

# RURAL & FRONTIER HEALTHCARE PRECEPTOR CREDIT



JANUARY 2019  
2019-TE1

## EVALUATION SUMMARY

THIS EVALUATION WILL BE INCLUDED IN COMPILATION REPORT SEPTEMBER 2019

YEAR ENACTED	2016
REPEAL/EXPIRATION DATE	December 31, 2019
REVENUE IMPACT	\$74,000 (TAX YEAR 2017)
NUMBER OF TAXPAYERS	74
AVERAGE TAXPAYER BENEFIT	\$1,000
IS IT MEETING ITS PURPOSE?	Yes, to some extent

### WHAT DOES THIS TAX EXPENDITURE DO?

The Rural & Frontier Healthcare Preceptor Credit (Preceptor Credit) allows uncompensated health preceptors (e.g., doctors, dentists, advanced practice nurses, physician assistants) in rural and frontier areas of the state to claim a nonrefundable credit of \$1,000 to reduce their Colorado income tax liability. The preceptor, who is an experienced practitioner who acts as a teacher or mentor, must provide at least 4 weeks of instruction, training, and supervision to students enrolled in certain graduate programs at Colorado higher education institutions to be eligible to claim the credit. Each preceptor may only claim one Preceptor Credit per tax year, and only 200 Preceptor Credits are available each tax year.

### WHAT IS THE PURPOSE OF THIS TAX EXPENDITURE?

The legislative declaration in statute [Section 39-22-538(1)(b), C.R.S.] states that the purpose of the Preceptor Credit is to provide sufficient financial incentives to encourage preceptors to offer professional instruction, training, and supervision to eligible graduate students enrolled in Colorado higher education institutions who are seeking careers as primary healthcare providers in rural and frontier areas of Colorado.

**WHAT DID THE EVALUATION FIND?**

We determined that the Preceptor Credit is meeting its purpose to some extent because some eligible preceptors are using it, and the credit amount may be a sufficient financial incentive for some preceptors.

**WHAT POLICY CONSIDERATIONS DID THE EVALUATION IDENTIFY?**

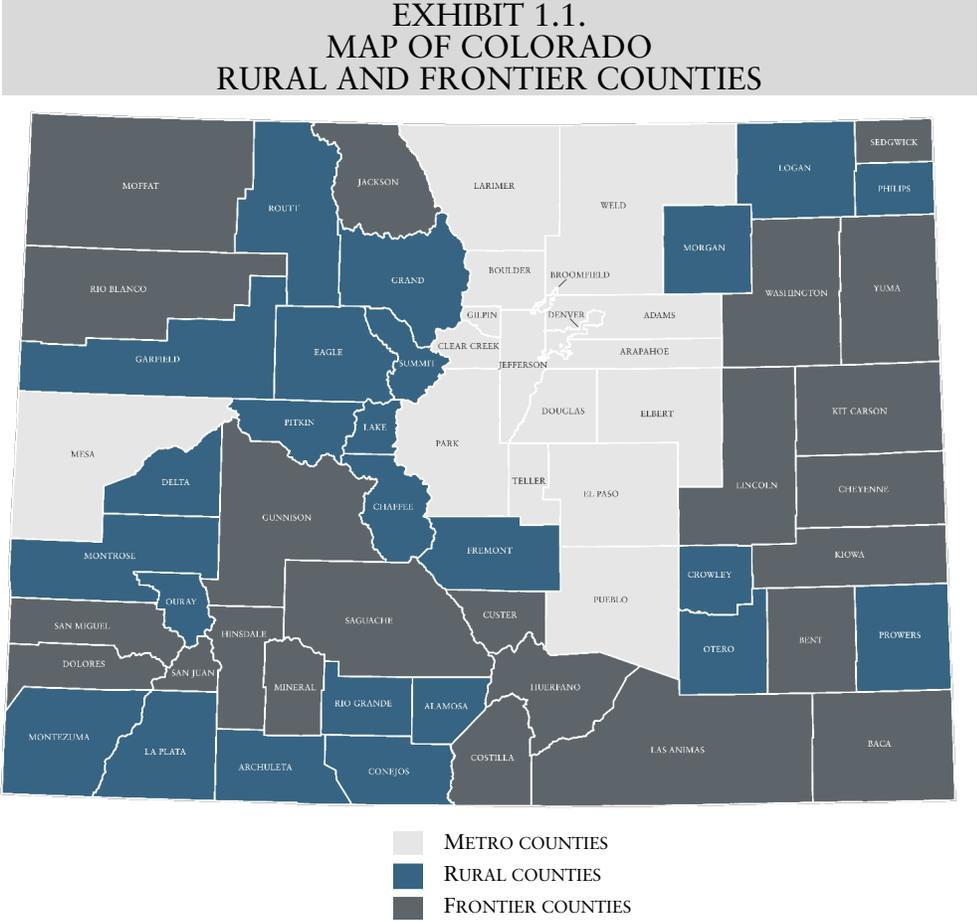
To clarify the eligibility requirements, the General Assembly could consider defining the minimum preceptorship duration in terms of hours or days, rather than weeks.

Several ineligible preceptors were approved for the credit in Tax Year 2017.

# RURAL & FRONTIER HEALTHCARE PRECEPTOR CREDIT EVALUATION RESULTS

## WHAT IS THE TAX EXPENDITURE?

The Rural & Frontier Healthcare Preceptor Credit (Preceptor Credit) allows health preceptors in rural and frontier areas to claim a credit of \$1,000 to reduce their Colorado individual income tax liabilities. Statute [Section 39-22-538(2)(d), C.R.S.] defines a preceptor as “a medical doctor, doctor of osteopathic medicine, advanced practice nurse, physician assistant, doctor of dental surgery, or doctor of dental medicine who has been licensed in his or her primary healthcare field by the applicable licensing authority.” According to statute [Section 39-22-538(2)(b) and (g), C.R.S.], a frontier area is “a county in the state that has a population density of six or fewer individuals per one square mile,” and a rural area is “a county that is located in a nonmetropolitan area in the state that either has no municipality within its territorial boundaries with fifty thousand or more permanent residents based upon the most recent population estimates published by the United States [C]ensus [B]ureau or that satisfies alternate criteria for the designation of a rural area as may be promulgated by the federal [O]ffice of [M]anagement and [B]udget.” According to data from the U.S. Census Bureau, Colorado has 47 counties that are rural and/or frontier areas, as shown in EXHIBIT 1.1.



SOURCE: Office of the State Auditor analysis of U.S. Census Bureau data and Section 39-22-538, C.R.S.

To qualify for the credit, the preceptor must provide a mentoring program of personalized instruction, training, and supervision that lasts at least 4 weeks to a qualified graduate student, which is defined in statute [Section 39-22-538(2)(c),C.R.S.] as an individual enrolled and seeking a degree in a graduate program at an accredited Colorado higher education institution in the areas of doctor of medicine, doctor of osteopathy, advanced nursing practice, physician assistant, or doctor of dental surgery or medicine. To receive the Preceptor Credit, the preceptor cannot receive compensation for the preceptorship. Statute [Section 39-22-538(3)(b)(I), C.R.S.] provides that a taxpayer may only be awarded one Preceptor Credit per tax year, regardless of the number of preceptorships completed in that year, and only 200 total Preceptor Credits are available each tax year. The Preceptor Credit is nonrefundable, but unused portions may be carried forward for 5 years.

House Bill 16-1142 created the Preceptor Credit in 2016, and it has a scheduled expiration date of December 31, 2019.

To claim the credit, preceptors must receive certification that they have satisfied all of the statutory requirements. Certification may be provided by either (1) the institution that the preceptor teaches at, or (2) the area health education center program with jurisdiction over the geographic area where the preceptor's medical practice is located. Department of Revenue Form DR 0366 serves as the certification form.

After a preceptor has received their certification, they must email an electronic copy of the certified Form DR 0366 to the Department of Revenue. The Department of Revenue awards credits chronologically based on the timestamp of the email that it receives from preceptors and sends monthly notifications to preceptors informing them of whether the credit is approved or denied. If the credit is approved, the preceptor may claim the Preceptor Credit on his or her individual income tax return (Form DR 0104). If the Department of Revenue denies the credit, the preceptor can protest the denial of the credit with the Department.

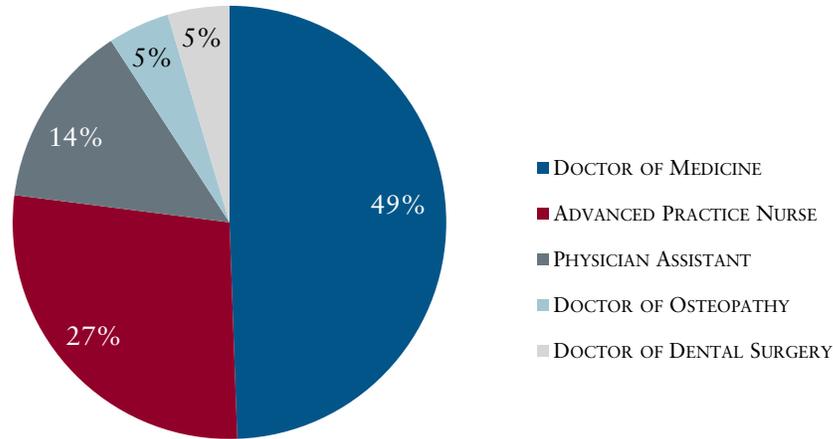
#### WHO ARE THE INTENDED BENEFICIARIES OF THE TAX EXPENDITURE?

Statute does not directly state the intended beneficiaries of the Preceptor Credit. Based on the language in statute, we inferred that the anticipated beneficiaries are primary care preceptors in rural and frontier communities who do not receive compensation for providing structured mentoring programs to students enrolled in eligible graduate programs at Colorado higher education institutions. Statute [Section 39-22-538(2)(d), C.R.S.] explicitly states that medical doctors, doctors of osteopathy, advanced practice nurses, physician assistants, and doctors of dental surgery or medicine are the only types of healthcare providers eligible for the Preceptor Credit.

We examined Department of Revenue taxpayer data for the 87 preceptors who were approved to take the credit in Tax Year 2017 and

found that nearly half were doctors of medicine. EXHIBIT 1.2 shows the breakdown by provider type of preceptors who were approved to take the credit for the 2017 Tax Year.

EXHIBIT 1.2.  
PRECEPTORS APPROVED FOR THE PRECEPTOR CREDIT  
BY PROVIDER TYPE  
TAX YEAR 2017



SOURCE: Office of the State Auditor analysis of Department of Revenue taxpayer data.

In addition to the preceptors, students enrolled in eligible graduate programs at Colorado higher education institutions may also benefit from the Credit because it could increase the number of preceptors and amount of applied educational experiences available to them in rural areas of the state. All of the eligible graduate programs in Colorado higher education institutions require their students to complete short-term clinical rotations (often referred to as preceptorships), and several schools require their students to do one or more clinical rotations in rural areas. Some schools also have rural tracks in which the curriculum and clinical experiences are tailored toward students who intend to practice in rural areas after graduating. The duration of clinical rotations varies among graduate programs, but is generally between 1 and 12 weeks. Stakeholders reported that many are 4 to 5 weeks. Preceptors oversee these clinical experiences, typically on a volunteer basis. One for-profit higher education institution in Colorado pays its preceptors. However, a representative from that institution reported that preceptors cannot always accept compensation

for precepting students due to their employment agreements. Stakeholders report that none of the public and nonprofit private higher education institutions in Colorado pay their preceptors.

Many higher education institutions will assist students in arranging a preceptorship and network with providers to recruit preceptors to train their students. However, some institutions require students to make their own arrangements. Representatives from several Colorado higher education institutions reported that there is a shortage of rural preceptors in Colorado, and some mentioned that their students are frequently unable to participate in clinical rotations in rural communities because of the shortage.

EXHIBIT 1.3 shows the number of providers for each eligible higher education institution who precepted a student and were approved for the Preceptor Credit.

EXHIBIT 1.3. COLORADO HIGHER EDUCATION INSTITUTIONS WHOSE STUDENTS WERE PRECEPTED BY PROVIDERS APPROVED FOR THE CREDIT IN TAX YEAR 2017	
HIGHER EDUCATION INSTITUTIONS	NUMBER OF PROVIDERS WHO PRECEPTED A STUDENT FROM HIGHER EDUCATION INSTITUTION <sup>1</sup>
University of Colorado School of Medicine	47
Regis University	12
Red Rocks Community College	9
University of Colorado - Colorado Springs	6
University of Colorado School of Dental Medicine	4
Rocky Vista University College of Osteopathic Medicine	4
University of Northern Colorado	Too few to report
Colorado Mesa University	Too few to report
Colorado State University - Pueblo	Too few to report

SOURCE: Office of the State Auditor analysis of Department of Revenue taxpayer data.

<sup>1</sup>The numbers in this column do not add up to the total number of approved preceptors because some preceptors reported precepting students from more than one Colorado higher education institution, and we did not include preceptors who were approved for the Preceptor Credit but did not precept students enrolled in eligible graduate programs at Colorado higher education institutions (e.g., online or out-of-state schools).

Finally, rural and frontier communities in Colorado may also indirectly benefit from the Preceptor Credit. Currently, the Colorado Rural

Health Center, which is the State's nonprofit and nonpartisan state office of rural health, reports that rural and frontier communities in Colorado have shortages of primary healthcare providers, which results in reduced access to healthcare and poorer health outcomes.

According to the Colorado Rural Health Center, in rural and frontier areas, there is one physician for every 1,766 patients, who can be widespread across large geographical areas. Comparatively, in urban areas, there is one physician for every 1,713 patients. 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.

#### WHAT IS THE PURPOSE OF THE TAX EXPENDITURE?

The legislative declaration in statute [Section 39-22-538(1)(b), C.R.S.] states that the purpose of the Preceptor Credit is to provide sufficient financial incentives to encourage preceptors to offer professional instruction, training, and supervision to eligible graduate students enrolled in Colorado higher education institutions who are seeking careers as primary healthcare providers in rural and frontier areas of Colorado.

#### IS THE TAX EXPENDITURE MEETING ITS PURPOSE AND WHAT PERFORMANCE MEASURES WERE USED TO MAKE THIS DETERMINATION?

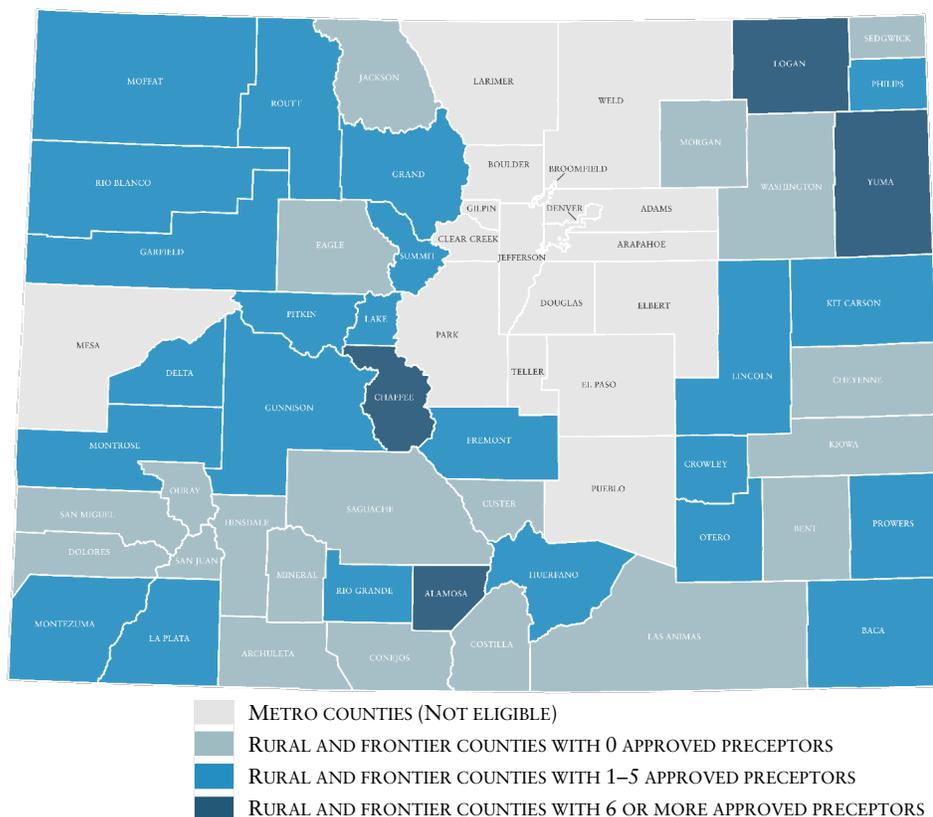
We determined that the Preceptor Credit is meeting its purpose, to some extent, because some eligible preceptors are using the credit, and the credit amount may be a sufficient financial incentive for some preceptors.

Statute does not provide quantifiable performance measures for this tax expenditure. Therefore, we created and applied the following performance measures to determine the extent to which the Preceptor Credit is meeting its purpose:

**PERFORMANCE MEASURE #1:** *The extent to which eligible healthcare providers working in rural and frontier areas have been approved by the Department of Revenue to claim the credit.*

**RESULT:** Although statute authorizes up to 200 Preceptor Credits to be claimed each tax year, the Department of Revenue approved only 87 preceptors (44 percent of the credits available) to claim the credit in Tax Year 2017. The Department of Revenue did not deny any credits to preceptors who submitted certifications for Tax Year 2017. EXHIBIT 1.4 shows the distribution, by county, of preceptors who were eligible and approved for the Preceptor Credit in 2017.

**EXHIBIT 1.4.  
PRECEPTORS ELIGIBLE AND APPROVED FOR  
THE CREDIT IN 2017 BY COUNTY**



SOURCE: Office of the State Auditor Analysis of U.S. Census Bureau data, Colorado Department of Revenue taxpayer data, and Section 39-22-538, C.R.S.

The largest amount of approved preceptors were from Alamosa, Chaffee, and Logan counties. Most preceptors (76 percent) who were

approved to take the credit were located in rural counties. Only 21 percent (18 preceptors) were located in frontier counties. Twenty of the 47 rural and frontier counties in the state (43 percent) had no preceptors apply for the credit in Tax Year 2017.

Based on the data available, we were not able to fully determine the extent to which the Preceptor Credit incentivized rural primary care providers to become preceptors who otherwise would not have or the extent to which the credit incentivized existing preceptors to remain preceptors. Since Tax Year 2017 was the first year that the Preceptor Credit was available, there was only 1 complete year of Department of Revenue data available to evaluate the credit. Therefore, we were not able to identify trends (e.g., whether claims for the Preceptor Credit have increased or decreased) in the credit's usage. However, some data indicates that the credit may have had limited impact on the providers' decisions to serve as a preceptor or to remain a preceptor. Specifically, the Colorado Rural Health Center surveyed preceptors and asked how long they had been acting as a preceptor. Of the 87 preceptors who were approved for the Preceptor Credit, 31 responded to the survey. Of these 31 preceptors, 25 responded that they had been precepting students prior to the Preceptor Credit being enacted. However, survey data and taxpayer data from the Department of Revenue indicate that there is a mix of existing and new preceptors being approved for the credit.

The fact that only 44 percent of the 200 Preceptor Credits available were approved by the Department of Revenue does not necessarily mean that the credit is not meeting its purpose. Tax Year 2017 was the first year that the credit was available. In general, the number of taxpayers using tax credits is lower in the initial years that the credits are available. Additionally, several stakeholders mentioned that the original statute authorizing the Preceptor Credit was unclear regarding whether a preceptor could precept more than one student in order to meet the minimum required 4-week preceptorship duration. Because some of the graduate programs' clinical rotations are less than 4 weeks, stakeholders reported that it would have been difficult for preceptors to qualify for the Preceptor Credit if they needed to meet the 4-week

minimum duration requirement with only one student. A minor language change to statute in 2017 [Senate Bill 17-294] clarified that preceptors could precept more than one student in order to meet the 4-week minimum duration requirement. Some stakeholder organizations that work with rural preceptors and providers stated that they delayed promoting the credit until the clarifying legislation was passed. The Department of Revenue did not receive any certifications from preceptors seeking approval for the Preceptor Credit until July 2017, which indicates that it is possible that the original language in statute affected the Credit's use in 2017.

**PERFORMANCE MEASURE #2:** *The extent to which the Preceptor Credit provides a sufficient financial incentive for preceptors in rural and frontier areas of the state.*

**RESULT:** We found that the credit amount may be a sufficient financial incentive for many preceptors, though the relative incentive varies based on the extra time they spend instructing students and their typical hourly wage. Representatives from eligible graduate programs and medical and dental associations in Colorado indicated that the primary cost to preceptors in providing a preceptorship generally is their additional time spent instructing a student, resulting in either forgone revenue because of seeing fewer patients or longer work days. According to those stakeholders, the additional time often occurs when preceptors arrive to work early and stay at work late to work with the student before and after patient visits. The amount of time a preceptor spends instructing a student one-on-one varies among preceptors.

In order to be approved for the Preceptor Credit, the preceptor must provide at least 4 weeks of instruction, training, and/or supervision. Assuming a 5-day work week (i.e., 20 days), we calculated the hourly benefit that the Preceptor Credit provides based on how many extra hours a preceptor spends instructing students. We only included the extra hours that preceptors spend instructing students in our calculations because preceptors are typically already paid for the normal hours they work while precepting students. Therefore, they do

not incur additional costs in time or forgone income to the extent that they are able to precept students while conducting their normal work duties. Using these assumptions, 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. 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. This analysis does not account for preceptorships lasting more than 20 days, which would also reduce the average monetary benefit. According to data from the U.S. Bureau of Labor Statistics, the average hourly wage for the eligible provider types in nonmetropolitan counties of Colorado is:

- Physicians: \$93 to \$123
- Physician Assistants: \$46 to \$57
- Nurse Practitioners: \$45 to \$50
- Dentists: \$82

For most of these providers, the Preceptor Credit provides a lower hourly benefit than the provider's regular hourly wage, especially once the preceptor provides more than 1 hour of teaching per day outside of the regular workday.

However, teaching students is not necessarily equivalent work to providing medical or dental services. Using U.S. Bureau of Labor Statistics data for postsecondary health specialties and nursing teachers in Colorado, we estimated the hourly wage of postsecondary health specialties teachers to be approximately \$64 and postsecondary nursing teachers to be approximately \$32. Assuming that a provider spends approximately 1 extra hour each day instructing a student, the hourly monetary benefit provided by the Preceptor Credit is reasonably comparable to the average hourly wages of these instructors and is likely a sufficient incentive. However, if a preceptor spends more than 1 extra hour per day, or precepts students for more than 4 weeks in a year, then the hourly monetary benefit provided by the Preceptor Credit is much

lower than the hourly compensation of postsecondary health specialties and nursing teachers in Colorado.

Additionally, a survey conducted in 2012 by the Council of Academic Family Medicine Educational Research Alliance found that hosting medical students comes at a cost of between \$100 and \$200 per day for providers. Assuming a 20-day preceptorship, the Preceptor Credit provides a \$50 benefit per day, which may offset 25 to 50 percent of the costs incurred by preceptors in providing mentorships to students.

Despite the credit not always replacing preceptors' full wage or additional costs, stakeholders we contacted generally considered the Preceptor Credit amount to be fair for a 1-month rotation. They also emphasized that the credit is not intended to fully compensate preceptors for training students, but rather is a small incentive that offsets some of the financial burden associated with providing a preceptorship and helps demonstrate to rural preceptors that their teaching efforts are appreciated. Since there are no other similar programs or incentives available for preceptors, representatives from several of the Colorado higher education institutions with eligible graduate programs mentioned that the credit is an important financial tool they use to encourage preceptors to train their students.

#### WHAT ARE THE ECONOMIC COSTS AND BENEFITS OF THE TAX EXPENDITURE?

As of October 2018, the Preceptor Credit had resulted in \$74,000 in forgone revenue to the State for credits claimed for Tax Year 2017. The Department of Revenue approved 87 taxpayers to take the credit in 2017, and 74 subsequently claimed it on their tax returns. Approved Preceptor Credits do not reduce state revenue until the preceptors claim them on their individual income tax returns. However, the Department of Revenue indicated that it is reasonable to assume that if a preceptor was approved for the credit, they will eventually claim it. A preceptor who has already filed a tax return for Tax Year 2017 and did not claim the Preceptor Credit can amend his or her return for up to 3 years to

claim the credit. Therefore, the Preceptor Credits approved for preceptorships overseen in 2017 may result in an additional \$13,000 in forgone state revenue, or a total of \$87,000, if all of the currently approved credits for Tax Year 2017 are eventually claimed.

In addition, neither statute [Section 39-22-538, C.R.S.] nor Department of Revenue regulations specify a cut off time to submit the request for approval of a Preceptor Credit. Therefore, since the maximum number of Preceptor Credits authorized by statute [Section 39-22-538(3)(b)(III), C.R.S.] have not been granted for the 2017 Tax Year, it is possible that additional preceptors who precepted students in 2017 will apply for the credit, be approved, and amend their 2017 tax returns to claim the credit. This could result in up to an additional \$113,000 of forgone revenue for the State.

#### WHAT IMPACT WOULD ELIMINATING THE TAX EXPENDITURE HAVE ON BENEFICIARIES?

If the Preceptor Credit is allowed to expire at the end of Calendar Year 2019, preceptors who claimed the credit would experience an increase of \$1,000 in their Colorado tax liabilities. We used Department of Revenue Tax Year 2017 taxpayer data for preceptors who claimed the credit to determine the average tax liability of each type of provider and the average percentage reduction in tax liability due to the Preceptor Credit, as summarized in EXHIBIT 1.5.

#### EXHIBIT 1.5. AVERAGE TAX LIABILITY OF PRECEPTORS BY PROVIDER TYPE AND PERCENTAGE REDUCTION OF TAX LIABILITY

	DOCTORS OF MEDICINE AND OSTEOPATHIC MEDICINE	ADVANCED PRACTICE NURSE	PHYSICIAN ASSISTANT	DENTIST
Average Tax Liability Before Preceptor Credit	\$11,090	\$5,115	\$5,253	Too few to report
Average Percentage Reduction in Tax Liability	9%	20%	19%	Too few to report

SOURCE: Office of the State Auditor analysis of Department of Revenue taxpayer data.

We were unable to determine whether the Preceptor Credit was the deciding factor for preceptors to become or remain preceptors. However, to the extent that the Preceptor Credit incentivized rural providers to become or remain preceptors, elimination of the credit could result in a reduction in preceptorship opportunities for students enrolled in eligible graduate programs at Colorado higher education institutions, which in turn, could result in fewer health profession graduates deciding to practice in rural areas. Over half of the preceptors who were approved for the credit for Tax Year 2017 reported precepting at least one student from the University of Colorado School of Medicine (CUSOM). CUSOM has a rural track, which was started in 2005, and is open to medical and physician assistant students. The CUSOM rural track's 2017 Annual Report stated that the program currently has 16 doctor of medicine and seven physician assistant graduates practicing in rural areas of Colorado. The opportunity to experience rural healthcare through preceptorships may have influenced some of the graduates' decisions to practice in rural areas.

#### ARE THERE SIMILAR TAX EXPENDITURES IN OTHER STATES?

We identified three other states that have similar tax incentives for health preceptors: Georgia, Hawaii, and Maryland. EXHIBIT 1.6 summarizes the tax incentives available in these states.

EXHIBIT 1.6. OTHER STATES WITH TAX INCENTIVES FOR HEALTH PRECEPTORS						
STATE	TYPE OF TAX INCENTIVE	YEAR ENACTED	AMOUNT OF INCENTIVE	REFUNDABLE?	ELIGIBLE PROFESSIONALS	ESTIMATED ANNUAL REVENUE IMPACT
Georgia	Income Tax Deduction	2014	\$1,000 deduction per 160 hours of training provided (\$10,000 annual cap per taxpayer)	Not applicable	Physicians	\$119,880 (2016)
Hawaii	Income Tax Credit	2018	\$1,000 credit per 80 hours of training provided (\$5,000 annual cap per taxpayer)	No, may be carried forward until exhausted	Physicians, osteopathic physicians, advanced practice nurses, pharmacists	Capped at \$1.5 million per year (2018 first year available)
Maryland	Income Tax Credit	2016 (Expires 2021)	\$1,000 credit per student supervised - 480 hours required for medical students, 300 hours required for nursing students (\$10,000 annual cap per taxpayer)	No, no carryforward	Physicians, nurse practitioners	\$105,000 (January to May 2018) Capped at \$200,000 per year

SOURCE: Office of the State Auditor analysis of other states tax laws.

Of these three states, only Maryland limits its credit to preceptors working in healthcare workforce shortage areas, and all of the states allow preceptors to claim more than one credit or deduction each year, with a cap per taxpayer ranging between \$5,000 and \$10,000. Because Georgia's incentive is a deduction, it has a lower overall value than Hawaii and Maryland's credits. For example, if a preceptor qualified

for the highest possible preceptor deduction (\$10,000), in most cases the preceptor would only see a \$575 reduction in his or her tax liability. Hawaii and Maryland limit the aggregated dollar amount of all credits available each year to \$1.5 million and \$200,000, respectively, which helps ensure that the incentives will not cause unexpected decreases in state tax revenue.

#### ARE THERE OTHER TAX EXPENDITURES OR PROGRAMS WITH A SIMILAR PURPOSE AVAILABLE IN THE STATE?

Colorado has a program that is intended to encourage healthcare professionals to practice in rural areas. The Colorado Health Service Corps Health Professional Loan Repayment Program is available to certain healthcare professionals (e.g., dentists, pharmacists, licensed psychologists, nurse practitioners, physician assistants, physicians), who are working in Health Professional Shortage Areas, many of which are rural areas. The Primary Care Office within the Colorado Department of Public Health and Environment administers the loan repayment program. The Primary Care Office awards loan repayments based on provider applications and the long-term clinician retention attributes assessed and scored through the application. Award amounts range from \$20,000 to \$90,000 for full-time service obligations and \$10,000 to \$45,000 for part-time service obligations, and the specific amount granted is based on the type of healthcare professional. Service obligations are generally for 3 years, and if the healthcare professional maintains practice with the same organization, he or she is eligible for an automatic, non-competitive renewal award for an additional 1-year service obligation. According to Primary Care Office staff, the program receives more applications than it can fund each year.

#### WHAT DATA CONSTRAINTS IMPACTED OUR ABILITY TO EVALUATE THE TAX EXPENDITURE?

The Department of Revenue does not capture data from the Preceptor Credit certification form (DR 0366) in GenTax, its tax processing information system. Specifically, the Department of Revenue requires

taxpayers to submit the DR 0366 certification form, which provides information relevant to the credit, including the Colorado license type of the preceptor, county where the preceptor practices, names of students precepted, names of schools and graduate programs where the students precepted are enrolled, and dates of the preceptorship. The Department of Revenue maintains scanned images of the forms, which it can pull manually on a taxpayer-by-taxpayer basis; however, GenTax does not digitally capture the information from the forms. Because only 87 taxpayers were approved to take the Preceptor Credit in Tax Year 2017, we were able to collect this data from GenTax. In order to obtain data from these forms, we manually downloaded the DR 0366 form from each taxpayer's account. However, in future years if more preceptors claim the credit, manual data analysis may become overly burdensome. The Department of Revenue reported that it does not have the staff resources available to manually pull a large amount of forms, which could take hundreds of hours (see the Tax Expenditures Overview Section of the Office of the State Auditor's *September 2018 Tax Expenditures Compilation Report* for additional details on the limitations of Department of Revenue data and the potential costs of addressing the limitations).

Additionally, we were not able to obtain data on the number of rural or frontier preceptors in the state. This information would allow us to track the incentivization rate of the Preceptor Credit by evaluating whether the number of preceptors has changed since the credit went into effect. If the General Assembly would like to better track the incentivization rate of the Preceptor Credit, it could consider requiring higher education institutions to annually submit their list of preceptors to a designated state agency. However, the higher education institutions may have concerns with this requirement due to privacy policies they may have with preceptors.

#### WHAT POLICY CONSIDERATIONS DID THE EVALUATION IDENTIFY?

THE GENERAL ASSEMBLY COULD CONSIDER DEFINING THE MINIMUM PRECEPTORSHIP DURATION IN TERMS OF HOURS OR DAYS, RATHER THAN

WEEKS. Statute [Section 39-22-538(2)(e), C.R.S.] specifies that the duration of a preceptorship must be “not less than four weeks per calendar year.” However, it is unclear whether the General Assembly intended for 4 weeks to be counted as 28 days (i.e., four calendar weeks) or 20 days (i.e., 4 business weeks) and the Department of Revenue has not issued guidance regarding how taxpayers should interpret this requirement. Stakeholders reported that a single clinical rotation for Colorado graduate programs is often not more than 25 days, and many medical and dental practices are only open during the business week. Therefore, it is difficult for many preceptors to meet the minimum duration requirement if they only precept one student and 4 weeks is interpreted to be 28 days. This may prevent new preceptors who want to ease into precepting by training only one student from claiming the credit. All other states with a similar tax incentive specify the minimum required duration in terms of hours.

**WE IDENTIFIED SOME ISSUES WITH THE ADMINISTRATION OF THE PRECEPTOR CREDIT’S ELIGIBILITY REQUIREMENTS.** Specifically, we examined the DR 0366 Forms for preceptors who were approved to take the credit in Tax Year 2017 and determined, based on the information provided on these forms, that at least 14 preceptors (16 percent) who were approved for the credit by the Department of Revenue were not eligible to take the credit. Twelve of these preceptors subsequently claimed the Preceptor Credit on their tax returns. Specifically, we identified the following issues where the students precepted were not eligible mentees for the purposes of the Preceptor Credit or where the preceptors did not qualify:

- Six preceptors who were approved for the credit precepted students enrolled in non-Colorado schools (i.e., online or out-of-state schools).
- Four preceptors who were approved for the credit precepted only medical residents, who have already graduated from medical school and are not students.
- Preceptors (too few to report) who were approved for the credit were

not located in rural or frontier areas.

- Preceptors (too few to report) who were approved for the credit precepted students enrolled in non-Colorado schools and were also not located in a rural or frontier area.
- Preceptors (too few to report) who were approved for the credit precepted only pharmacy students, which is not an eligible graduate program.

Although the credit cap was not reached in Tax Year 2017, in future years, if the credit cap is exceeded, the approval of ineligible preceptors could undermine the purpose of the Preceptor Credit if eligible preceptors are denied the credit because ineligible preceptors were approved to take it first.