



OHIO LEGISLATIVE SERVICE COMMISSION

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Fiscal Note & Local Impact Statement

Bill: Sub. H.B. 317 of the 132nd G.A.
(L_132_1493-7)

Status: In House Ways and Means

Sponsor: Rep. Young

Local Impact Statement Procedure Required: Yes

Subject: Authorizes a personal income tax credit for physicians' or dentists' uncompensated medical services

State & Local Fiscal Highlights

- The bill would allow a personal income tax credit for physicians, surgeons, and dentists who provide medical or dental 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 \$165 million or more, figured as if all doctors and dentists employed in Ohio gave 100 unpaid hours that qualify for the credit. 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.
- The credit would apply to tax years 2018 through 2023, hence would reduce revenues mainly in FY 2019 through FY 2024, with some credits carried forward reducing revenues in FY 2025 through FY 2027.

Detailed Fiscal Analysis

The bill would allow a personal income tax credit for physicians, surgeons, and dentists who provide uncompensated medical or dental care through or on behalf of a hospital, free clinic, nonprofit clinic, other nonprofit nongovernmental organization (a "medical mission organization") that helps medical professionals care for persons, or volunteer care program. To qualify for the credit, the number of hours of uncompensated medical care must be documented by the hospital, clinic, or organization. This credit may be claimed at a rate of \$50 per hour, up to a maximum of \$10,000 (200 hours at the specified rate) per year for doctors and dentists whose Ohio adjusted gross incomes less exemptions are no more than \$84,200 (referred to in the bill as qualifying medical professionals), and up to \$5,000 (100 hours) for doctors and dentists with incomes higher than this. Credits would be refundable for qualifying medical professionals, and nonrefundable for others. Taxpayers in the latter group

could carry unused credits forward for up to three years, and use them to reduce taxes owed in those future years. In each case, the credits are available on a temporary basis, for tax years beginning on or after December 31, 2017 and before January 1, 2024.

How many physicians, surgeons, and dentists might claim a credit for unpaid professional services appears uncertain. Occupational data from the U.S. Bureau of Labor Statistics (BLS) show 32,910 physicians, surgeons, and dentists in Ohio in 2016, who were employees, so do not include those who were self-employed. Based on data by percentile and occupational title, the overwhelming majority of these professionals earned more than \$84,200 per year. A few thousand appear to have earned less. If all 32,910 physicians, surgeons, and dentists gave 100 hours of uncompensated medical or dental care per year, the personal income tax revenue loss would be about \$165 million, some of which might be carried forward to future years.

The number of physicians, surgeons, and dentists 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, and 7,088 active licenses were issued for dentists.¹ Presumably many of these licensed doctors and dentists, in excess of the number who are employees, are self-employed.

For self-employed physicians, surgeons, and dentists, earnings from their business as doctors and dentists 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.² Compensation of physicians, surgeons, and dentists 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. For these doctors and dentists, the credit for qualifying uncompensated volunteer work could be claimed against any taxes due, refunded in full for those with incomes of \$84,200 or less, and refunded or carried forward three years for those with higher incomes. The potential revenue loss among these self-employed doctors and dentists is additional millions of dollars. Due to data limitations, greater precision in estimating the revenue loss for this group is not possible.

The actual revenue loss would likely be much lower than the potential \$165 million or more noted above. If, for example, 20% of these physicians, surgeons, and dentists employed by others provided 100 hours of uncompensated medical care in a year, the revenue loss would be about \$33 million; if 10%, \$16.5 million; if 2%,

¹ Ohio Legislative Service Commission, FY 2016 Report for Occupational Licensing and Regulatory Boards, October 2016, pages 12 and 14.

² Information in this paragraph on taxation of business income is based on the 2016 filing instructions posted on the Department of Taxation's website.

\$3.3 million. 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 \$1.75 million. This is plausibly the minimum revenue loss with the bill, since others might provide such service but not be included in these figures.

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.

Synopsis of Fiscal Effect Changes

- Replaces a \$125 personal income tax deduction per hour of qualifying volunteer service with a \$50 per hour credit, refundable for incomes of \$84,200 per year or less and nonrefundable for higher incomes.
- Applies to both physicians and dentists, instead of just physicians.
- Qualifying service may be provided at a nonprofit clinic or care program of a dental association or school, as well as at the organizations included in the As Introduced bill.
- Replaces a deduction limited to \$10,000 or less (i.e., a tax reduction of \$300 or less at the 3% rate applicable to business income, or \$500 or less if taxed as nonbusiness income) with a refundable credit limited to \$10,000 or less for physicians or dentists with incomes of \$84,200 per year or less, or at higher incomes a credit limited to \$5,000 or less that would be nonrefundable but could be carried forward for up to three years against future tax obligations.
- The estimated potential revenue loss is increased from \$23 million in the As Introduced bill to \$165 million or more. In each case the likely revenue loss is well below the potential.