Department of Finance and Administration

Legislative Impact Statement

Bill: HB1421
Bill Subtitle: TO CREATE AN INCOME TAX CREDIT FOR CONTRIBUTIONS TO CERTAIN RURAL HOSPITAL ORGANIZATIONS; AND TO CREATE THE HELPING ENHANCE ACCESS TO RURAL TREATMENT (HEART) ACT.

Basic Change :

Sponsors: Rep. L. Johnson and Sen. Irvin

HB1421 creates a tax incentive program known as the Helping Enhance Access to Rural Treatment (HEART) Act that awards income tax credits in the aggregate for a given tax year of up to $75,000,000 to individual and corporate taxpayers who contribute to qualified rural hospital organizations.

To qualify for the credit, the contribution must be made for the benefit of a rural hospital organization (RHO).

A "rural hospital organization" is a licensed acute care hospital that:

- Either provides inpatient hospital services at a facility located in a rural county or is a critical access hospital;
- Participates in both Medicaid and Medicare and accepts both Medicaid and Medicare patients;
- Provides healthcare services to indigent patients;
- Has at least ten percent of its annual net revenue categorized as indigent care, charity care, or bad debt;
- Annually files an IRS Form 990, Return of Organization Exempt From Income Tax, or, if not required to file an IRS Form 990, a form prescribed by the Department of Finance and Administration (DFA) that collects the same information;
- Is operated by a county or municipal authority or is designated as a tax-exempt organization under 26 U.S.C. § 501(c)(3) as of January 1, 2023; and,
- Has a three-year average patient margin, as a percentage of expense, less than one standard deviation above the statewide three-year average of organizations meeting the above-listed requirements as calculated by the Arkansas Department of Health (ADH).

A "critical access hospital" is a hospital that meets the requirements of the Centers for Medicare and Medicaid Services to be designated as a critical access hospital and that is recognized by the ADH as a critical access hospital for purposes of Medicaid.

A "rural county" is a county having a population of less than 50,000 according to the most recent federal decennial census, excluding any military personnel and their dependents living in a county that contains a military base or installation.

"Patient margin" is gross patient revenues less contractual adjustments, bad debt, indigent and charity care, other uncompensated care, and total expenses.

An RHO seeking to participate in the HEART program must submit to ADH a five-year plan detailing its financial viability and stability. ADH shall develop the criteria. Based on the information required by ADH and provided by the RHOs, ADH will annually create a list of RHOs qualified to receive contributions. The list prepared by the ADH will identify qualified RHOs and rank the RHOs in order of financial need.

Bill: HB1421
Bill Subtitle: TO CREATE AN INCOME TAX CREDIT FOR CONTRIBUTIONS TO CERTAIN RURAL HOSPITAL ORGANIZATIONS; AND TO CREATE THE HELPING ENHANCE ACCESS TO RURAL TREATMENT (HEART) ACT.

Qualified RHOs can receive a total of $4,000,000 in contributions during a taxable year. From January 1 through June 30, qualified RHOs can receive contributions from:

- Individual taxpayers, not to exceed $2,000,000; and
- Corporate taxpayers, not to exceed $2,000,000.

Individuals and corporate taxpayers wishing to contribute to the HEART program must notify DFA of the total amount the taxpayer intends to contribute. Individuals and corporate donors may contribute to a specific qualified RHO or an unspecified RHO. Unspecified donations will be applied to the RHO with the highest financial need based on the ADH list that has not received the maximum amount.

DFA will notify the taxpayer within 30 days of the application whether the contribution is approved or not. If approved, the taxpayer has 180 days to make the preapproved contribution.

From January 1 through June 30, taxpayers may contribute to qualified RHOs through the HEART program in the following amounts:

- Single Individual or Head of Household, not to exceed $5,000;
- Married couple filing a joint return, not to exceed $10,000; and
- Individual who is a member of a limited liability company formed under state law, a shareholder of a Subchapter S corporation, or a partner in a partnership, not to exceed $10,000.

From July 1 to December 31, individual taxpayers and corporations may apply to DFA to contribute in any amount through the HEART program and claim any credits remaining from the $75,000,000 available annually.

Qualifying individual taxpayers can receive an income tax credit in an amount equal to the contribution. Qualifying corporate taxpayers can receive an income tax credit in an amount not to exceed the lesser of the actual amount of the contribution or 75% of the liability of the corporation's income tax liability. Taxpayers may not use a tax credit for a previous year's tax liability or in excess of the taxpayer's amount of tax due. Unused income tax credits can be carried forward for five consecutive tax years.

RHOs shall use the funds for healthcare-related services for residents of a rural county or residents of the area served by a critical access hospital and report how the funds received were expended by the RHO. RHOs then submit to ADH a report of all contributions received and how they were expended. RHOs can employ third parties to solicit, advertise, or manage contributions to the HEART program.

Taxpayers will attach to their tax return a letter of confirmation to claim the credit. A letter of confirmation is issued by the RHO upon receipt of the contribution. A letter of confirmation will contain:

- Taxpayer's name;
- Taxpayer's address;
- Taxpayer's tax identification number;
- Amount of contribution;

- Date of the contribution; and
- Amount of credit allowed.

ADH will post on its website:

- A list of RHOs eligible to receive contributions;
- Operations manual containing the criteria required in the five-year plan;
- Annual reports required;
- Total amount received by each third-party that participated in soliciting, administering, or managing contributions;
- Link to DFA's website for more information about how to make contributions and obtain tax income credits.

DFA will post on its website:

- The following timelines:
  - Beginning and ending dates when contributions can be submitted for the January 1 through June 30 period;
  - Beginning and ending dates for the July 1 through December 31 period; and
  - Date by which preapproved contributions are required to be sent to the RHOs;
- A list and ranking of qualified RHOs;
- Monthly progress reports containing the following:
  - Total preapproved contributions to date for each RHO;
  - Total contributions to date received by each RHO;
  - Total aggregate amount of preapproved contributions made; and
  - Aggregate amount of credits available.
- A list of all preapproved contributions made to unspecified RHOs and the RHO that received the contribution.

The Department of Inspector General will annually audit:

- Contributions made;
- Credits received; and,
- All amounts received by third-parties related to the HEART program.

HB1421 will be effective for tax years beginning on or after January 1, 2024.

<u>**Revenue Impact :**</u>

FY2025 - $51.3 million General Revenue Reduction

[Revenue impact was based on 73.5% of RHO tax credit claims reported by the Georgia Department of Revenue for tax year 2022 and projected to the Arkansas $75 million dollar maximum tax credit. The estimate was adjusted to 93% to account for 30 RHOs in Georgia compared to 28 RHOs in Arkansas.]

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1421
Bill Subtitle: TO CREATE AN INCOME TAX CREDIT FOR CONTRIBUTIONS TO CERTAIN RURAL HOSPITAL ORGANIZATIONS; AND TO CREATE THE HELPING ENHANCE ACCESS TO RURAL TREATMENT (HEART) ACT.

Taxpayer Impact :

A taxpayer will be able to reduce their tax liability by the tax credits earned from making contributions to qualified RHOs. A taxpayer must electronically notify DFA of the total amount of contribution that he or she intends to make and obtain approval from DFA. A taxpayer must make its pledged contribution to the rural health organization within 180 days of the preapproval notice from DFA.

Resources Required :

Computer programs, tax forms, and instructions would need to be created. Arkansas Integrated Revenue System (AIRS) programming cost to program a new income tax credit is estimated at $32,000. The Tax Credits Section of DFA would require additional staff to review taxpayer contributions and RHO confirmation letters, to issue approval or denial letters, to award tax credits, and to track RHO contributions. The anticipated additional personnel cost is estimated to total $138,800 per year for one Tax Auditor Supervisor and one Tax Auditor.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Individual Income Tax forms and instructions will need to be updated. Department employees will need to be educated as well as the tax community.

Other Comments :

None.

Legal Analysis :

None.