



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number:	S. 0314	Amended by House Ways and Means on April 30, 2019
Author:	Alexander	
Subject:	Preceptor Tax Credit	
Requestor:	House of Representatives	
RFA Analyst(s):	Jolliff	
Impact Date:	May 1, 2019	

Fiscal Impact Summary

The bill is not expected to impact expenditures for the Department of Revenue (DOR), as the agency has processes in place to implement the new tax credit and complete the required reports. The bill is expected to reduce General Fund individual income tax revenue by up to \$227,000 in FY 2020-21, \$671,000 in FY 2021-22, \$1,114,000 in FY 2022-23, \$1,558,000 in FY 2023-24, \$2,002,000 in FY 2024-25, \$2,218,000 in FY 2025-26, and \$1,084,000 in FY 2026-27 for the remaining fifty percent of credits earned in tax year 2025 and claimed in tax year 2026. The impact by fiscal year may shift to future years, as the credits may be carried forward for up to ten years, and taxpayers may not reduce their liability by more than 50 percent.

Explanation of Fiscal Impact

Amended by House Ways and Means on April 30, 2019

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 bill applies to clinical rotations for public teaching institutions and independent institutions of higher learning. The tax credit applies to tax years 2020 to 2025. Taxpayers are allowed a credit for a maximum of four rotations and may take a deduction equal to the amount of the credit for any additional six rotations. However, the bill as amended phases-in the amount of the credit in five equal installments. The bill also requires 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 will 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 2020 filings, which would be completed by the filing extension date in October 2021, would be reported by March 31, 2022. The department has procedures and 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. The preceptor may claim a tax credit for up to four rotations and a tax deduction for up to six additional rotations, for a total 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 2020 to 2025 and is phased-in in equal and cumulative installments over five years.

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 forward for a maximum of ten tax years.

After earning the maximum credits for four rotations, 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 clinical rotations must be for the students enrolled in a South Carolina public teaching institution or independent institution of higher learning. 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 and rotations for all public university programs in the state that are expected to qualify for these tax credits in 2020. South Carolina Independent Colleges and Universities (SCICU) provided data in 2017 on the number of qualifying clinical rotations expected at independent nonprofit colleges and universities as of 2020. SCICU is working to obtain updated data, and we will update our analysis if needed. However, the number of preceptors for independent nonprofit colleges is not expected to change significantly.

ESTIMATED CLINICAL PRECEPTORS FOR 2020

	Physician (MD or DO)	Advanced Practice Nurse (NP)	Physician Assistant (PA)
USC School of Medicine Greenville	61	0	0
Clemson College of Nursing	69	123	0
Francis Marion College of Nursing	64	62	10
Francis Marion (PA)	47	10	13
MUSC College of Medicine	44	0	0
MUSC College of Nursing	26	43	3
MUSC College of Health Professions (PA)	63	2	40
USC School of Medicine Columbia	156	0	0
USC College of Nursing	123	232	7
USC PA	57	3	24
Anderson University	5	2	0
North Greenville University	2	0	2
Charleston Southern University	3	0	2
Presbyterian College	2	0	2

In order to estimate the 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:

- 25 percent of practices consist of less than 25 percent Medicare patients
- 41 percent consist of 25 to 49 percent Medicare patients
- 32 percent are 50 percent or more Medicare patients
- 2 percent are unknown due to nonresponse

Based upon these figures and distributing the non-reporting 2 percent across the categories, we would estimate that national practices are distributed as follows:

- 32 percent of practices consist of less than 30 percent Medicare
- 35 percent would be 30 to 49 percent Medicare patients
- 33 percent are 50 percent or more Medicare patients

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, a 6.97 percent increase. As such, we have further adjusted up 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 South Carolina practices are distributed as follows:

- 28 percent of practices would fall under 30 percent Medicare
- 37 percent would be 30 to 49 percent Medicare
- 35 percent are 50 percent or more Medicare patients

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 preceptors expected to provide clinical rotations. Preceptors must provide at least two rotations and are allowed a maximum of ten rotations under this bill. Our analysis is based upon actual rotations per preceptor based upon expectations by CIAPC. We then applied an average number of rotations based upon the data reported by CIAPC to the expected preceptors for independent colleges and universities to determine the total expected rotations. The bill does not specify a setting for rotations, and we assume that rotations provided in a hospital or clinic will qualify. The amount of the credit or deduction for rotations provided in a hospital or clinic would be based upon the practitioner's determination of his practice's insurance composition and any direction provided by DOR in administering the tax credit.

The credits must be claimed 50 percent in the year earned and 50 percent in the following year, subject to the phase-in amounts. 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 50 percent in a given year. To the extent that a taxpayer's liability is insufficient to claim the total allowable credits, the impact in a tax year may shift since credits may be carried forward to the following tax year for up to ten years.

Based upon the expected preceptors and rotations, the bill is expected to reduce General Fund individual income tax revenue by up to \$227,000 in FY 2020-21, \$671,000 in FY 2021-22, \$1,114,000 in FY 2022-23, \$1,558,000 in FY 2023-24, \$2,002,000 in FY 2024-25, \$2,218,000 in FY 2025-26, and \$1,084,000 in FY 2026-27 for the remaining fifty percent of credits earned in tax year 2025 and claimed in tax year 2026. These estimates, as shown in the tables below, would change should colleges and universities add additional qualifying programs not included in the current projections.

Local Expenditure

N/A

Local Revenue

N/A

**TAX CREDIT AND TAX DEDUCTION ESTIMATES
(BASED UPON FULL AMOUNTS AFTER PHASE-IN)**

Percentage of Patients on Medicaid, Medicare, or Self-pay		0%-29%	30%-49%	50%-100%	Total
Estimated Percentage of Practices in SC		28%	37%	35%	100%
Physician	Credit Amount	\$0	\$750	\$1,000	n/a
	Number of Preceptors	202	267	253	722
	Rotations from 2 to 4 per Preceptor	632	835	790	2,258
	Total Credits	\$0	\$626,595	\$790,300	\$1,416,895
	Additional Rotations	334	441	417	1,192
	Tax Deduction	\$0	\$330,780	\$417,200	\$747,980
	Liability Reduction at 5.4% Tax Rate	\$0	\$17,862	\$22,529	\$40,391
Advanced Practice Nurse	Credit Amount	\$0	\$500	\$750	n/a
	Number of Preceptors	134	176	167	477
	Rotations from 2 to 4 per Preceptor	388	512	485	1,385
	Total Credits	\$0	\$256,225	\$363,563	\$619,788
	Additional Rotations	94	124	118	336
	Tax Deduction	\$0	\$62,160	\$88,200	\$150,360
	Liability Reduction at 5.4% Tax Rate	\$0	\$3,357	\$4,763	\$8,119
Physician Assistant	Credit Amount	\$0	\$500	\$750	n/a
	Number of Preceptors	29	38	36	103
	Rotations from 2 to 4 per Preceptor	83	109	103	295
	Total Credits	\$0	\$54,575	\$77,438	\$132,013
	Additional Rotations	14	19	18	51
	Tax Deduction	\$0	\$9,435	\$13,388	\$22,823
	Liability Reduction at 5.4% Tax Rate	\$0	\$509	\$723	\$1,232
Total Credits	Total Credits Earned	\$0	\$937,395	\$1,231,300	\$2,168,695
Total Deductions	Total Liability Reduction from Deductions	\$0	\$21,728	\$28,015	\$49,743
Total Annual Tax Credits and Deductions Earned when Fully Phased-in (Before 50% Limitation on Credits Claimed)		\$0	\$959,123	\$1,259,315	\$2,218,438

GENERAL FUND REVENUE IMPACT ESTIMATES WITH PHASE-IN

Fiscal Year	Tax Year (Phase In Year)	Phase In Percent	Credits Earned (with Phase-in Before 50% Limit)	Credits Allowed (50% of Current Plus 50% of Prior Year)	Tax Deduction (with Phase-in)	General Fund Revenue Impact
FY 2020-21	2020 (Year One)	20%	\$433,739	\$216,870	\$9,949	\$227,000
FY 2021-22	2021 (Year Two)	40%	\$867,478	\$650,609	\$19,897	\$671,000
FY 2022-23	2022 (Year Three)	60%	\$1,301,217	\$1,084,348	\$29,846	\$1,114,000
FY 2023-24	2023 (Year Four)	80%	\$1,734,956	\$1,518,087	\$39,794	\$1,558,000
FY 2024-25	2024 (Year Five)	100%	\$2,168,695	\$1,951,826	\$49,743	\$2,002,000
FY 2025-26	2025	100%	\$2,168,695	\$2,168,695	\$49,743	\$2,218,000
FY 2026-27 (Credit Residual)	2026	0%	\$0	\$1,084,348	\$0	\$1,084,000

(Impact rounded to the nearest \$1,000)

Introduced on January 8, 2019

State Expenditure

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Based upon the expected preceptors and rotations, the bill is expected to reduce General Fund income tax revenue by up to \$1,134,000 in FY 2020-21, \$2,218,000 in FY 2021-22 through FY 2025-26 when the tax credit and deduction are repealed. The General Fund reduction decreases to \$1,084,000 in FY 2026-27 for the remaining fifty percent of credits earned in tax year 2025. These estimates, as shown in the attached table, would change should colleges and universities add additional qualifying programs not included in the current projections.

Local Expenditure

N/A

Local Revenue

N/A

TAX YEAR 2020 ESTIMATES

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	Liability Reduction at 5.4% Tax Rate	\$0	\$509	\$723	\$1,232
Total Credits	Total Credits Earned	\$0	\$937,395	\$1,231,300	\$2,168,695
Total Deductions	Total Liability Reduction from Deductions	\$0	\$21,728	\$28,015	\$49,743
Total Tax Reduction Earned in TY 2020		\$0	\$959,123	\$1,259,315	\$2,218,438
Total Credits and Deductions Allowed in TY 2020 (FY 2020-21)		\$0	\$490,426	\$643,665	\$1,134,090

Frank A. Rainwater, Executive Director