

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1840

Bill Subtitle: TO CREATE AN INCOME TAX CREDIT FOR DONATIONS TO THE GRADUATE MEDICAL EDUCATION FUND.

Basic Change :

Sponsor: Rep. L. Johnson

In 2019, the General Assembly created the Graduate Medical Education Fund (Fund). HB1840 provides a nonrefundable income tax credit for individuals or businesses equal to 100% of contributions to the Fund. The credit may not exceed an eligible taxpayer's tax due. The taxpayer may carry-forward unused credits for five years. The taxpayer may not convey, assign, or transfer the credit unless the taxpayer transfers all of the taxpayer's assets in the same transaction.

In order to claim the credit, the taxpayer must obtain an eligibility certificate from the Division of Higher Education and must attach the certificate to the taxpayer's income tax return. The certificates are to be awarded on a first-come, first-served basis. The Division of Higher Education must adopt rules necessary to implement the credit.

The bill initially limits the available tax credit to \$5,000,000 in each fiscal year. If the claimed tax credit amount in any fiscal year is equal to or greater than 90% of the \$5,000,000 cap, the cap will increase by 25% for the following fiscal year. The Division of Higher Education and the Department of Finance and Administration must publish notice on their respective websites of any increase in the cap.

The bill is effective for tax years beginning on or after January 1, 2022.

Revenue Impact :

FY2023 - \$5,000,000 reduction in state General Revenue

[HB1840 provides that the \$5,000,000 cap in credits allowed per fiscal year may increase by 25% if the credits claimed are equal to or greater than the current cap. Accordingly, the revenue impact for future fiscal years may increase depending upon increased use of the credits.]

Taxpayer Impact :

A taxpayer must obtain a credit certificate from the Division of Higher Education and attach it to the tax return to claim the credit. Records to support the donation and credit will need to be maintained for six years.

Resources Required :

Computer programs, forms and instructions will need to be updated.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

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DFA employees and the tax community will need to be trained for the new tax credit.

Other Comments :

The bill does not have a provision denying a charitable contribution deduction for a donation resulting in a tax credit, and therefore, the taxpayer will be reimbursed for 100% of the taxpayer's donation through the tax credit and the taxpayer may also to claim a charitable deduction to reduce their state income tax liability.

Legal Analysis :

None.