

**Fiscal Impact**  
1<sup>st</sup> Session of the 57<sup>th</sup> Legislature

**Bill No.:**  
**Version:**  
**Author:**  
**Date:**

**HB 2511**  
**ENGR**  
**Sen. Thompson**  
**04/01/2019**

**Fiscal Analysis**

**OKLAHOMA TAX COMMISSION**

REVENUE IMPACT STATEMENT  
FIRST REGULAR SESSION, FIFTY-SEVENTH OKLAHOMA LEGISLATURE

**DATE OF IMPACT STATEMENT:** March 26, 2019

**BILL NUMBER:** HB 2511 **STATUS AND DATE OF BILL:** Engrossed Bill 3/4/19

**AUTHORS:** House McCall & Russ Senate Thompson

**TAX TYPE (S):** Income Tax **SUBJECT:** Exemption

**PROPOSAL:** Amendatory

HB 2511 proposes to amend 68 O.S. § 2358 by enacting an income tax exemption of up to \$25,000 annually for physicians related to their income from the practice of medicine or osteopathic medicine in rural areas of Oklahoma beginning with tax year 2020.

**EFFECTIVE DATE:** January 1, 2020

**REVENUE IMPACT:**

Insert dollar amount (plus or minus) of the expected change in state revenues due to this proposed legislation.

FY 20: Projected decrease of \$580,000 in income tax revenue

FY 21: Projected decrease of \$870,000 in income tax revenue

<u>Mar. 26, 2019</u>	<u>Rick Miller</u>	
DATE	DIVISION DIRECTOR	mck
<u>3-27-2019</u>	<u>Huan Gong</u>	
DATE	HUAN GONG, ECONOMIST	
<u>3-29-19</u>	<u>Jim Murt</u>	
DATE	FOR THE COMMISSION	

*The estimated revenue impact provided herein is an estimate of the potential impact on the collection or apportionment of tax revenues affected by the proposed legislation. It is not intended to be an estimate of the overall fiscal impact on the state budget if the proposed legislation is enacted.*

HB 2511 proposes to amend 68 O.S. § 2358 by enacting an income tax exemption of up to \$25,000 annually for physicians related to their income from the practice of medicine or osteopathic medicine in rural areas of Oklahoma beginning with tax year 2020.

Under current law, no income tax exemption exists for physicians who practice medicine in a rural area of Oklahoma

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<sup>1</sup>. 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)<sup>2</sup> 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.<sup>3</sup>

***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<sup>4</sup>. Of that number approximately 808 currently practice in a rural area with a population of less than twenty-five thousand (25,000)<sup>5</sup>. 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<sup>6</sup> currently rural-practicing physicians will qualify for this \$25,000 annual exemption results in 1,177 physicians exempting \$29,425,000 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 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<sup>7</sup>. 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<sup>8</sup> currently rural-practicing

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> This provision may be difficult to administrate.

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

<sup>5</sup> Oklahoma State Board of Medical Licensure and Supervision *Active MDs practicing in Rural Areas of Oklahoma*. www [http://www.okmedicalboard.org/public\\_resources](http://www.okmedicalboard.org/public_resources)

<sup>6</sup> 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.

<sup>7</sup> Oklahoma Osteopathic Board of Examiners – *Physician Directory 2/9/19*

<sup>8</sup> 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.

**ATTACHMENT TO REVENUE IMPACT HB 2511[Engrossed] Prepared: 3/26/19 – Page 2**

osteopathic physicians will qualify for this \$25,000 annual exemption results in 728 osteopathic physicians exempting \$18,200,000 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 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. 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 in income tax collections is expected in FY21.