

# MINNESOTA • REVENUE

## INDIVIDUAL INCOME TAX Charity Health Care Subtraction

March 13, 2014

Department of Revenue

Analysis of H.F. 1998 (Gruenhagen) As Proposed to be Amended (H1998A1)

	Yes	No
DOR Administrative Costs/Savings	X	

### Fund Impact

	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>	<u>F.Y. 2016</u>	<u>F.Y. 2017</u>
		(000's)		
General Fund	\$0	\$0	(\$6,800)	(\$7,000)

Effective beginning with tax year 2015.

### EXPLANATION OF THE BILL

The bill would allow a subtraction from Minnesota taxable income of the value of professional health care services donated by physicians, dentists, and chiropractors. Those services would be valued at the reimbursement amounts applicable to such services provided to individuals receiving medical assistance.

### REVENUE ANALYSIS DETAIL

- Information from the Minnesota Department of Health indicates that about two-thirds of Minnesota physicians offer charity care per year, about 11,000 individuals. About 6.3% of their time is charity care.
- Based on this information and national rates of charity care, it is expected that Minnesota charity care would be about \$132 million in 2015. But since Minnesota has a lower uninsured rate than the nation as a whole, Minnesota charity care is adjusted to \$118 million.
- According to the Minnesota Department of Health, it is expected that increased insurance coverage due to the Affordable Care Act, and the resulting decrease in the need for charity care, would be matched about equally by an increase in providers' willingness to provide such care if the bill were adopted.
- Assuming that the reimbursement rate is 70% of the full fee, and assuming that physicians' marginal tax rate is 8% on average, the fiscal cost would be about \$6.6 million per year.
- There are about 4,000 dentists licensed in Minnesota, and it is assumed that about 10% of them provide charity care, again for about 6.3% of their time. It is assumed that dentists' total gross income on average is about 75% of that of physicians and that their average marginal tax rate is also 8%. Therefore fiscal cost attributable to dentists would be about \$180,000.
- It is assumed that chiropractors provide charity care at a lower rate. Also chiropractors' total gross income much smaller than that of physicians. Therefore it is assumed that the fiscal cost attributable to chiropractors would be about \$10,000 per year.
- A growth rate of 3% per year is assumed.
- Tax year impacts were allocated to the following fiscal year.

**Number of Taxpayers:** About 11,000 physicians would be affected, as would about 400 dentists and a small number of chiropractors.

Source: Minnesota Department of Revenue  
Tax Research Division  
[www.revenue.state.mn.us/research\\_stats/Pages/Revenue-Analyses.aspx](http://www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx)