

Rural & Frontier Healthcare Preceptor Credit



OFFICE OF THE STATE AUDITOR

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C O L O R A D O

The Rural & Frontier Healthcare Preceptor Credit (Preceptor Credit) provides a \$1,000 nonrefundable income tax credit to certain licensed healthcare providers in rural and frontier areas of Colorado who provide a mentoring program of personalized instruction, training, and supervision to eligible health professional students; these providers in this context are referred to as “preceptors”. According to statute, the purpose of the credit is “to encourage preceptors to offer professional instruction, training, and supervision to students matriculating at Colorado institutions of higher education who are seeking careers as primary health-care providers in rural and frontier areas of the state.” Additionally, statute provides that the general purposes of the credit are to “induce certain designated behavior by taxpayers...” and “provide tax relief to preceptors in rural and frontier areas of the state...”

The Credit has not encouraged a substantial number of providers in rural and frontier areas of the state to become preceptors. The tax relief provided by the credit varies depending on how many extra hours per day a provider spends training students and the type of provider the preceptor is. Stakeholders reported that there continues to be a shortage of preceptors in rural and frontier areas of the state.

- In 2021, 2 percent of physicians, 1 percent of dentists, 1 percent of advanced practice nurses, and 6 percent of physician assistants in rural and frontier areas precepted students and claimed the credit.
- The credit provides a lower hourly benefit than providers’ regular hourly wages, and the amount becomes comparatively much less once the preceptor provides more than 1 hour of teaching per day outside of the regular workday.

Policy Considerations

The General Assembly could consider allowing taxpayers to claim more than one credit per year if they precept more students. In addition, the General Assembly could consider whether additional oversight regarding certification of the Preceptor Credit form is necessary, since we identified several taxpayers who claimed the credit but who did not meet the requirements to qualify.

Tax Type:	Income tax	Year Enacted:	2016
Expenditure Type:	Credit	Repeal/Expiration Date:	January 1, 2033
Statutory Citation:	Section 39-22-538, C.R.S.	Revenue Impact (2021):	\$82,065

Purpose given in statute or enacting legislation? **Yes**



Rural & Frontier Healthcare Preceptor Credit

Background

The Rural & Frontier Healthcare Preceptor Credit (Preceptor Credit) provides a \$1,000 nonrefundable income tax credit to certain licensed healthcare providers in rural and frontier areas of Colorado who provide a mentoring program of personalized instruction, training, and supervision to eligible health professional students. These providers in this context are referred to as “preceptors.”

To qualify for the credit, the healthcare provider (see technical note) cannot accept compensation for the mentoring program, and it must last at least 4 working weeks, or 20 business days. The weeks or days do not need to be consecutive, and the healthcare provider can precept multiple students to satisfy the duration requirement. The precepted student(s) must be enrolled at an accredited Colorado institution of higher education and seeking a degree or certification in a primary healthcare field. Many degree and certification programs require students to participate in clinical rotations, referred to as “preceptorships.”

Additionally, each healthcare provider may only earn one tax credit per year regardless of how many students they precept, and only up to 300 total preceptors are allowed to claim the credit in a single income tax year. The credit is not refundable, but it can be carried forward for up to 5 years, after which time any unused amount expires.

Statute [Section 39-22-538(2)(b) and (g), C.R.S.] defines a rural area as “an area listed as eligible for rural health funding by the federal office of rural health policy” and a frontier area as “a county in the state that has a population density of six or fewer individuals per one square mile.” Colorado has 52 counties that are entirely rural and/or frontier areas, and parts of eight additional counties are also considered to be rural. These are shown in Exhibit 1.

Technical Note:

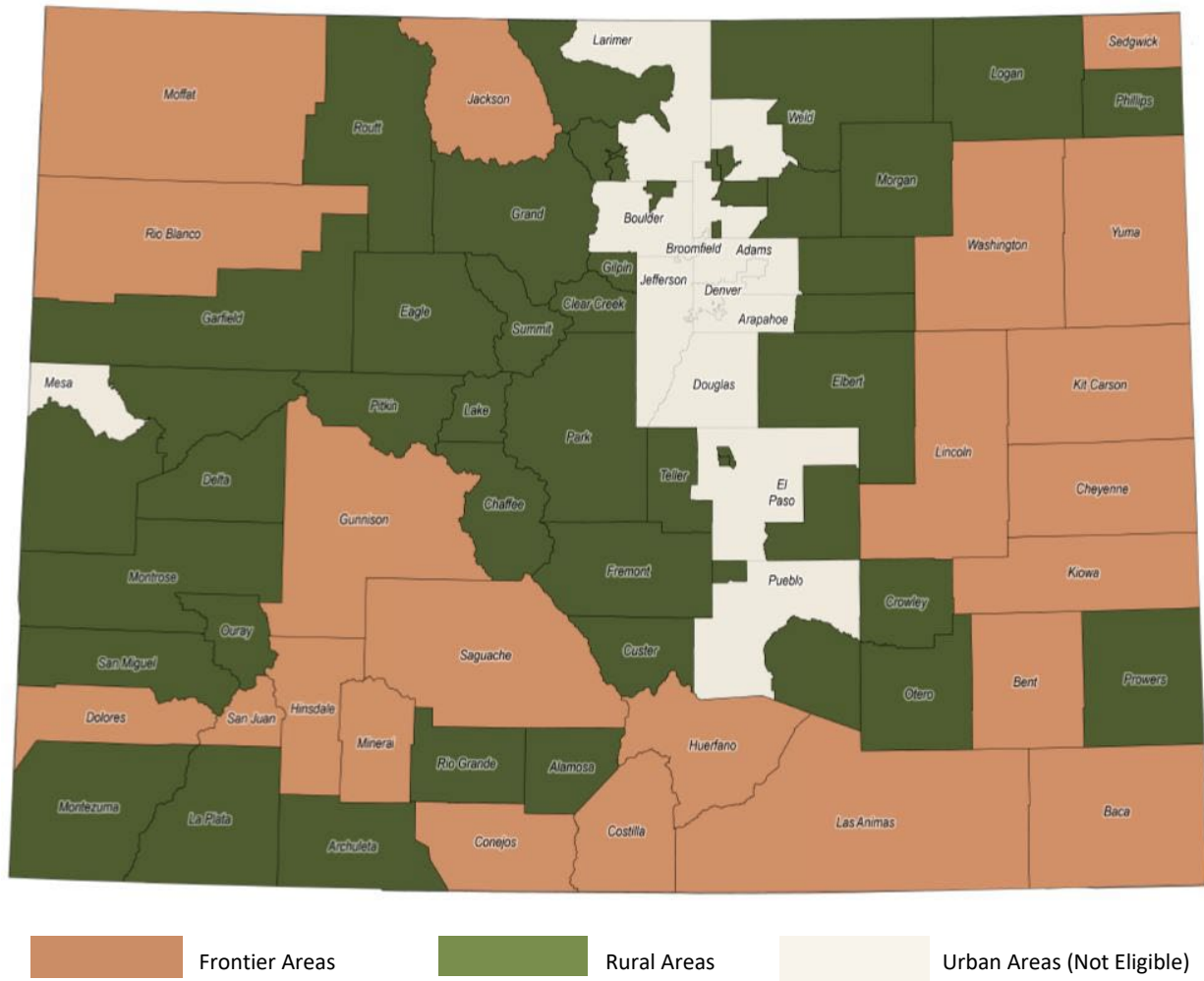
Beginning August 10, 2022, the following types of healthcare providers are eligible for the credit as long as they are licensed in their primary healthcare field and working in an outpatient clinical setting:

- Medical doctor
- Doctor of osteopathic medicine
- Physician assistant
- Advanced practice nurse
- Registered nurse
- Doctor of dental surgery or medicine
- Registered dental hygienist
- Pharmacist
- Licensed clinical or counseling psychologist
- Licensed professional counselor
- Licensed clinical social worker
- Licensed marriage and family therapist
- Psychiatric nurse specialist
- Licensed or certified addiction counselor

Prior to August 10, 2022, only medical doctors, doctors of osteopathic medicine, physician assistants, advanced practice nurses and doctors of dental medicine or surgery were eligible for the credit.

Exhibit 1

Map of Rural and Frontier Areas of Colorado for the Preceptor Credit



Source: Map created by Grant Smith - GIS Analyst, Governor's Office of Information Technology (OIT) based on Office of the State Auditor analysis of U.S. Census Bureau and Federal Office of Rural Health Policy data and Section 39-22-538(2)(b) and (g), C.R.S., requirements.

The credit was first available in 2017 and was initially scheduled to expire at the end of Tax Year 2019. Legislation in 2019 (House Bill 19-1088) and 2022 (House Bill 22-1005) extended the credit's expiration date, and it is currently set to expire at the end of 2032. House Bill 22-1005 also made other significant changes to the credit, including expanding it to include additional eligible healthcare provider and student types; increasing the annual cap on the number of preceptors allowed to claim the credit from 200 to 300; and broadening the definition of a rural area so that it encompasses rural areas in otherwise urban counties. The change in the definition of "rural" for purposes of the credit now allows certain census tracts in Adams, Arapahoe, Boulder, El Paso, Larimer, Mesa, Pueblo, and Weld Counties to be included in the credit's eligibility area; the eligible areas may change periodically in the future when the Federal Office of Rural Health Policy updates its eligibility for funding based on new census tract data.

To claim the credit, the preceptor must receive a certification indicating that they satisfied all requirements to receive the credit from the institution where they teach or from the regional area health education center (AHEC) office with jurisdiction over the area where the preceptorship took place. They must provide the certification to the Department of Revenue (Department) before they can claim the credit. They must also attach the certification to their income tax return to claim the credit.

According to statute [Section 39-22-538(1)(d)(I)(A) and (B), C.R.S.], the general purposes of the credit are to “induce certain designated behavior by taxpayers...” and “provide tax relief to preceptors in rural and frontier areas of the state...” **Additionally, statute [Section 39-22-538(1)(d)(II), C.R.S.] provides that the specific legislative purpose of the credit is “to encourage preceptors to offer professional instruction, training, and supervision to students matriculating at Colorado institutions of higher education who are seeking careers as primary health-care providers in rural and frontier areas of the state.”**

We considered the beneficiaries of the credit to be primary healthcare preceptors in rural and frontier communities who do not receive compensation for providing structured mentoring programs to students enrolled in eligible programs at Colorado higher education institutions. Since 2017, there have been 246 preceptors approved to claim the credit. In addition to the preceptors, students enrolled in eligible programs at Colorado higher education institutions may also benefit from the credit because it may increase the number of preceptors and amount of preceptorships available to them in rural areas of the state. Finally, rural and frontier communities in Colorado may also indirectly benefit from the Preceptor Credit. According to the Colorado Rural Health Center, all rural and frontier counties in the state are experiencing shortages of healthcare professionals, which is compounded by difficulty in recruiting and retaining providers in these areas. Academic studies have demonstrated that students who participate in rural clinical rotations during school are more likely to practice in rural communities after they graduate. Therefore, in the long term, rural and frontier communities could potentially benefit from an increase in healthcare providers practicing in those communities.

We developed the following performance measures to evaluate the credit:

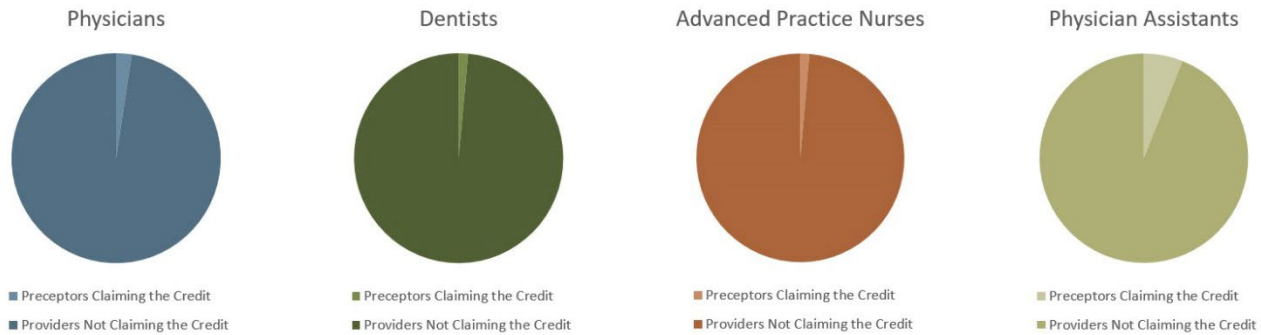
- The extent to which the credit encouraged eligible preceptors to offer preceptorships to students enrolled at Colorado institutions of higher education.
- The extent to which the credit provides tax relief to preceptors in rural and frontier areas of the state.

Evaluation Results

The Preceptor Credit has not encouraged a substantial number of providers in rural and frontier areas of the state to become preceptors. In Tax Year 2021, the Department approved 92 taxpayers to claim the credit and 83 subsequently claimed the credit on their 2021 income tax returns. We compared credit claims, by provider type, to data from the Colorado Health Systems Directory, which

is maintained by the Primary Care Office at the Colorado Department of Public Health and Environment (CDPHE), and shows the number of physicians, advanced practice nurses, physician assistants, and dentists practicing in rural and frontier areas of the state. As Exhibit 2 shows, 2 percent of physicians, 1 percent of dentists, 1 percent of advanced practice nurses, and 6 percent of physician assistants in rural and frontier areas precepted students and claimed the credit in 2021.

Exhibit 2
Eligible Healthcare Providers by Type Compared to Preceptors Who Claimed the Credit in 2021¹

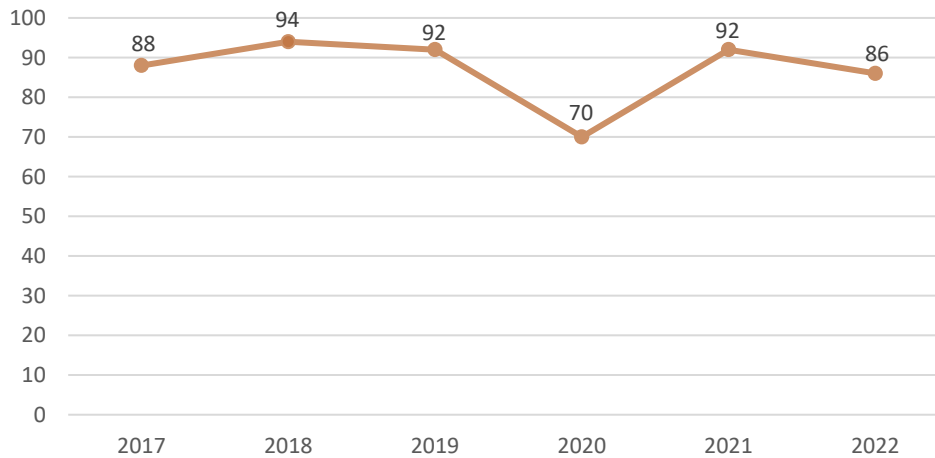


Source: Office of the State Auditor analysis of 2021 Rural & Frontier Health Care Preceptor Forms (Form DR 0366) for taxpayers who were approved for the credit and claimed it in 2021 and data from the Colorado Health Systems Directory, maintained by the Primary Care Office at CDPHE.

¹The Colorado Health Systems Directory may include some providers who are not eligible for the credit. Specifically, the Colorado Health Systems Directory data includes all providers (e.g., specialists, emergency medical providers) and the credit is only available for providers who are in primary care. This analysis excludes nine taxpayers who were approved for the credit but did not claim it and six taxpayers who were approved and claimed the credit but were in located in areas that were not considered rural in 2021.

When we conducted an evaluation of this credit in 2019, stakeholders reported that there was a shortage of rural preceptors. In 2020, the COVID-19 pandemic made it difficult for students to get clinical rotations in rural areas due to restrictions from the schools, the clinical rotation sites, or both, which made the preceptor shortage worse during the pandemic. However, according to Department data showing credit certificates submitted and approved, the number of preceptors approved for the credit returned to pre-pandemic levels by 2021, although it slightly dropped in 2022 as shown in Exhibit 3.

Exhibit 3 Preceptors Approved to Claim the Credit, 2017-2022



Source: Office of the State Auditor analysis of Department of Revenue data.

The extent of the tax relief provided by the credit varies considerably depending on how many extra hours per day a provider spends training students and the type of provider the preceptor is.

In order to be approved for the Preceptor Credit, the preceptor must provide at least 4 weeks of instruction, training, and/or supervision. However, preceptors typically spend 1-2 extra hours per day outside of their normal schedule training students based on information provided by preceptors to the Colorado Rural Health Center. Therefore, we calculated the hourly benefit that the Preceptor Credit provides based on how many extra hours a preceptor spends instructing students outside of their normal schedule. If a preceptor spends 20 extra hours during the preceptorship instructing students (i.e., an average of 1 extra hour per day), that equates to a \$50 per hour monetary benefit from the credit. If a preceptor spends 40 extra hours instructing students (i.e., an average of 2 extra hours per day), that equates to a \$25 per hour monetary benefit. For each additional hour spent, the hourly monetary benefit provided by the Preceptor Credit decreases. We did not have data on the actual number of hours preceptors spent each day instructing students since that information is not required to be included on the certification form. We compared the hourly benefit to data from the U.S. Bureau of Labor Statistics on the average hourly wage for several eligible provider types in Colorado, specifically:

- Family Physicians: \$105
- Physician Assistants: \$59
- Nurse Practitioners: \$56
- Dentists: \$74

For all of these providers, the Preceptor Credit provides a lower hourly benefit than the provider's regular hourly wage, and the amount becomes comparatively much less once the preceptor provides more than 1 hour of teaching per day outside of the regular workday. When we spoke with representatives from programs at Colorado institutions of higher education, they stated that the amount of time a provider

spends with students often depends on how advanced the students are in their studies. Students who are early in their studies often take more time to train and they may see fewer patients, whereas students who are more advanced in their studies can be more helpful and take less time to train.

Additionally, the actual tax liability decrease from the credit varied by provider type. In Tax Year 2021, on average, the credit reduced the tax liability for advance practice nurses by 18 percent, physician assistants by 16 percent, dentists by 14 percent, and physicians (MDs and DOs) by 8 percent. Therefore, all taxpayers experienced some tax relief but the extent varied among taxpayers.

Overall healthcare workforce shortages in rural areas may be contributing to preceptor shortages, particularly for students at Colorado institutions of higher education. Fewer healthcare providers in rural areas means there are fewer potential preceptors, and the remaining providers may have a higher patient load, which makes it difficult for them to also provide clinical training for students. We spoke with representatives from public college and university programs in Colorado and they reported that there continues to be a shortage of preceptors in rural areas of the state and that there is heavy competition for preceptors. They stated that the Preceptor Credit helps them compete with private programs that pay their preceptors and out-of-state programs that send students to Colorado, and that they use the credit as a tool to help them attract and retain preceptors. The representatives from the programs generally think the credit is helpful for attracting and retaining preceptors, but said it is difficult to determine how much the credit incentivizes providers to become preceptors relative to other factors such as university library access and the altruistic desire to provide a benefit to the public and their profession by providing training opportunities for students. Some providers may also be eligible for continuing medical education credits, which are required for many types of healthcare providers, for precepting students. In addition, some newly eligible fields might not be aware of the credit. We spoke with representatives in programs at three Colorado institutions of higher education that have students who could be precepted by newly eligible preceptors, and all three were not aware of the credit prior to us contacting them. However, they stated that now that they are aware of the credit, they plan to use it to try to attract and retain preceptors for their students.

Policy Considerations

The General Assembly could consider allowing taxpayers to claim more than one credit per year if they precept more students, which could help address the shortage of preceptors. Some program representatives mentioned that preceptors will take enough students to earn the credit but then not accept additional students and that allowing preceptors to claim more than one credit per year may encourage them to precept additional students. There are five other states that offer a tax credit similar to Colorado's credit—Georgia, Hawaii, Maryland, Missouri, and South Carolina. All other states allow preceptors to claim more than one credit if they participate in multiple preceptorships during the year; other states' credit amounts range from \$375 to \$1,000 per preceptorship.

Allowing preceptors to claim additional credits could provide an incentive for them to precept additional students, but would increase the credit’s revenue impact to the State. For example, if each of the 86 preceptors who were certified for the credit in 2022 (see Exhibit 4) were allowed to claim two credits for precepting more students, the total credits certified would be 172 with a cost of \$172,000 for the year—assuming all preceptors claimed all of the credits they were certified for that year. The number of credits issued and annual cost would still be less than the 300 credits with a corresponding cost of \$300,000 per year anticipated by the fiscal note for House Bill 22-1005 when the General Assembly increased the number of preceptors who could claim the credit from 200 to 300 per year and expanded the list of eligible professions. As shown in Exhibit 4, over the past 6 years the number of taxpayers who claimed the credit has ranged from a low of 66 preceptors in 2020 to a high of 92 in 2019, while the revenue impact of the Preceptor Credit has ranged from a low of \$65,211 in 2020 to a high of \$90,392 in 2019.

Exhibit 4
Revenue Impact of the Preceptor Credit, 2017–2022

Year	Revenue Impact	Number of Claimants
2017	\$76,000	76
2018	\$87,781	89
2019	\$90,392	92
2020	\$65,211	66
2021	\$82,065 ²	83 ¹
2022	\$86,000 ³	86 ¹

Source: Office of the State Auditor analysis of Department of Revenue data.

¹ Number of claimants for 2021 is based on examination of individual tax returns in GenTax, the State’s accounting system, and does not account for claimants that may have carried forward amounts from prior years. Number of claimants for 2022 is based on approvals and does not reflect actual claims on the tax returns.

² 2021 revenue impact is based on examination of individual tax returns in GenTax. This would not account for amounts carried forward from prior years.

³ \$86,000 would be the revenue impact if all approved preceptors claim the credit on their tax return. The revenue impact will be less if not all approved preceptors claim the credit on their tax returns. This amount also does not take into consideration amounts carried forward from prior years.

The General Assembly could consider whether additional oversight regarding certification of the Preceptor Credit form is necessary. When we evaluated the credit in 2019, we found that in Tax Year 2017, 12 of the 74 taxpayers (16 percent) who claimed the credit had not met the requirements to qualify for it. Some of the reasons that these taxpayers were not eligible included precepting students who were not enrolled at Colorado institutions of higher education, precepting medical residents, precepting ineligible student types, or the preceptors were not located in rural or frontier areas. For this evaluation, we examined the forms for taxpayers who claimed the credit in Tax Year 2021. Of the 83 taxpayers who claimed the credit on their Tax Year 2021 tax returns, there were potential issues with the forms for 10 taxpayers (12 percent); in several of these cases, it was unclear who certified the taxpayers’ forms because signatures were illegible and no other information about the certifiers was provided. We also noted the following additional issues with the 10 forms (some forms had more than one issue):

- Six taxpayers were not in eligible rural areas
- One taxpayer did not precept eligible students for enough days
- One form did not include any information on the students precepted (e.g., no student names or dates listed)
- Two taxpayers only listed students who were not enrolled at Colorado schools, which are not eligible
- Two taxpayers only listed medical residents, which are not eligible
- One taxpayer precepted a non-eligible student type

The Department reported that it has not disallowed or recaptured the credits claimed by the taxpayers we identified in 2017 because “eligibility for the health care preceptor credit is determined and certified by an outside agency with expertise in the field.” According to statute [Section 39-22-538(4), C.R.S.], the agencies permitted to certify credits are “the institution for which the taxpayer teaches, whether it is an institution of higher education or a hospital, clinic, or other medical facility, or...the particular regional office of the A[rea] H[ealth] E[ducation] C[enter] program with jurisdiction over the area in which the preceptor’s medical practice is located.” The Department further reported, “the Department does not, as part of its review, re-evaluate the decisions of the certifying institution, agency, or entity on the certification. In this sense, the Department did not ‘approve’ these credits. Rather, we confirmed that they were claimed consistent with the certification provided pursuant to [S]ection 39-22-538(4), C.R.S. (which simply states that ‘[t]o qualify for the credit provided by this section, the taxpayer shall submit a certification form with each income tax return’). The Department lacks the expertise, resources, and statutory authority to audit and change the eligibility determinations of the agency charged with certification.”

The issues we found with the certification forms, such as the preceptor not being in a rural area, not precepting students for enough hours, or precepting ineligible students did not require medical expertise to identify. However, if the General Assembly would like an organization with medical expertise and familiarity with the preceptorship program to review and approve the certification forms, it could consider giving this authority to the Colorado AHEC Program Office, which is located on the University of Colorado Anschutz Medical Campus. Colorado’s six regional AHEC offices connect the Colorado AHEC Program Office with medically underserved communities in the state. Statute [Section 39-22-538(4), C.R.S.] already gives the AHEC Program the authority to charge preceptors a fee to certify their credits.

Since statute delegates certification authority to outside agencies and does not provide explicit authority to or require a state entity to review the eligibility determinations, there is a potential lack of accountability when someone improperly certifies the form (i.e., the preceptor did not meet the requirements but a certifier signs it anyway) or an ineligible person certifies the form. For example, we found that in several instances the taxpayers certified (signed) their own forms, but they were allowed to claim the credits. If the General Assembly amends statute to allow preceptors to earn and claim more than one Preceptor Credit per year (see section on Policy Considerations), and taxpayers are allowed to improperly claim credits, it is possible the cap of 300 credits per year could be reached and some eligible preceptors might not receive a credit when credits are being improperly claimed.

In our previous evaluation of the Preceptor Credit, we included an additional policy consideration that the General Assembly could clarify whether the minimum duration of a preceptorship, which is 4 weeks, should be counted as 28 days (i.e., 4 calendar weeks) or 20 days (i.e., 4 business weeks). In 2019, with House Bill 19-1088, the General Assembly clarified that preceptorships should be a minimum of 4 working weeks, or 20 business days, to qualify for the credit. Therefore, our previous policy consideration has been addressed.

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