:

“Section 12‑6‑3790. (A)(1) Beginning after 2016, and ending after 2021, there is allowed an income tax credit for each clinical rotation a physician serves as the preceptor for a medical school required clinical rotation, advanced practice nursing program required clinical rotation, and physician assistant program required clinical rotation.

(2) If at least fifty percent of the physician’s practice consists of a combined total of Medicaid insured, Medicare insured, and self‑pay patients, then the credit is equal to one thousand dollars for each rotation served, not to exceed four thousand dollars a year.

(3) If at least thirty percent of the physician’s practice consists of a combined total of Medicaid insured, Medicare insured, and self‑pay patients, then the credit is equal to seven hundred fifty dollars for each rotation served, not to exceed three thousand dollars a year.

(4) If less than thirty percent of the physician’s practice consists of a combined total of Medicaid insured, Medicare insured, and self‑pay patients, then the credit is disallowed.

(5) The credits allowed by this subsection are not cumulative and may not be combined.

(B)(1) Beginning after 2016 and ending after 2021, there is allowed an income tax credit for each clinical rotation an advanced practice registered nurse or physician assistant serves as the preceptor for an advanced practice nursing or physician assistant required clinical rotation.

(2) If at least fifty percent of the advanced practice registered nurse’s or physician assistant’s practice consists of a combined total of Medicaid insured, Medicare insured, and self‑pay patients, then the credit is equal to seven hundred fifty dollars for each rotation served, not to exceed three thousand dollars a year.

(3) If at least thirty percent of the advanced practice registered nurse’s or physician assistant’s practice consists of a combined total of Medicaid insured, Medicare insured, and self‑pay patients, then the credit is equal to five hundred dollars for each rotation served, not to exceed two thousand dollars a year.

(4) If less than thirty percent of the advance practice registered nurse’s or physician assistant’s practice consists of a combined total of Medicaid insured, Medicare insured, and self‑pay patients, then the credit is disallowed.

(5) The credits allowed by this subsection are not cumulative and may not be combined.

(C) A credit earned pursuant to this section is considered earned in the tax year in which the rotation is served. Fifty percent of the credit earned may be claimed in the tax year in which it is earned, and the remaining fifty percent may be claimed in the next tax year. However, the credit claimed in a tax year may not exceed fifty percent of the taxpayer’s remaining tax liability after all other credits have been applied. Any unused credit may be carried over to the immediately succeeding taxable years, except that the credit carry‑over may not be used for a taxable year that begins more than ten years from the year the credit was earned.

(D) Beginning after 2016, and ending after 2021, if a taxpayer earns the maximum annual credit amount allowed by this section, and the taxpayer serves additional rotations that otherwise would have qualified for the credit, then the taxpayer may claim a deduction in an amount equal to the amount that credit would have equaled. A taxpayer may earn the deduction allowed by this subsection up to six times a tax year.

(E) By March thirsty‑first of each year, the department shall report to the Senate Finance Committee, the House Ways and Means Committee, and the Governor the number of taxpayers claiming the credit allowed by this section, the total amount of credits allowed, and the number of hours the recipient taxpayers served as preceptors. The department must disaggregate taxpayers between physicians, advanced practice registered nurses, and physician assistants.

(F) The department may consult with a designated administrative entity to determine eligibility and may require any proof it determines necessary to efficiently administer the credit allowed by this section. The department may promulgate regulations necessary to implement the provisions of this section.

(G) For purposes of this section:

(1) ‘Independent institution of higher learning’ has the same meaning as provided in Section 59-113-50.

(2) ‘Preceptor’ means a physician, advanced practice nurse practitioner, or physician assistant who provides supervision and instruction during student clinical training experiences, is otherwise not compensated for doing so, and provides a minimum of two required clinical rotations within a calendar year.

(3) ‘Medical school required clinical rotation’, ‘physician assistant program required clinical rotation’, or ‘advanced practice nursing program required clinical rotation’ means a clinical rotation for a public teaching institution or independent institution of higher learning which:

(a) is established for a student who is enrolled in a South Carolina public teaching institution or an independent institution of higher learning:

(i) medical school;

(ii) physician assistant program; or

(iii) advanced practice nursing program; and

(b) includes a minimum of one hundred sixty hours of instruction in one of the following clinical settings:

(i) family medicine;

(ii) internal medicine;

(iii) pediatrics;

(iv) obstetrics and gynecology;

(v) emergency medicine;

(vi) psychiatry;

(vii) general surgery under the guidance of a physician, advanced practice registered nurse, or physician assistant.”

B. Section 12-6-1140 of the 1976 Code, as last amended by Act 165 of 2016, is amended further by adding an appropriately numbered item at the end to read:

“( )(a) amounts earned pursuant to Section 12-6-3790(D) for each clinical rotation a physician serves as the preceptor for a medical school required clinical rotation, advanced practice nursing program required clinical rotation, and physician assistant program required clinical rotation.

(b) amounts earned pursuant to Section 12-6-3790(D) for each clinical rotation an advanced practice registered nurse or physician assistant serves as the preceptor for an advanced practice nursing or physician assistant required clinical rotation.” /

Renumber sections to conform.

Amend title to conform.

HUGH K. LEATHERMAN, SR. for Committee.

**STATEMENT OF ESTIMATED FISCAL IMPACT**

**Explanation of Fiscal Impact**

**Amended by Senate Finance Health and Human Services Subcommittee on February 15, 2017**

**State Expenditure**

The bill creates an individual income tax credit for each clinical rotation for which a physician serves as the preceptor for a medical school required clinical rotation. It also creates a credit for each clinical rotation an advanced practice nurse or physician assistant serves as the advanced practice nurse or physician assistant preceptor for a required clinical rotation. The tax credit applies to tax years 2017 to 2021. Taxpayers are allowed a credit for maximum of four rotations and may take a deduction equal to the amount of the credit for any additional rotations up to a maximum of ten rotations. The bill also requires the Department of Revenue (DOR) to report by March thirty-first of each year to the Senate Finance Committee, the House Ways and Means Committee, and the Governor the number of taxpayers claiming the credit, the total amount of credits allowed, and the number of hours the recipient taxpayers served as preceptors. The report must provide the information disaggregated by type of preceptor.

DOR expects to create a specific tax credit form to capture the detail required for the report to the Senate Finance Committee, the House Ways and Means Committee, and the Governor. The first report would be available following the first tax year for which the credits are claimed. The report on tax year 2017 filings, which would be completed by the filing extension date in October 2018, would be reported by March 31, 2019. The department has systems in place to create the new forms and track the required information. As such, the bill is not expected to impact expenditures for the general fund, federal funds, or other funds.

**State Revenue**

The bill creates an individual income tax credit for each clinical rotation for which a physician, advanced practice nurse, or physician assistant serves as the preceptor for a required clinical rotation. The preceptor must provide a minimum of two required clinical rotations within a calendar year and may provide a maximum of ten rotations. Each clinical rotation must include a minimum of one hundred sixty hours of instruction, and the preceptor must not otherwise be compensated for providing the instruction. The tax credit applies to tax years 2017 to 2021.

A taxpayer may earn up to four credits for qualifying rotations. The total amount of credits claimed in a year may not exceed fifty percent of the taxpayer’s liability after all other credits. Additionally, fifty percent of the credit may be claimed in the year earned and the remaining amount claimed in the subsequent tax year. Any unused credit may be carried over for a maximum of ten tax years.

After earning the maximum credits, the taxpayer may claim a deduction for each additional rotation, up to a maximum of six additional rotations, equal to the credit amount that the rotation would have earned if the taxpayer had not already claimed the maximum amount of credits.

For physicians, the amount of the credit varies depending upon the percentage of patients seen by the physician’s practice who are Medicaid insured, Medicare insured, or self-pay. The credit is disallowed if less than thirty percent of the practice’s patients are Medicaid, Medicare, or self-pay. The credit is $750 if the physician’s practice consists of at least thirty percent Medicaid, Medicare, or self-pay and increases to $1,000 if the practice consists of at least fifty percent Medicaid, Medicare, or self-pay patients.

For advanced practice nurses and physician assistants, the credit is disallowed if less than thirty percent of the practice’s patients are Medicaid, Medicare, or self-pay. The credit is $500 if the practice consists of at least thirty percent Medicaid, Medicare, or self-pay and increases to $750 if the practice consists of at least fifty percent Medicaid, Medicare, or self-pay patients.

The Coalition for Increasing Access to Primary Care (CIAPC) includes members from Clemson University, Francis Marion University, Medical University of South Carolina (MUSC), and University of South Carolina (USC). CIAPC provided us with data regarding the number of preceptors for all programs in the state that are expected to qualify for these tax credits in 2017. The table below includes this data.

Preceptors with a Minimum of 2 Required Clinical Rotations per Year

Advanced Physician

Physician PracticeNurse Assistant

Preceptors Preceptors Preceptors

USC College of Med.

Greenville 41 0 0

Clemson 75 95

Francis Marion 66 46 32

MUSC College

of Med. 90 0 0

MUSC College

of Nursing 150 190 24

MUSC College of

Health

Professions(PA) 70 3 25

USC College

of Medicine

Columbia 50 0 0

USC College

of Nursing 150 202 8

Total 576 536 89

In order to determine the estimated distribution of Medicaid insured, Medicare insured, and self-pay patients, we used a national study by the Kaiser Family Foundation, *Primary Care Physicians Accepting Medicare: A Snapshot* from October 30, 2015. This study surveyed 1,257 non-pediatric primary care physicians accepting new and current Medicare patients. The survey found that 25 percent of practices consist of less than 25 percent Medicare patients, 41 percent consist of 25 to 49 percent Medicare patients, and 32 percent are 50 percent or more Medicare patients, with 2 percent not reporting. Based upon these figures, we would estimate 32 percent of practices would fall under 30 percent Medicare, 35 percent would be 30 to 49 percent Medicare, and 33 percent are 50 percent or more Medicare patients, distributing the non-reporting 2 across the categories.

Further, the Kaiser Family Foundation reports in *Health Insurance Coverage of the Total Population, 2015*, Medicaid, Medicare, and uninsured patients compose 43 percent of the population nationally, whereas they compose 46 percent of South Carolina’s population. As such, we have further adjusted the distribution of practices to reflect the higher concentration of Medicaid, Medicare, and uninsured patients in South Carolina compared to the nation. With this adjustment, we would estimate 27 percent of practices would fall under 30 percent Medicare, 38 percent would be 30 to 49 percent Medicare, and 36 percent are 50 percent or more Medicare patients, distributing the non-reporting 2 across the categories. While these figures are specific to Medicare, a study by the Centers for Disease Control and Prevention, *Acceptance of New Patients with Public and Private Insurance by Office-based Physicians: United States, 2013,* found more physicians accept new Medicare patients than Medicaid, by 83.7 percent accepting new Medicare patients compared to 68.9 percent accepting new Medicaid patients. Since the tax credit applies if the practice is any combination of Medicare, Medicaid, or self-pay, we anticipate that the national Medicare distribution adjusted to account for South Carolina’s patient differences will provide a sufficient proxy for all of these categories as a whole.

We then applied this distribution to the numbers of preceptors provided by CIAPC. Preceptors must provide at least two rotations and are allowed a maximum of ten rotations under this proposal. However, the maximum number of rotations that qualifying programs offer is five rotations, so our analysis is based upon five rotations per preceptor. Taxpayers providing the maximum number of rotations would earn a credit for the first four rotations and a deduction for the fifth rotation.

The credits must be claimed fifty percent in the year earned and fifty percent in the following year. We assume that these taxpayers have higher income tax liabilities than average and will have sufficient taxable income to utilize all allowable credits. However, taxpayers may not reduce their tax liability by more than fifty percent in a given year. To the extent that a taxpayer’s liability after all credits and the additional deduction is insufficient to claim the total allowable credits under the fifty percent threshold, the impact in a particular tax year may be reduced slightly and carried forward to the following tax year. In total, the bill is expected to reduce general fund income tax revenue by up to $1,299,000 in FY 2017-18 and $2,564,000 each year through FY 2021-22 when the credit ends. The reduction decreases to $1,265,000 in FY 2022-23 for the remaining fifty percent of credits earned in tax year 2021.

Percentage of Patients

on Medicaid, Medicare, or 0%-29% 30%-49% 50%-100% Total

Self-pay

Estimated Percentage of

Practices in SC  29% 37% 35% 100%

Physician Credit Amount $0 $750 $1,000 n/a

Number of

Preceptors 167 210 199 576

Rotations at 4

per Preceptor 835 841 795 2,471

Total Credits $0 $630,720 $794,880 $1,425,600

1 Additional

Rotation 167 210 199 409

Tax Deduction $0 $157,680 $198,720 $356,400

Liability Reduction

at 5.4% Tax Rate $0 $8,515 $10,731 $19,246

Advanced

Practice

Nurse Credit Amount $0 $500 $750 n/a

Number of

Preceptors 155 196 185 536

Rotations at

4 per Preceptor 777 783 740 2,299

Total Credits $0 $391,280 $554,760 $946,040

1 Additional

Rotation 155 196 185 381

Tax Deduction $0 $97,820 $138,690 $236,510

Liability Reduction

at 5.4% Tax Rate $0 $5,282 $7,489 $12,772

Physician

Assistant Credit Amount $0 $500 $750 n/a

Number of

Preceptors 26 32 31 89

Rotations at

4 per Preceptor 129 130 123 382

Total Credits $0 $64,970 $92,115 $157,085

1 Additional

Rotation 26 32 31 63

Tax Deduction $0 $16,243 $23,029 $39,271

Liability

Reduction at 5.4%

Tax Rate $0 $877 $1,244 $2,121

Total Credits Total Credits Earned $0 $1,087,000 $1,442,000 $2,529,000

Total Deductions Total Liability

Reduction from

Deductions $0 $14,674 $19,464 $34,138

Total Tax

Reduction Earned $0 $1,101,674 $1,461,464 $2,563,138

Total Allowed

Per Year (rounded) $0 $558,000 $740,000 $1,299,000

**Introduced on February 2, 2017**

**State Expenditure**

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**State Revenue**

The bill creates an individual income tax credit for each clinical rotation for which a physician, advanced practice nurse, or physician assistant serves as the preceptor for a required clinical rotation. The preceptor must provide a minimum of two required clinical rotations within a calendar year and may provide a maximum of ten rotations. Each clinical rotation must include a minimum of one hundred sixty hours of instruction, and the preceptor must not otherwise be compensated for providing the instruction. The tax credit applies to tax years 2017 to 2021.

For physicians, the amount of the credit varies depending upon the percentage of patients seen by the physician’s practice who are Medicaid insured, Medicare insured, or self-pay. The credit is disallowed if less than thirty percent of the practice’s patients are Medicaid, Medicare, or self-pay. The credit is $750 if the physician’s practice consists of at least thirty percent Medicaid, Medicare, or self-pay and increases to $1,000 if the practice consists of at least fifty percent Medicaid, Medicare, or self-pay patients.

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Preceptors Preceptors Preceptors

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of Med. 90 0 0

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of Nursing 150 190 24

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Health

Professions(PA) 70 3 25

USC College

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Columbia 50 0 0

USC College

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Total 576 536 89

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Further, the Kaiser Family Foundation reports in *Health Insurance Coverage of the Total Population, 2015*, Medicaid, Medicare, and uninsured patients compose 43 percent of the population nationally, whereas they compose 46 percent of South Carolina’s population. As such, we have further adjusted the distribution of practices to reflect the higher concentration of Medicaid, Medicare, and uninsured patients in South Carolina compared to the nation. With this adjustment, we would estimate 27 percent of practices would fall under 30 percent Medicare, 38 percent would be 30 to 49 percent Medicare, and 36 percent are 50 percent or more Medicare patients, distributing the non-reporting 2 across the categories. While these figures are specific to Medicare, a study by the Centers for Disease Control and Prevention, *Acceptance of New Patients with Public and Private Insurance by Office-based Physicians: United States, 2013,* found more physicians accept new Medicare patients than Medicaid, by 83.7 percent accepting new Medicare patients compared to 68.9 percent accepting new Medicaid patients. Since the tax credit applies if the practice is any combination of Medicare, Medicaid, or self-pay, we anticipate that the national Medicare distribution adjusted to account for South Carolina’s patient differences will provide a sufficient proxy for all of these categories as a whole.

We then applied this distribution to the numbers of preceptors provided by CIAPC. Preceptors must provide at least two rotations and are allowed a maximum of ten rotations under this proposal. However, the maximum number of rotations that qualifying programs offer is five rotations, so our analysis is based upon five rotations per preceptor. We assume that these taxpayers have higher income tax liabilities than average and will have sufficient taxable income to utilize all qualifying credits. In total, the proposal is expected to reduce general fund income tax revenue by up to $3,161,000 in FY 2017-18 and each year thereafter through FY 2021-22, after which the credit expires. The table below outlines this analysis.

Percentage of Patients

on Medicaid, Medicare,

or Self-pay 0%-29% 30%-49% 50%-100% Total

Estimated Percentage

of Practices

in SC 29% 37% 35%

Physician

Credit Amount $0 $750 $1,000 n/a

Number of

preceptors 167 210 199 576

Rotations at

5 per Preceptor 835 1,051 994 2,880

Total Credits $0 $788,400 $993,600 $1,782,000

Advanced

Practice Nurse

Credit Amount $0 $500 $750 n/a

Number of

preceptors 155 196 185 536

Rotations at

5 per Preceptor 777 978 925 2,680

Total Credits $0 $489,100 $693,450 $1,182,550

Physician

Assistant

Credit Amount $0 $500 $750 n/a

Number of

preceptors 26 32 31 89

Rotations at

5 per Preceptor 129 162 154 445

Total Credits $0 $81,213 $115,144 $196,356

Total Total Credits

(Rounded) $0 $1,359,000 $1,802,000 $3,161,000

Frank A. Rainwater, Executive Director

Revenue and Fiscal Affairs Office

**A** **BILL**

TO AMEND THE CODE OF LAWS OF SOUTH CAROLINA, 1976, BY ADDING SECTION 12‑6‑3790 SO AS TO ALLOW AN INCOME TAX CREDIT FOR EACH CLINICAL ROTATION SERVED BY A PHYSICIAN, ADVANCED PRACTICE NURSE, OR PHYSICIAN ASSISTANT AS A PRECEPTOR FOR CERTAIN PROGRAMS.

Whereas, increasing the pipeline with primary care medical, advanced practice nursing, and physician assistant providers in South Carolina is vital; and

Whereas, South Carolina is a largely rural state with a population of 4.8 million and is ranked 42nd nationally in overall health rankings; and

Whereas, South Carolina is ranked 39th nationally regarding patient access to health care services and 43rd for total supply of primary care practicing physicians; and

Whereas, such health statistics along with the shortage and maldistribution of health care professionals are alarming, resulting in a grade of “F” in health care according to the South Carolina Department of Health and Environmental Control (DHEC); and

Whereas, according to DHEC, all forty‑six South Carolina counties are federally designated as being total or partial Medically Underserved Areas/Populations, forty‑three counties as Health Professional Shortage Areas (HPSA), with twenty‑nine categorized as low income HPSAs, and fifteen fulfilling the criteria as geographic HPSAs, the designation used for the most underserved counties. Now, therefore,

Be it enacted by the General Assembly of the State of South Carolina:

SECTION 1. Article 25, Chapter 6, Title 12 of the 1976 Code is amended by adding:

“Section 12‑6‑3790. (A)(1) Beginning after 2016, and ending after 2021, there is allowed an income tax credit for each clinical rotation a physician serves as the preceptor for a medical school required clinical rotation, advanced practice nursing program required clinical rotation, and physician assistant program required clinical rotation.

(2) If at least fifty percent of the physician’s practice consists of a combined total of Medicaid insured, Medicare insured, and self‑pay patients, then the credit is equal to one thousand dollars for each rotation served, not to exceed ten thousand dollars a year.

(3) If at least thirty percent of the physician’s practice consists of a combined total of Medicaid insured, Medicare insured, and self‑pay patients, then the credit is equal to seven hundred fifty dollars for each rotation served, not to exceed seven thousand five hundred dollars a year.

(4) If less than thirty percent of the physician’s practice consists of a combined total of Medicaid insured, Medicare insured, and self‑pay patients, then the credit is disallowed.

(5) The credits allowed by this subsection are not cumulative and may not be combined.

(B)(1) Beginning after 2016 and ending after 2021, there is allowed an income tax credit for each clinical rotation an advanced practice registered nurse or physician assistant serves as the preceptor for an advanced practice nursing or physician assistant required clinical rotation.

(2) If at least fifty percent of the advanced practice registered nurse’s or physician assistant’s practice consists of a combined total of Medicaid insured, Medicare insured, and self‑pay patients, then the credit is equal to seven hundred fifty dollars for each rotation served, not to exceed seven thousand five hundred dollars a year.

(3) If at least thirty percent of the advanced practice registered nurse’s or physician assistant’s practice consists of a combined total of Medicaid insured, Medicare insured, and self‑pay patients, then the credit is equal to five hundred dollars for each rotation served, not to exceed five thousand dollars a year.

(4) If less than thirty percent of the advance practice registered nurse’s or physician assistant’s practice consists of a combined total of Medicaid insured, Medicare insured, and self‑pay patients, then the credit is disallowed.

(5) The credits allowed by this subsection are not cumulative and may not be combined.

(C) For purposes of this section:

(1) ‘Preceptor’ means a physician, advanced practice nurse practitioner, or physician assistant who provides supervision and instruction during student clinical training experiences, is otherwise not compensated for doing so, and provides a minimum of two required clinical rotations within a calendar year.

(2) ‘Medical school required clinical rotation’, ‘physician assistant program required clinical rotation’, or ‘advanced practice nursing program required clinical rotation’ means a clinical rotation for a public teaching institution which:

(a) is established for a student who is enrolled in a South Carolina public medical school, a South Carolina public physician assistant program, or a South Carolina public advanced practice nursing program; and

(b) includes a minimum of one hundred sixty hours of instruction in one of the following clinical settings:

(i) family medicine;

(ii) internal medicine;

(iii) pediatrics;

(iv) obstetrics and gynecology;

(v) emergency medicine;

(vi) psychiatry;

(vii) general surgery under the guidance of a physician, advanced practice registered nurse, or physician assistant.

(D) By March thirsty‑first of each year, the department shall report to the Senate Finance Committee, the House Ways and Means Committee, and the Governor the number of taxpayers claiming the credit allowed by this section, the total amount of credits allowed, and the number of hours the recipient taxpayers served as preceptors. The department must disaggregate taxpayers between physicians, advanced practice registered nurses, and physician assistants.

(E) The department may consult with a designated administrative entity to determine eligibility and may require any proof it determines necessary to efficiently administer the credit allowed by this section. The department may promulgate regulations necessary to implement the provisions of this section.”

SECTION 2. This act takes effect upon approval by the Governor.

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