BILL SUMMARY
1st Session of the 57th Legislature

Bill No.:	**HB 2511**
Version:	**INT**
Request Number:	**5690**
Author:	**Mr. Speaker**
Date:	**2/11/2019**
Impact:	**Tax Commission:** **Revenue Decrease** **FY-20: $580,000** **FY-21: $870,000**

Research Analysis

HB2511, as introduced, provides an income tax exemption for doctors that practice medicine in rural areas of the state beginning tax year 2020.

Any income, up to $25,000 each year for up to 5 years, directly related to the practice of medicine in *a rural area* would be exempt from taxable income for a qualifying doctor. A *rural area* is defined as any municipality that has a population of less than 25,000 and is at least 25 miles from the nearest municipality with a population greater than 25,000. To qualify, a doctor must have an Oklahoma medical license, have graduated from a medical school located in Oklahoma and reside in the same county as the *rural area* where the compensation is earned.

The measure also requires the Oklahoma Tax Commission to calculate and publish an estimate of the cumulative total of taxes forgone as a result of the exemption. When the estimate by the OTC exceeds $1 million, the exemption will sunset and no longer be available to qualifying doctors.

Prepared By: Quyen Do

Fiscal Analysis

Analysis provided by the Tax Commission:

In order to qualify for the proposed exemption a doctor (medical doctor or osteopathic physician) must be licensed in this state, have graduated from a college of medicine or osteopathic medicine located in this state, and have a primary residence located within the same county as the rural area where the compensation qualifying for exemption was earned[1]. The exemption is only available for a period of five (5) years. For purposes of the proposed exemption, rural area is defined as any municipality or unincorporated location in Oklahoma which has a population not exceeding twenty-five thousand (25,000)[2] as determined by the most recent Federal Decennial Census, and is at least twenty-five (25) miles from the boundary of the nearest municipality in Oklahoma with a population exceeding twenty-five thousand (25,000) as determined by the most recent Federal Decennial Census. This exemption will not be available or claimed for any taxable year following the year when the Oklahoma Tax Commission calculates an estimate of the cumulative total of taxes forgone is in excess of $1,000,000.00.[3]

Taxpayers licensed under the Oklahoma Allopathic Medical and Surgical Licensure and Supervision Act

Based on data obtained from the Oklahoma State Board of Medical Licensure and Supervision, there are approximately 6,118 medical doctors (MD's) licensed and practicing in Oklahoma[4]. Of that number approximately 808 currently practice in a rural area with a population of less than twenty-five thousand (25,000)[5]. Assuming an additional 531 nonrural physicians (10% of the remaining 5,310 physicians) will establish residency and employment in a qualifying rural area, plus the 646[6] currently rural-practicing physicians will qualify for this $25,000.00 annual exemption results in 1,177 physicians exempting $29,425,000.00 in income. Applying an effective income tax rate of 3.05% to the exempted income results in a decrease in income tax collections of $897,000.00 for tax year 2020.

Taxpayers licensed under the Oklahoma Osteopathic Medicine Act

Based on data obtained from the Oklahoma State Board of Osteopathic Examiners, there are approximately 2,458 osteopathic physicians licensed and practicing in Oklahoma[7]. Of that number approximately 689 osteopathic physicians practice in a qualifying rural area. Assuming an additional 177 nonrural osteopathic physicians (10% of the remaining 1769 osteopathic physicians) will establish residency and employment in a qualifying rural area plus the 551[8] currently rural-practicing osteopathic physicians will qualify for this $25,000.00 annual exemption results in 728 osteopathic physicians exempting $18,200,000.00 in income. Applying an effective income tax rate of 3.05% to the exempted income results in a decrease in income tax collections of $555,000.00 for tax year 2020.

Revenue Impact:

The total impact for tax year 2020 is a projected decrease in income tax collections of $1.45 million. It is expected that changes to withholding and estimated tax payments would occur, resulting in a decrease in income tax collections in FY20 of $580,000.00. If the Tax Commission calculates an estimate of the cumulative total of taxes forgone in tax year 2020 to be in excess of $1 million, a decrease of $870,000.00 in income tax collections is expected in FY21.

[1] This measure does not require doctors eligible for this exemption to be new to the rural area. This income tax exemption is available to those already meeting the qualifications.

[2] Oklahoma City, Tulsa, Norman, Broken Arrow, Lawton, Edmond, Moore, Midwest City, Enid, Stillwater, Muskogee, Bartlesville, Shawnee, Owasso, and Ponca City are the only municipalities in Oklahoma with population greater than 25,000. Source: 2010 Census Redistricting Data (Public Law 94-171) Summary File.

[3] This provision may be difficult to administrate.

[4] Oklahoma State Board of Medical Licensure and Supervision *Report of Distribution of Medical Doctors, by County.* www http://www.okmedicalboard.org/public_resources. There are an additional 3,987 Oklahoma licensed MD's classified as not in Oklahoma.

[5] Oklahoma State Board of Medical Licensure and Supervision *Active MDs practicing in Rural Areas of Oklahoma.* www http://www.okmedicalboard.org/public_resources

[6] The existing number of rural physicians has been reduced by 20% to account for not qualifying based on location of medical school graduation or proximity to municipalities.

[7] Oklahoma Osteopathic Board of Examiners – *Physician Directory 2/9/19*

[8] The estimated number of existing rural physicians has been reduced by 20% to account for not qualifying based on location of medical school graduation or proximity to municipalities.

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Other Considerations

None.

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