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Testimony of

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Before the Joint Committee on Tax Credits

In Opposition to SB 325A

May 30, 2013

I am here today to discuss problems with the Rural Medical Provider Tax Credit.

Before you re-create the Rural Medical Provider Tax Credit by extending the sunset and make other changes, consider the following.

This tax credit is just one of many subsidies for rural providers.

Oregon has insurance subsidies and loan forgiveness and repayment programs targeted to rural or underserved areas. Are they all necessary? How much should be spent to entice a medical provider to locate to or to stay in a rural area?

The credit is primarily a reward, not an incentive.

There is no solid analysis showing that "but for" this credit we'd have fewer rural medical providers. There is nothing in the criteria to obtain the credit that ensures it is being used only as an incentive, not a reward. While there may be anecdotal evidence that someone chose to work in a rural area due to the credit, anecdotal evidence does not equate to data showing correlation or causation.

By definition, a portion of the credit is a reward, not an incentive. I am specifically referring to the fact that someone can apply for and obtain the credit retroactively (up to three years). Anyone who applied to get the credit retroactively certainly did not need an incentive to practice in a rural area.

The credit has not historically been means tested. While it is nice to see that SB 325A adds a means test, it is a very generous income cap. Even with the cap it is hard to argue that the credit will act as an incentive. It's just not credible to claim that a couple earning as much as $499,999 would not be doing the work they are doing "but for" the $5,000 tax credit.

That the problem persists after 23 years shows the credit is not working.

Even though the credit was first created in 1989 and later expanded, we are still hearing about problems attracting an adequate number of providers to rural medical practices. After 23 years, the persistence of the same problem suggests the credit is not the proper tool to increase the medical provider workforce in rural areas. Throwing money at the problem with a reward has not worked. Oregonians would be better

served if the legislature studied the cause of the problem and identified all the factors that lead to inadequate numbers of providers in certain areas of the state and how health care transformation and implementation of the Affordable Care Act impacts the situation.

The definition in the proposed bill for what constitutes "rural practice" is inadequate.

I know of few doctors that work a standard 40 hour week, so the suggestion that committing 20 hours a week to "rural" work makes someone a rural medical provider makes no sense. Does that include travel to and from the rural areas or the hours of "charting" that doctors I know do on evenings and weekends?

Moreover, the definition needs to be tweaked to get doctors into what I will call Oregon's "frontier" communities, not merely "rural" places. It is Oregon's frontier communities that are in greatest need of medical providers, and this credit has failed to fix that problem over the last 23 years.

The definition of rural in this legislation differs from the definition of rural in the rural emergency providers tax credit (ORS 315.622). Oregon should define the geography of the problem similarly across the multiple programs that are trying to address the problem.

At $5,000 the credit exempts too much income from taxation.

At $5,000 the credit exempts approximately the first $60,000 in taxable income, and almost double that of a married couple who both qualify.[1] Because taxable income is approximately 70 percent of gross income (greater at the highest income levels), that means a rural medical provider earning about $83,000 would pay no income taxes.

This committee knows that a working family of two who have poverty level total income – gross income, not taxable income – of about $15,000 – still must pay taxes even *after* taking advantage of the personal exemption and earned income tax credits.

Yet, under this bill's scheme, a medical provider can have *taxable income* of about four times greater than the *gross income* of the working poor household and fully escape taxation. That seems like a misplaced priority.

[1] Here's the calculation using the 2013 tax table set forth in LRO's 2013 Basic Facts publication. Take the $5,000 and subtract $506, the taxes associated with the 5% and 7% brackets on income up to $8,150 for a single filer. Take the remaining $4,494 and divide that by 0.09 (the 9% tax) and add the result to $8,105 (the base income for the $506). That totals $58,083. Using the joint filer brackets, if one medical professional is a joint filer, the result is $60,622. If both joint filers are rural medical professionals, the result is $116,178.

At $5,000 the credit is three times the tax liability of the typical Oregonian and twenty times the credit given to rural volunteer EMTs.

I've heard pollsters say that most people don't know how much they pay in income taxes; they may recall the size of the check they wrote when they filed in April (i.e. what was still owed), but they don't know the bottom line total income tax bill.

The $5,000 rural medical tax credit is equal to about three times the tax liability of the typical taxpayer. The pre-tax credits tax liability of the typical taxpayer – the approximate median taxpayer – was about $1,695 in 2010. The $5,000 tax credit is about three times that level.

The rural volunteer EMT credit is also up for sunset review and is $250.[2] The SB 325 credit is 20 times as large.

The credit's 10-year tail gives lawmakers time to find a solution

Under current law, for the next 10 years, the sunset only impacts new applicants. If you let the credit sunset and make no other changes to the statutes, the credit continues for 10 more years for those currently in program. That is generous and minimizes any threat that there will soon be an exodus of rural providers if the credit sunsets.

The 10-year tail buys the legislature time to better study the issue of how ensure that there are an adequate number of medical providers in Oregon's rural and frontier communities under our transformed health care system and the Affordable Care Act.

Summary

Whichever way you look at it, the Rural Medical Provider Tax Credit is an oversized tax credit that provides too much financial reward to people who can be extremely well off, and after 23 years has failed to solve the problem it was meant to address. The spending is a misplaced priority.

[2] This exempts the first approximately $4,500 of taxable income of the single taxpayer.