State of Oregon

2015–2017

Tax Expenditure Report

Research Section
Department of Revenue

Department of Administrative Services
Chief Financial Office

EVALUATION: *by the Department of Human Services*

This tax expenditure achieves its purpose and is of greatest assistance to those people who are at the margin of needing state assistance. It allows for greater disposable income to meet the more costly needs of children with disabilities. This tax expenditure is well targeted and provides the recipients with valuable financial assistance that alleviates or prevents the reliance on direct state services. As a result, this tax credit saves the state more than it costs. One concern is that the size of this credit, which is for all Oregon residents, is connected to consumer prices in Portland. Access to health care, which can be particularly difficult in rural areas, can represent significant costs. Basing changes on prices in Portland may therefore understate the price changes in other parts of the state.

1.405 RURAL MEDICAL PRACTICE

Oregon Statute: 315.613, 315.616, and 315.619
Sunset Date: 12-31-2015 (for new certifications); 12-31-2023 (for those that qualify in 2013)
Year Enacted: 1989, Modified in 2013 (HB 3367)

	Corporation	Personal	Total
2013-15 Revenue Impact:	Not Applicable	$17,100,000	$17,100,000
2015-17 Revenue Impact:	Not Applicable	$16,800,000	$16,800,000

NOTE: The revenue impact estimate includes the effect of the sunset.

DESCRIPTION: A nonrefundable credit of up to $5,000 against personal income taxes is allowed to certain rural medical providers. They cannot carry forward any unused portion, and the amount of the credit is prorated for nonresidents and part-year residents.

Providers must be certified by the Office of Rural Health. No new certifications are allowed after 2015. Providers that were first certified for tax years 2014 or 2015 may not claim a credit after 2015. Providers that were certified in 2013 or earlier and are eligible for tax year 2013 have an extended sunset date. They can claim the credit for any tax year that they meet the eligibility requirements through 2023. The original statute covered physicians, physician assistants, and nurse practitioners. Certified registered nurse anesthetists were added in 1991, podiatrists and dentists in 1995, and optometrists in 1997.

The credit may be claimed each year as long as the health practitioners maintain their eligibility. Before 1999, there was a 10-year limit for claiming this credit.

For tax years beginning before January 1, 2014, at least 60 percent of the provider's practice, in terms of time, must be spent in a qualifying rural area to receive the credit. Legislation in 2013 replaced this requirement. Effective for tax years beginning on or after January 1, 2014, the provider must be engaged for at least 20 hours per week, averaged over the month.

Legislation in 2013 also required that, effective January 1, 2014, providers must be willing to serve patients with Medicare coverage and patients receiving medical assistance in at least the same proportion to the provider's total number of patients as the Medicare and medical assistance populations represent of the total number of persons determined by the Office of Rural Health to be in need of care in the county served by the practice, not to exceed 20 percent Medicare patients or 15 percent medical assistance patients.

Other requirements for eligibility vary by type of provider. For this provision, rural is defined as any area at least ten miles from a major population center of 40,000 or more. Currently, there are six such population centers: the Portland area, Salem, Eugene/Springfield, Medford, Bend, and Corvallis/Albany. In addition, physicians on staff of a hospital in a metropolitan statistical area (MSA) are not eligible, with the exception of Florence in Lane County and Dallas in Polk County (2001 legislation).

PURPOSE: The statutes that allow this expenditure do not explicitly state a purpose. Presumably, the purpose is to encourage the establishment and continuation of medical practices in underserved rural areas.

WHO BENEFITS: Medical professionals who qualify for this $5,000 tax credit. For the 2013 tax year, 2,032 practitioners were certified by the Office of Rural Health for the credit. The table below shows usage of this credit for tax year 2012. Note that two joint personal income tax filers could each qualify for and claim the credit; this is why the average revenue impact of the credit is above the $5000 credit limit for individuals for the group of filers with income above $81,800.

2012 Personal Income Tax Filers

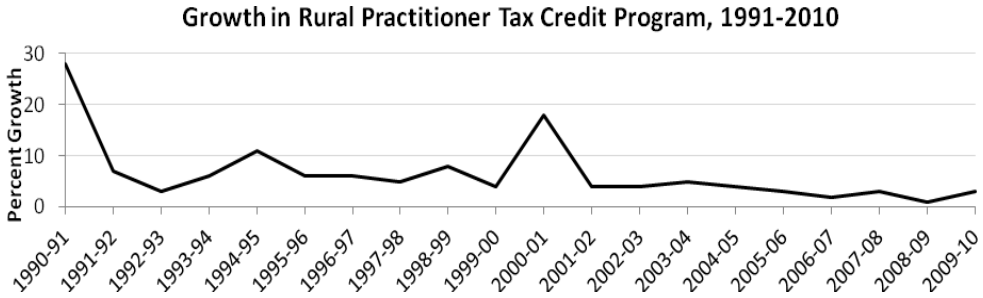
Income Group of Full-Year Filers*	Number of Filers Using Credit	Average Revenue Impact of Credit	Revenue Impact ($ millions)	Percent of Revenue Impact by Income Group
Below $12,400	<10	$55	<$0.1	<1%
$12,400 - $26,000	10	$227	<$0.1	<1%
$26,000 - $46,400	20	$1,438	<$0.1	<1%
$46,400 - $81,800	130	$3,360	$0.4	5%
Above $81,800	1,510	$5,087	$7.7	94%
All Full-Year Filers	1,680	$4,838	$8.1	100%
Part-Year and Nonresident Filers	180	$3,290	$0.6	

**Each income group contains 20 percent of the full-year filers (approximately 322,500)*

EVALUATION: *by the Office of Rural Health*

This tax credit appears to have originally achieved its purpose by attracting new practitioners to rural communities and retaining existing practitioners. A year-by-year analysis of the Office of Rural Health's tax credit data base shows an impressive net gain of 1,494 practitioners in rural areas eligible for the tax credit since 1990.

The tax credit has been most successful in attracting new nurse practitioners to rural areas, and their figures have grown from 61 in 1990 to 463 for tax year 2013. Initially, Oregon experienced a remarkable gain in rural physicians and other practitioners, but that growth is slowing:



Reasons for the decreasing growth rate may include (1) a general shortage in health care workforce statewide; (2) aging of the overall workforce (the greatest concentration of physicians is now in the 51-60 age group — much higher than the rest of the population); and (3) perhaps most significantly, the tax credit has not increased for 20 years, while the medical consumer price index has risen substantially.

The marginal increases in recent years does not in any way indicate that adequate numbers of health care practitioners have been recruited to serve the needs of rural Oregonians. According to 2013 licensure data, urban Oregon had 323 physicians per 100,000 population. In rural Oregon, the measure was 141 per 100,000.

The program was devised to operate with a minimum of administrative burden and appears to be an efficient means of accomplishing its goal. A 1996 audit by the Secretary of State's office concluded that the program is fulfilling the purpose for which it was created in an efficient and exemplary manner. Administrative costs are negligible and are covered by charging each applicant a $45 processing fee.

Without incentives such as this program, a decline in rural practitioners similar to that experienced in the 1980s will inevitably repeat itself. However, the relative value of this incentive decreases as the costs of medical practice increase. In order to prevent a crisis in the availability of health care to rural Oregonians, the state should consider increasing the tax credit, e.g., indexing it to the medical consumer price index.

1.406 VOLUNTEER RURAL EMERGENCY MEDICAL TECHNICIANS

Oregon Statute: 315.622
Sunset Date: 12-31-2019
Year Enacted: 2005, Modified in 2013 (HB 3367)

	Corporation	Personal	Total
2013-15 Revenue Impact:	Not Applicable	$300,000	$300,000
2015-17 Revenue Impact:	Not Applicable	$300,000	$300,000

DESCRIPTION: A nonrefundable credit of $250 against personal income taxes is allowed to certain rural emergency medical technicians certified by the Office of Rural Health. They cannot carry forward any unused portion. The amount of the credit is prorated for nonresidents and part-year residents. At least 20 percent of the services provided by the emergency medical technician (EMT) must be volunteer hours spent in a qualifying rural area, to receive the credit. For this provision, rural means any area at least 25 miles from a city with a population of 30,000 or more.

PURPOSE: The statute that allows this expenditure does not explicitly state a purpose. Presumably, the purpose is to encourage emergency medical technicians to volunteer their services in rural areas.

WHO BENEFITS: Certified emergency medical technicians that volunteer at least 20 percent of their services in rural areas. For tax year 2012, over 600 personal income taxpayers saved an average of $240 in Oregon tax using this credit. The table below shows usage of this credit for tax year 2012. Note that two joint personal income tax filers could each