



OHIO LEGISLATIVE SERVICE COMMISSION

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Fiscal Note & Local Impact Statement

Bill: H.B. 317 of the 132nd G.A.

Status: As Introduced

Sponsor: Rep. Young

Local Impact Statement Procedure Required: Yes

Subject: Authorizes a personal income tax deduction for physicians' uncompensated medical services

State & Local Fiscal Highlights

- The bill would allow a personal income tax deduction for physicians and surgeons who provide medical care to patients for which those physicians and surgeons receive no compensation.
- The amount of the resulting revenue loss is uncertain. It would likely be well under the potential loss of about \$23 million, figured as if all physicians licensed in Ohio gave the maximum number of unpaid hours that qualify for the deduction. Most of the revenue loss would be borne by the GRF.
- Distributions to units of local government and public libraries from the Local Government Fund (LGF, Fund 7069) and the Public Library Fund (PLF, Fund 7065) would be reduced by 1.66% and 1.68%, respectively, of the GRF revenue loss in the current biennium.

Detailed Fiscal Analysis

The bill would allow a personal income tax deduction for physicians and surgeons who provide uncompensated medical care through or on behalf of a hospital, free clinic, or other nonprofit nongovernmental organization (a "medical mission organization") that helps medical professionals care for persons in distress and for victims of disaster or armed conflict. To qualify for the deduction, the number of hours of uncompensated medical care must be documented by the hospital, clinic, or organization. This deduction may be claimed at a rate of \$125 per hour, up to a maximum of \$10,000 (80 hours at the specified rate) per year.

For a physician in the top tax bracket, a \$10,000 deduction would reduce tax before credits by \$500, and generally would reduce taxes owed by that amount.¹ For those in the next lower bracket, yearly tax savings would be \$460. How many physicians and surgeons might claim a deduction for unpaid professional services

¹ Exceptions to this generalization include physicians who are not full-year Ohio residents and those with income taxed by another state.

appears uncertain. Occupational data from the U.S. Bureau of Labor Statistics (BLS) show 29,100 physicians and surgeons in Ohio in 2016 who were employees, so do not include those who were self-employed. Their average pay from this employment was reported to be about \$210,000 per year, around the income level dividing the top income tax bracket from the next lower bracket. If all 29,100 physicians and surgeons gave 80 hours of uncompensated medical care, the personal income tax revenue loss would be about \$14 million for physicians in the top two income tax brackets.

The number of physicians and surgeons licensed to practice medicine in Ohio is considerably higher than the BLS occupational data show. In FY 2016, 47,798 active licenses were issued for medical doctors, doctors of osteopathy, and doctors of podiatric medicine.² If all of these doctors gave 80 hours of unpaid medical care and deducted \$10,000, the personal income tax revenue loss might range to about \$23 million.

For self-employed physicians and surgeons, earnings from their business as doctors would be deductible as business income up to \$125,000 for those who are married and file separately and up to \$250,000 for others.³ Compensation of physicians and surgeons employed by a limited liability company, partnership, or S corporation in which they have a 20% or greater ownership interest would similarly be deductible as business income up to these limits. The limits are applied to the sum of all of a taxpayer's business income for a tax year. Any remaining taxable business income would be taxed at a 3% rate. The tax benefit, if any, from an additional deduction of up to \$10,000 for qualifying unpaid medical care provided by a doctor whose income was taxed as business income would depend on the other income and deductions of the doctor (and the doctor's spouse if married filing jointly). Many of the 29,100 Ohio physicians and surgeons included in the BLS occupational data as employees would likely not qualify to deduct as business income their earnings from this employment.

The actual revenue loss would likely be much lower than the maximum amounts noted above. If, for example, 20% of all physicians and surgeons provided 80 hours of uncompensated medical care in a year, the revenue loss would be about \$4.6 million; if 10%, \$2.3 million; if 2%, \$460,000. LSC does not have a basis for assessing the amount of such unpaid service being provided or that would be provided if this bill becomes law. Bill sponsor testimony in the House Ways & Means Committee highlighted 35,000 hours of service volunteered by physicians. The associated tax revenue loss under the bill would be around \$200,000 depending on the marginal tax brackets of the nearly 2,000 physicians who gave this service according to the testimony. This is plausibly the minimum revenue loss with the bill, since others might provide such service but not be included in these figures.

² Ohio Legislative Service Commission, FY 2016 Report for Occupational Licensing and Regulatory Boards, October 2016, page 14.

³ Information in this paragraph on taxation of business income is based on the 2016 filing instructions posted on the Department of Taxation's website.

Revenue from the personal income tax is deposited into the GRF. A reduction in GRF tax revenue would reduce transfers to each of the LGF and the PLF by 1.66% in statutory law. In FY 2018 and FY 2019, the PLF receives 1.68% of GRF revenue under a provision of H.B. 49 of the 132nd General Assembly. Revenue transferred to the LGF and PLF is distributed to units of local government and public libraries.

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