

**DEPARTMENT OF TAXATION
2008 Fiscal Impact Statement**

**REVISED
1/14/08**

1. Patron Mark L. Cole

3. Committee House Finance

4. Title Individual Income Tax: Tax Credit for
Physicians Entering or Participating in the
TRICARE System

2. Bill Number HB 213

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would provide an individual income tax credit to physicians who enter into a contract to provide health care services permitted under a TRICARE contract to patients enrolled in the TRICARE system. The credit would only be allowed to physicians who entered into such a contract for the first time after January 1, 2008. This would be a one-time credit in an amount up to \$2,500.

In addition, this bill would provide an additional annual individual income tax credit to physicians who have already received the \$2,500 credit, if they actively participate in the TRICARE system and provide health care services to a minimum of one hundred TRICARE patients each year. The amount of this credit would be an amount up to \$1,000 per year. Taxpayers would not be allowed to claim this credit and the \$2,500 credit in the same year.

This bill would be effective for taxable years beginning on or after January 1, 2008.

6. Fiscal Impact Estimates are: Preliminary. (See Line 8.)

7. Budget amendment necessary: Yes. (See Line 8.)

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8. Fiscal implications:

Administrative Costs

TAX has not assigned any administrative costs to this bill because the changes required by a single bill such as this can be implemented as part of the annual changes to our systems and forms. As stand-alone legislation, TAX considers implementation of this bill as "routine," and does not require additional funding.

TAX will provide specific administrative costs on any legislation that is not "routine." Additionally, TAX will review all state tax legislation likely to be enacted prior to the passage by each house. If the aggregate number of routine bills likely to pass either house is unusually large, it is possible that additional resources will be required. If so, TAX will identify the costs at that time.

Revenue Impact

The revenue impact of this bill is unknown, but potentially significant. According to data provided by the company administering TRICARE in Virginia, the average number of physicians that entered into a TRICARE contract for the past two years is approximately 800 per year. For illustrative purposes only, if it is assumed that approximately 800 physicians become eligible each year for this credit and that these taxpayers can fully utilize the credit, the amount of credits earned in the first year after passage would be approximately \$2 million. In the second year, another 800 physicians would be eligible for the \$2,500 credit, while physicians who received that credit in the previous year would be eligible for the \$1,000 credit. Therefore, physicians would earn approximately \$2.8 million in credits in the second year. The actual amount of credits earned is likely to vary significantly from year to year.

To implement this credit, a reduction of an equal amount of general fund support from other areas in the introduced budget would be required.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Background

TRICARE is the health care program serving active duty service members, retirees, their families, survivors and certain former spouses worldwide. As a major component of the Military Health System, TRICARE uses the health care resources of the uniformed services and supplements them with networks of civilian health care professionals, institutions, pharmacies and suppliers. In order to be eligible for TRICARE benefits, an individual must be registered in the Defense Enrollment Eligibility Reporting System.

Proposal

This bill would provide an individual income tax credit to physicians who enter into a contract to provide health care services permitted under a TRICARE contract to patients enrolled in the TRICARE system. The credit would only be allowed to physicians who entered into such a contract for the first time after January 1, 2008. This credit would only be available to the taxpayer one time and it would be in an amount up to \$2,500.

This bill would also provide an annual individual income tax credit to physicians who have a contract to provide health care services permitted under a TRICARE contract to patients enrolled in the TRICARE system and who have already received the \$2,500 credit. If these physicians actively participate in the TRICARE system and provide health care services to a minimum of one hundred TRICARE patients each year, they would be entitled to a credit in an amount up to \$1,000 per year.

Taxpayers would not be allowed to claim the \$1,000 credit and the \$2,500 credit in the same year. In addition, the total amount of the credit allowed in any one taxable year would not be allowed to exceed the taxpayer's income tax liability.

This bill would be effective for taxable years beginning on or after January 1, 2008.

cc : Secretary of Finance

Date: 1/14/2008 AMS
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