

BILL SUMMARY
1st Session of the 60th Legislature

Bill No.:	HB2645
Version:	POLPCS1
Request Number:	12415
Author:	Speaker Hilbert
Date:	3/3/2025
Impact:	OTC: Unknown Decrease to Tax Collections

Research Analysis

The proposed policy committee substitute for HB2645 provides a \$25,000 income tax credit for doctors that practice medicine in a rural area for up to four years. A *rural area* is considered a city or town with a population of less than 25,000 that is at least 25 miles from the nearest city or town with a population greater than 25,000.

The tax credit is available beginning tax year 2026 and is limited to \$1 million in total claims each year. To qualify, the doctor must have been licensed on or after January 1, 2024 and must have graduated from a college of medicine or osteopathic medicine located in Oklahoma or completed their residency in Oklahoma. The qualifying doctor must also live in the same county as their rural practice area.

Prepared By: Quyen Do

Fiscal Analysis

Officials for the Oklahoma Tax Commission provided the following analysis:

ESTIMATED REVENUE IMPACT:**FY26: Unknown decrease in income tax collections.****FY27: Unknown decrease in income tax collections.**

ANALYSIS: The Proposed Policy Committee Substitute for HB 2645 proposes to enact an income tax credit of up to \$25,000 annually for qualifying physicians based on their income from the practice of medicine in rural areas of Oklahoma beginning with tax year 2026. The credit is available for five years (initial year plus four subsequent years). The credit does not have a carryover provision.

The total amount of tax credits available to qualifying doctors practicing in rural areas is limited to \$1 million annually. If more than 40 qualifying doctors claim the full amount of the credit during a tax year, the credits claimed will exceed this cap. If, in any given year, the Oklahoma Tax Commission (OTC) determines that the total credits claimed exceed this \$1 million threshold, all qualifying taxpayers will still receive their respective credits for that year, even for amounts exceeding the limit. However, this overage triggers a suspension of the tax credit for the following taxable year, during which no taxpayers will be eligible to claim the credit. This cap calculation method may result in a pattern where credits are uncapped one year, followed by a year where zero credits are allowed.

Due to the time required to process all tax returns, including those filed with extensions, the OTC would likely determine whether the \$1 million cap was exceeded for tax year 2026 in late 2027. Consequently, the first practical opportunity to assess and potentially suspend the credit, based on exceeding the cap, would be for the 2028 tax year.

Estimating the number of physicians who will qualify for the proposed credit is challenging due to data limitations on rural physician workforce trends and tax eligibility criteria. Changes to withholding or estimated tax payments are expected; therefore, an unknown decrease in income tax collections is expected in FY26, with additional effects in fiscal year 2027 when the 2026 returns are filed.

ADDITIONAL INFORMATION: To qualify for the tax credit, a doctor (medical doctor or osteopathic physician) must:

- Be licensed in this state by the State Board of Medical Licensure and Supervision or the State Board of Osteopathic Examiners either on or after the effective date of this measure or within two (2) years prior to the effective date, but not earlier than January 1, 2024ⁱ.
- Have graduated from a college of medicine or osteopathic medicine located in Oklahoma or completed residency in Oklahoma.
- Maintain a primary residence in the same county as the rural area where the qualifying compensation was earned or within the jurisdiction of a federally recognized tribe while being directly employed by a tribally owned or operated health facility or a federal Indian Health Service (IHS) facilityⁱⁱ.
- Maintain this primary residence for the entire taxable year for which the credit is claimed.

For purposes of the proposed credit, a rural area is defined as any municipality or unincorporated location in Oklahoma that:

- Has a population not exceeding 25,000, as determined by the most recent Federal Decennial Census.
- Is at least 25 miles from the boundary of the nearest municipality in Oklahoma with a population exceeding 25,000 (per the most recent Federal Decennial Census)ⁱⁱⁱ.

ⁱ It is unclear if a doctor that renews a license after the effective date of this act could become eligible for the tax credit.

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

ⁱⁱⁱ Oklahoma City, Tulsa, Norman, Broken Arrow, Edmond, Lawton, Moore, Midwest City, Enid, Stillwater, Owasso, Bartlesville, Muskogee, Shawnee, Bixby, Jenks, and Yukon. are the only municipalities in Oklahoma with population greater than 25,000. https://www.oklahoma-demographics.com/cities_by_population

Prepared By: John McPhetridge, House Fiscal Director

Other Considerations

None.