COMMITTEE REPORT

February 6, 2019

**S. 314**

Introduced by Senator Alexander

S. Printed 2/6/19--S.

Read the first time January 8, 2019.

**THE COMMITTEE ON FINANCE**

To whom was referred a Bill (S. 314) to amend Article 25, Chapter 6, Title 12 of the 1976 Code, relating to South Carolina income tax credits, by adding Section 12‑6‑3800, etc., respectfully

**REPORT:**

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

HUGH K. LEATHERMAN, SR. for Committee.

**STATEMENT OF ESTIMATED FISCAL IMPACT**

**Explanation of Fiscal Impact**

**Introduced on January 8, 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. 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 Reve**n**ue**

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.

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 Advanced Physician

(MD or DO) Practice Nurse Assistant (PA)

(NP)

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. 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 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.

TAX YEAR 2020 ESTIMATES

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 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

Revenue and Fiscal Affairs Office

**A** **BILL**

TO AMEND ARTICLE 25, CHAPTER 6, TITLE 12 OF THE 1976 CODE, RELATING TO SOUTH CAROLINA INCOME TAX CREDITS, BY ADDING SECTION 12‑6‑3800, 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, the pipeline for primary care medical, advanced practice nursing, and physician assistant providers in South Carolina is vital to the State; and

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

Whereas, South Carolina is ranked thirty-ninth nationally regarding patient access to health care services and forty-third for its 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; and

Whereas, according to the South Carolina Department of Health and Environmental Control, 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 12‑6‑3800. (A) For the purposes of this section:

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

(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 or independent institution of higher learning that:

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

(i) medical school;

(ii) a physician assistant program; and

(iii) an 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; or

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

(3) ‘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.

(B)(1) 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.

(C)(1) 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.

(D) 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 that the credit was earned.

(E) 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 the credit would have equaled. A taxpayer may earn the deduction allowed by this subsection up to six times a tax year.

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

(G) The department may consult with a designated administrative entity to determine eligibility and may require any proof that 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. Section 12-6-1140 of the 1976 Code is amended by adding an appropriately numbered item at the end to read:

“( )(a) amounts earned pursuant to Section 12-6-3800(E) 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; or

(b) amounts earned pursuant to Section 12-6-3800(E) 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.”

SECTION 3. This act takes effect upon approval by the Governor and shall apply to tax years 2020 through 2025. Section 12‑6‑3800 and Section 12-6-1140( ) are repealed January 1, 2026.

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