



Joint Subcommittee On Postsecondary Education Policy and Budget (PEPB)

60TH Montana Legislature

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HJR 22 WORKING GROUP (DENTAL STUDY)

DENTIST INCOME TAX INCENTIVE OPTION

Wednesday, March 12, 2008

At the December meeting of the HJR 22 working group, the members expressed interest in considering options for income tax incentives as a means to attract dentists to rural and underserved Montana communities in order to meet local service needs. This report is intended to discuss an option for the working group to consider that would create a Montana income tax credit for dentists who practice in underserved Montana communities.

History of Physician Tax Credit

During the 1991 regular session of the legislature, SB 359 created a \$5,000 annual income tax credit for "certain physicians" in Montana who practice in a rural area. SB 359 further authorized that income tax credit could be taken up to four successive years, but if a physician ceases to practice in that rural community within four years after receiving the tax credit, that physician would be required to reimburse state government the amount of that annual credit.

This income tax credit, codified at 15-30-188, MCA¹, remained unchanged since its inception in 1991 up until the 2007 regular session of the legislature, when SB 553 repealed the income tax credit so that it begins to be phased out starting in calendar year/tax year 2008.

The other function of SB 553 was to expand the Montana Rural Physicians Incentive Program (MR PIP) so that as the income tax credit is phased out over a four year period, the projected funding that would have been used for the credit will be used to increase the funding for MR PIP.

Therefore, the physician income tax credit will no longer exist by 2011, but the projected funding will be used instead for the MR PIP program that provides student loan repayment assistance for physicians practicing in rural medically underserved parts of Montana.

Key Components of Tax Credit

In using the physician income tax credit as a model for creating a similar program for dentists, there are a number of key components to consider.

Definitions:

How to define what is required to qualify for the tax credit, such as the following, based upon the physician model:

- “commence practice” means the location or relocation of a dentist’s principal place of practice to a rural area and the start of a practice that is open to the general public, including recipients of medical assistance under Title 53, but not including relocating a dental practice from one rural area to another
- “rural area” means a place without a dental practice located within 30 miles
- consider requiring that the dental practice must accept Medicaid patients, as that is a major obstacle to dental access for low income Montanans

Tax Benefit:

What is the amount of the income tax credit and what are the terms, as follows:

- Eligible dentists are entitled to a credit against taxes imposed by 15-30-103, MCA, in an amount of \$5,000 per year
- Eligible dentists are entitled to this credit for four consecutive years
- To qualify, the dentist shall maintain the practice for at least 9 months of the tax year in which the credit is claimed
- The credit may not be refunded if there is no tax liability but shall only be used to reduce the tax liability by up to \$5,000

Repayment Requirement:

Will there be a repayment requirement if the dentist closes the practice, such as:

- If a dentist ceases to practice in the rural area within four years following the taxable year in which the credit is allowed, the amount of the credit claimed for that taxable year must be repaid

Projected Fiscal Impact of Dentist Income Tax Credit

According to the fiscal note from the 2007 legislative session for SB 359, the physician income tax credit cost \$252,400 of general fund revenue in tax year 2005, and Department of Revenue data indicates that the credit cost \$308,000 in tax year 2006, and \$300,000 in tax year 2007. This is a three year average of \$286,800 of revenue cost, with an average of approximately 57 physicians claiming the credit on their annual income tax return by practicing in medically underserved Montana communities.

According to data from the Department of Labor and Industry, there are a total of 2,316 physicians licensed to practice in Montana and 638 dentists, so that there are only 27.5 percent as many dentists as physicians.

Applying the ratio of dentists, at 27.5 percent, to the average annual cost of the credit program for physicians, at \$286,800, results in a projection that the annual cost of a similar income tax credit program for dentists would be \$78,870, with a projected 16 dentists claiming the credit by practicing in underserved communities.

This projection assumes that the amount and duration of the tax credit would be the same \$5,000 for four years as the existing physician credit. If either of those components are changed, the projection for dentists would need to be adjusted.

Working Group Options:

1. Request a bill draft for the June 2008 meeting that would codify a Montana income tax credit for dentists, with specific components addressed from above.
2. Do nothing at this time.

Respectfully submitted:

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¹ **15-30-188. (Temporary) Credit for physician practicing in rural area -- definitions.** For the purposes of 15-30-188 through 15-30-191, the following definitions apply:

(1) "Commences practice" means the location or relocation of a physician's principal place of practice to a rural area and the start of a practice that is open to the general public, including recipients of medical assistance under Title 53. The term does not include the relocation of a physician's practice from one rural area to a different rural area.

(2) "Rural area" means a place without a hospital of at least 60 beds located within a radius of 30 miles. (Repealed effective December 31, 2010--secs. 6, 8(4), Ch. 361, L. 2007.)

History: En. Sec. 1, Ch. 771, L. 1991.

Compiler's Comments:

Effective Date -- Retroactive Applicability: Section 6, Ch. 771, L. 1991, provided: "[This act] is effective on passage and approval [approved May 15, 1991] and applies retroactively, within the meaning of 1-2-109, to taxable years beginning after December 31, 1990."

Administrative Rules:

ARM 42.4.601 Definitions.

15-30-189. (Temporary) Tax credit for physician practicing in rural area. For tax years beginning after December 31, 2006, and before January 1, 2008, a licensed physician who commences practice in a rural area in Montana on a full-time basis is entitled to a credit against taxes imposed by 15-30-103 in an amount of \$5,000 a year for each of 4 successive years, beginning with the year in which the practice commences. To qualify for the credit provided in this section, the physician shall maintain the practice for at least 9 months of the tax year in which the credit is claimed. (Repealed effective December 31, 2010--secs. 6, 8(4), Ch. 361, L. 2007.)

History: En. Sec. 2, Ch. 771, L. 1991; amd. Sec. 1, Ch. 361, L. 2007.

Compiler's Comments:

2007 Amendment: Chapter 361 inserted introductory clause referring to tax years beginning in 2007; and made minor changes in style. Amendment effective April 28, 2007.

Retroactive Applicability: Section 9(1), Ch. 361, L. 2007, provided: "(1) [Section 1] [15-30-189] applies retroactively, within the meaning of 1-2-109, to tax years beginning after December 31, 2006."

Effective Date -- Retroactive Applicability: Section 6, Ch. 771, L. 1991, provided: "[This act] is effective on passage and approval [approved May 15, 1991] and applies retroactively, within the meaning of 1-2-109, to taxable years beginning after December 31, 1990."

Administrative Rules:

ARM 42.4.601 Definitions.

15-30-190. (Temporary) Credit for physician practicing in rural area -- limitations -- repayment. (1) Except as provided in subsection (2), the rural physician tax credit authorized in 15-30-189 is to be deducted from the taxpayer's income tax liability, beginning in the taxable year in which the physician commences practice in a rural area and for the next 3 successive years.

(2) (a) A rural physician tax credit may not be claimed as a carry back or carry forward and may not be refunded if there is no tax liability.

(b) A rural physician tax credit may not be used for any taxable year in which the physician ceases to practice or does not practice in the rural area.

(3) If a physician ceases to practice in the rural area within 4 years following the taxable year in which the credit is allowed, the physician shall repay to the state the amount of the credit claimed for that taxable year. (Repealed effective December 31, 2010--secs. 6, 8(4), Ch. 361, L. 2007.)

History: En. Sec. 3, Ch. 771, L. 1991.

Compiler's Comments:

Effective Date -- Retroactive Applicability: Section 6, Ch. 771, L. 1991, provided: "[This act] is effective on passage and approval [approved May 15, 1991] and applies retroactively, within the meaning of 1-2-109, to taxable years beginning after December 31, 1990."

Administrative Rules:

ARM 42.4.602 Rural physician's credit -- qualifications.

ARM 42.4.603 Rural physician's credit -- repayment.

15-30-191. (Temporary) Credit for physician practicing in rural area -- rulemaking authority. The department of revenue may adopt rules as are necessary to implement and administer 15-30-188 through 15-30-191. (Repealed effective December 31, 2010--secs. 6, 8(4), Ch. 361, L. 2007.)

History: En. Sec. 4, Ch. 771, L. 1991.

Compiler's Comments:

1991 Statement of Intent: The statement of intent attached to Ch. 771, L. 1991, provided: "A statement of intent is required for [this act] because the department of revenue is granted rulemaking authority in [section 4] [this section]. The department is to adopt rules to implement [this act]."

Effective Date -- Retroactive Applicability: Section 6, Ch. 771, L. 1991, provided: "[This act] is effective on passage and approval [approved May 15, 1991] and applies retroactively, within the meaning of 1-2-109, to taxable years beginning after December 31, 1990."

Administrative Rules:

Title 42, chapter 4, subchapter 6, ARM Individual -- rural physician's credit.

15-30-192. Repealed. Sec. 23, Ch. 163, L. 2005.

History: En. Sec. 1, Ch. 501, L. 1999.