



Iowa Department of Revenue

Director: Mark R. Schuling
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Des Moines, Iowa 50319
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January 24, 2007

The Honorable Jack Hatch
Iowa Senate
Iowa State Capitol
L O C A L

The Honorable Ro Foegen
Iowa House of Representatives
Iowa State Capitol
L O C A L

RE: LSB 1043 - Health Care Provider Access Deduction & Cigarette Tax Increase

Dear Senator Hatch and Representative Foegen:

The Department has reviewed the provisions of Divisions X and XI the proposed Joint Health and Human Services Subcommittee bill as it relates to the proposed individual income tax deduction for health providers and an increase in the cigarette tax. The Department offers the following comments:

Division X – Health Care Provider Access Deduction

- 1) This deduction is only allowed for individual income taxpayers. Iowa Code section 249A.2 defines providers under the medical assistance program as individuals, firms, corporations, associations or institutions. Therefore, any health care provider which is a firm, corporation, association or institution would not be eligible for this deduction. The Department was not clear if that was the intent of this provision, but it is likely that very few current health care providers operate solely as individuals.
- 2) The computation of the deduction is very complicated, and the Department would have difficulty in verifying the correct deduction. For example, how would the Department determine the amount normally charged by a health care provider? It also would appear to be an administrative burden for the individual health care providers to determine the amount of their deduction, specifically in regard to the criteria that needs to be met for the deduction related to uncompensated care.
- 3) This deduction appears to be more of a reimbursement of expenses incurred for individual health care providers. This differs from other tax incentive or tax credit programs which are intended to spur economic activity. In addition, all other deductions in Iowa Code section 422.7 are allowed to the extent that certain amounts were included in federal adjusted gross income, and this deduction would be allowed even though none of this income is included in federal adjusted gross income.

Division XI – Cigarette Tax Increase

- 1) There are other bills that have been introduced, such as Senate Study Bill 1055, which also deal with a cigarette tax increase. Any change made on this bill regarding the cigarette tax should be coordinated with other bills that may be considered dealing with this same issue.
- 2) The Department recommends that the provision dealing with an inventory on consumers should be removed. The Department feels that this provision is unenforceable. The purpose of the consumer provision is to ensure that tax is paid when tobacco products are brought into this state where no tax has been paid. The tax rate at the time the products are brought into this state would apply and thus, there is no need for an inventory tax on products in the possession of a consumer.
- 3) The Department recommends that the effective date be amended to take effect on the first day of the second month following enactment. This would provide time for the Department to make the necessary changes to implement the cigarette tax increase.

The Department would be happy to discuss these issues with you in more detail at the subcommittee meeting scheduled for January 25, 2007.

Please contact me at 281-6163 if I can be of assistance on this proposed legislation.

Sincerely,

David L. Casey, Acting Administrator
Taxpayer Services and Policy Division