



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number:	S. 0351	Amended by Senate Finance Health and Human Services Subcommittee on February 15, 2017
Author:	Alexander	
Subject:	Preceptor Tax Credit	
Requestor:	Senate Finance	
RFA Analyst(s):	Jolliff	
Impact Date:	February 15, 2017	

Estimate of Fiscal Impact

	FY 2017-18	FY 2018-19 to FY 2021-22
State Expenditure		
General Fund	\$0	\$0
Other and Federal	\$0	\$0
Full-Time Equivalent Position(s)	0.00	0.00
State Revenue		
General Fund	(\$1,299,000)	See Below
Other and Federal	\$0	\$0
Local Expenditure	\$0	\$0
Local Revenue	\$0	\$0

Fiscal Impact Summary

The bill is not expected to impact expenditures for the General Fund, Federal Funds, or Other Funds. 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.

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

	Physician Preceptors	Advanced Practice Nurse Preceptors	Physician Assistant Preceptors
USC College of Medicine Greenville	41	0	0
Clemson	75	95	
Francis Marion	66	46	32
MUSC College of Medicine	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 Self-pay		0%-29%	30%-49%	50%-100%	Total
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

Local Expenditure

N/A

Local Revenue

N/A

Introduced on February 2, 2017

State Expenditure

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USC College of Nursing	150	202	8
Total	576	536	89

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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

Local Expenditure

N/A

Local Revenue

N/A

Frank A. Rainwater, Executive Director