DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: January 11, 2012
POSITION: Oppose

BILL NUMBER: AB 248
AUTHOR: H. Perea
RELATED BILLS: AB 643

BILL SUMMARY: Income Taxes: Credit: Medical Services: Hiring Credit

This bill would reduce, from $400 million to $250 million, the amount that can be allocated under an existing tax credit, referred to as the Jobs Tax Credit, for hiring full-time employees by employers with 20 or fewer employees on the last day of the preceding tax year. For tax years 2013 through 2016, this bill would allow physicians to deduct 25 percent of the value of medical services provided with no compensation under specified conditions. This bill would cap the total amount of the credit that can be allocated to $150 million over the four years.

FISCAL SUMMARY

This bill on a net basis will lead to modest revenue losses in 2013-14 and 2014-15 in the tens of millions, with offsetting revenue gains in the out-years beyond that. Over the long term, this bill should on a net basis be roughly revenue-neutral. A revenue estimate by the Franchise Tax Board (FTB) reflecting the January 11, 2012 amendments is pending.

According to the FTB, this bill is not expected to significantly impact its costs.

COMMENTS

The Department of Finance is opposed to this bill. While it may make sense to reduce the Jobs Tax Credit as it has been used slowly and may not be effective, this new tax credit does not necessarily fit in with the Governor's spending priorities. Further, it is not clear whether this new tax expenditure will achieve its purpose of changing the behavior of physicians to relocate to areas that are currently underserved by the medical community. Further, this bill will result in revenue losses for the state in 2013-14 and 2014-15. The credit for uncompensated care may be ineffective and unneeded after national health care is implemented in 2014.

Notes: Provisions in AB 643 of the current session seek a similar change as this bill by reducing the Jobs Tax Credit from $400 million to $100 million, but would create a different and new tax credit called the California New Markets Tax Credit Program in the amount of $300 million for tax years 2013 to 2019 for investments in low-income communities.

Analyst/Principal	Date	Program Budget Manager	Date
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Department Deputy Director	Date

Governor's Office:	By:	Date:	Position Approved_______
			Position Disapproved

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ANALYSIS

A. Programmatic Analysis

Existing federal and state laws provide various tax credits and other tax benefits designed to provide tax relief for taxpayers who incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g. research credits or economic development area hiring credits). These benefits generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise undertake.

Under current law, there is no tax credit for providing medical services free of charge or at a reduced rate.

This bill would allow an income tax credit equal to 25 percent of the value of medical services provided without compensation by a physician to a local community clinic or an emergency department of a general acute care hospital.

The credit allowed to each taxpayer would be limited to a maximum of $5,000 per year and the total amount of the credit that can be allocated is limited to a cumulative $150 million over the four tax years from 2013 to 2016.

Under current state law, Chapter 17, Statutes of 2009, Third Extraordinary Session (X3 SB15), allows a credit for taxable years beginning on or after January 1, 2009, for a qualified employer in the amount of $3,000 for each qualified full-time employee hired in the taxable year, determined on an annual full-time basis equivalent. The calculation of annual full-time basis would be the total number of hours worked for the taxpayer by the employee (not to exceed 2,000 hours per employee) divided by 2,000. A qualified employer is a taxpayer employing 20 or less employees. This credit is allocated by the FTB and has a cap of $400 million for all taxable years. The credit remains in effect until December 1 of the calendar year after the year in which the cumulative credit limit has been reached and is repealed after that date. Any credits not used in the taxable year may be carried forward up to eight taxable years. This credit is referred to as the New Jobs Credit.

This bill would reduce the cumulative amount that can be allocated for the New Jobs Credit for from $400 million to $250 million.

DISCUSSION:

A fact sheet provided by the author's office stated the following: "There are not enough physicians in many areas of California to provide medical care for those in need…Underserved regions also tend to have the highest rates of uninsured patients, putting huge financial pressure on physicians who treat many patients who cannot pay…AB 248 will increase patient access to medical care by allowing physicians a personal income tax (PIT) credit for uncompensated care. The credit is equal to 25% of the value of uncompensated emergency medical services, up to a maximum credit of $5,000. This ensures that physicians receive necessary funding when patients are unable to pay for services and will reduce the financial burden on physicians in underserved areas."

The purpose of this bill appears to be two-fold: 1) Reduce the financial burden on physicians who provide services in regions where a higher percentage of the population cannot pay for services and 2) Incentivize physicians to relocate to underserved regions and thereby increase patient access to medical care in these regions. While a tax credit up to maximum of $5,000 annually will provide a modest financial subsidy to qualifying physicians, it is unclear that this incentive would actually change behavior and lead more physicians to locate into underserved areas.

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This bill effectively swaps $150 million from the total amount of an existing tax expenditure (New Jobs Credit) with $150 million for a new tax expenditure. Although this swap will result in the bill being roughly revenue-neutral in the long run on a net basis, this new tax expenditure, when evaluated on its own, could cost the state in the range of $50 million a year (assuming it is fully utilized) until it reaches its $150 million cap.

B. Fiscal Analysis

The bill creates a new tax expenditure with a cap of $150 million while reducing the cap on the New Jobs Credit by that same $150 million. Through December 31, 2011, approximately $76 million in credits has been claimed under the New Jobs Credit and the Franchise Tax Board (FTB) estimates that it won't be until 2014-15 that credits used will pass the $250 million mark. The new credit established by this bill begins with the 2013 tax year, so the negative impact to revenues from that new credit will begin in the 2014 calendar year, or the 2013-14 fiscal year. As a whole, this bill is intended to be roughly revenue-neutral, though timing differences will lead to revenue losses in 2013-14 and 2014-15. A revenue estimate by the FTB reflecting the January 11, 2012 amendments is pending.

According to the FTB, this bill is not expected to significantly impact its costs.

	SO	(Fiscal Impact by Fiscal Year)							
Code/Department	LA	(Dollars in Thousands)							
Agency or Revenue	CO	PROP							Fund
Type	RV	98	FC	2011-2012	FC	2012-2013	FC	2013-2014	Code
1147/Pers Inc Tax	RV	No		--------------------- See Fiscal Analysis ----------------------					0001
1730/FTB	SO	No		------------------- No/Minor Fiscal Impact -------------------					0001