AMERICAN ACADEMY of FAMILY PHYSICIANS

Statement of the American Academy of Family Physicians

By

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To

U.S. House Ways and Means Committee

On

"Hearing: The Need to Make Permanent the Trump Tax Cuts for Working Families"

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AMERICAN ACADEMY of FAMILY PHYSICIANS

Dear Chairman Smith and Ranking Member Neal:

On behalf of the American Academy of Family Physicians (AAFP), representing more than 130,000 family physicians and medical students across the country, I write in response to your recent hearing entitled, "The Need to Make Permanent the Trump Tax Cuts for Working Families." As this Committee and your colleagues in Congress continue discussions around tax reform this session, I wanted to provide feedback on various tax reform policies that could impact family physicians across the country.

Historically, the dominant practice model for family physicians was in independent, physician-owned practices that played a central role on the main streets of communities, be it urban, suburban, or rural. In recent years, however, that practice model has started to disappear. The number of independent, physician-owned practices has dwindled while the proportion of family physicians who are employed continues to grow each year. Seventy-three percent of all AAFP members and 91% of new family physicians (one to seven years post-residency) report working as employees in a wide range of practice settings. This shift is dramatic considering only 59% of AAFP members reported being employed in 2011.[i]

Market consolidation, physician payment cuts, and administrative burden are just a few of the factors that have contributed to this practice model shift. The closure of community-based primary care practices has impacted access to care for many patients, especially in rural and medically underserved areas, and dissuaded family physicians from or hindered their ability to practice in the areas with the highest need. However, there are numerous tax-related policies within this Committee's jurisdiction that, if adopted or reformed, could protect current independent physician practices, incentivize other family physicians to work high-need communities, and invest in the health and well-being of patients. In particular, the AAFP urges the Committee to consider:

- Protecting independent and small family physician practices;
- Extending the Affordable Care Act (ACA) enhanced premium tax credits;
- Ensuring access to affordable care for patients with chronic conditions by codifying current IRS guidance;
- Incentivizing physicians to participate in federal programs that provide care to rural and medically underserved communities; and
- Upholding the tax-exempt status of non-profit entities that support physicians and their patients.

Tax Incentives for Independent Family Physician Practices

Family physicians have changed the way they practice significantly in recent years. In 2011, 37% of AAFP members surveyed reported that they are sole or partial owners of their practice. In 2024, that number has fallen to 21%.[ii] Many factors have contributed to this shift. Underinvestment in primary care, overwhelming administrative burden, rising practice costs, and inadequate payment are just some of the primary variables fueling the loss of small and solo practices. Increasingly, family physicians report that independent practice is unsustainable. In addition to addressing the aforementioned factors, maintaining or

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expanding existing small business tax credits, such as pass-through income deductions or maximizing tax deductions for improvements to small businesses, can be a crucial part of maintaining the independent ownership model for family physicians.

Some provisions included within the Tax Cuts and Jobs Act, such as Section 199A and 179 expensing, should be maintained or expanded to continue to protect the tax incentives for maintaining small physician-owned practices. The AAFP currently has an open survey out to members to gather specific data on the percentage of independent practices and partial owners that take advantage of these small business tax credits, and we look forward to sharing the results of that survey with the Committee soon.

In addition to the existing small business tax credits that many independent family physician practices utilize, there are other tax incentives to consider that could bolster the primary care workforce, especially in rural communities. One innovative idea to consider is providing income or property tax credits for primary care physicians who serve or work in rural communities. Specifically, primary care physicians who care for Medicare and/or Medicaid patients in a rural community should be eligible for a $50,000 tax credit on their federal income taxes in each year that they meet the qualifying requirements. Additionally, if the physician provides prenatal, obstetrical and postpartum services, they should be eligible for an additional $25,000 tax credit in each year that they meet the qualifying requirements. Providing these tax credits would provide additional capital to further encourage primary care physicians to practice and stay in rural communities.[iii]

Permanently Extending ACA Enhanced Premium Tax Credits

The Inflation Reduction Act (IRA) extended the ACA's advanced premium tax credits (APTCs) through 2025 and expanded eligibility, particularly for lower-income families and individuals. This has led to significant coverage gains for individuals and families across the country, with enrollment of lower-income individuals in ACA plans increasing by 115% since 2020[iv]. APTCs also support access to health care for middle class families.[v] In 2024, middle income families saved around $4,248 annually due to APTCs.[vi]

Because of our steadfast belief that all people should have affordable access to comprehensive health care, **the AAFP has supported the extension and expansion of APTCs. These tax credits ensure that millions of low- and middle-income families continue to have access to affordable health coverage, which has been shown to have a positive influence on a nation's economic growth and alleviate economic burdens.** [vii] Unfortunately, if there is no Congressional action to extend the APTCs beyond the end of this year, premiums will increase dramatically for many individuals who cannot otherwise afford coverage. Without APTC enrollment, numbers are likely to decline thus leading to a patient pool of sicker enrollees.[viii] If healthier enrollees leave the marketplace, the expected costs per enrollee would increase and premiums may rise to offset those costs.[ix] Lapses in coverage are also likely to lead patients to utilize more expensive care downstream, resulting in additional costs to the federal government and our health care system.

Therefore, as we look towards this approaching expiration, the Academy strongly urges Congress to make the enhanced premium tax credits permanent. Specifically, the AAFP

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has endorsed legislation which would make APTCs permanent. We hope to work with you to ensure that we continue to protect our most vulnerable citizens while also accounting for the need to be fiscally responsible for *all* citizens.

Improving Access to Care Under High Deductible Health Plans (HDHPs)

In recent years, family physicians have been providing care for more patients, including those with chronic conditions, who are enrolled in HDHPs. From 2010 to 2021, enrollment in employer-sponsored HDHPs increased from 13 percent to 28 percent.[x] However, the escalating costs of deductibles have become increasingly problematic for patients, often causing them to forgo needed health care due to upfront costs. This can be particularly problematic for patients with chronic conditions, who often require more frequent and expensive care but face higher out-of-pocket pockets. While HDHPs are subject to the existing requirement for most payers to provide first-dollar coverage of preventive services before a patient hits their deductible, some services and items related to the management or prevention of chronic conditions that plan sponsors would like to cover pre-deductible have not been clearly encompassed in the definition of preventive services.

In July 2019, the Internal Revenue Service (IRS) issued a notice expanding its interpretation of preventive care to include certain items and services that are prescribed to individuals with certain chronic conditions, if the items and services are low-cost and prevent the worsening of a chronic condition or development of a secondary condition. After the IRS issued their updated guidance, 76 percent of employers with over 200 employees and almost half of employers with over 5,000 employees chose to expand pre-deductible coverage, which did not result in significant premium increases.[xi]

Congress must take steps to keep this guidance in place and ensure continued access to care by addressing financial and coverage barriers for individuals with chronic conditions . The AAFP has supported the Chronic Disease Flexible Coverage Act, which codifies this IRS guidance, and we applaud the Committee and the House for advancing this legislation in previous years to help ensure that HDHPs can permanently provide patients access to critical chronic care services and treatments without cost sharing before meeting their deductible. We share your bipartisan goal of creating a healthier nation and commit to working with you to address the needs of, and to find treatment solutions for, those with chronic health conditions.

Additionally, the AAFP supports direct primary care (DPC) and sees it as a model of care that provides a pathway to continuous, comprehensive and coordinated primary care for patients. Individuals with chronic conditions, in particular, may benefit from the enhanced access and touch points with their primary care physician that DPC arrangements enable. However, there are identified barriers that may prevent some patients with HDHPs from realizing the full potential of the DPC model. One of those barriers is the prohibition on the permissible use of health savings accounts (HSAs) funds to pay for participation in a DPC practice. Under existing interpretation of the Internal Revenue Code, patients with HSAs are prohibited from engaging in DPC arrangements with a family physician or other primary care clinician.

A growing number of family physicians are choosing to practice in the DPC model and patient demand for DPC practices is growing. Additionally, employers and labor unions are driving growth in the model, further necessitating changes in law that allow patients to benefit from this primary care delivery model. The AAFP supported the Primary Care Enhancement Act in the last Congress, which would allow individuals who participate in DPC agreements to contribute to and utilize HSAs. The Academy applauded the Committee for favorably reporting out language that supports this policy, and its inclusion as part of a larger package, in the 118th Congress. **We continue to urge Congress to take further action to ensure that patients can more easily and affordably access primary care services suited to their unique needs, including management of chronic conditions.**

Taxes on Loan Repayment Programs and Tax Credits Supporting Rural Medical Education

The average student loan debt for four years of medical school, undergraduate studies and higher education is on average between $200,000 and $250,000.[xii] Research has shown that loan forgiveness or repayment programs directly influence physician practice choice. The rising level of educational debt disproportionately affects underrepresented and low-income students and limits their representation in the health workforce. Reducing student debt, especially through the utilization of federal loan repayment programs, can help reduce physician shortages, particularly in rural and medically underserved communities. Mitigating student debt also frees up capital for family physicians who wish to pursue the independent practice model.

In addition to expanding funding for federal loan repayment programs, any loan repayment funds received from these repayment programs should not be subject to federal income tax. This could provide an additional incentive for physicians to participate in them. The AAFP supports legislative efforts to exempt federal loan repayment programs from taxable income, including the Strengthening Pathways to Health Professions Act, a bipartisan bill that would exempt some Health Resource and Services Administration (HRSA) loan repayments from taxable income.

The AAFP also supports tax credits for medical residency preceptors. Preceptors provide a one-on-one relationship with a resident to help the student develop the needed clinical skills and practical experience working with patients. Preceptors are usually not members of a school or residency program's faculty but are often practicing clinicians at clinical sites or in some cases, private offices, which are often the most valuable type of preceptorship.[xiii]

However, many preceptors are concerned about increased time commitments from teaching that takes them away from their patients, leading to lower productivity in their role as physicians. It is especially important to attract preceptors to residency programs located in rural districts. That is why the AAFP has supported the Rural Health Preceptor Tax Fairness Act, a bipartisan bill from last Congress that would provide a $1,000 tax credit to preceptors in health professional shortage and rural areas. We strongly encourage the Committee to consider both of these proposals in order to address our nation's growing health care workforce crisis.

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Tax-Exempt Status for Non-Profit Organizations

The AAFP and our state chapters are all non-profit organizations with the shared mission of supporting family physicians and their patients throughout the country. Many of our state chapters are also small businesses that provide stable, rewarding jobs in their communities. Our association, along with our state chapters, support family physicians by providing an array of unique resources, such as necessary continuing medical education, clinical guidelines and materials, practice advice to manage administrative burden, and education on how to navigate new state and federal rules and regulations.

Being a tax-exempt non-profit entity allows the AAFP and state chapters to make meaningful investments back into the organization and the success of our members and their patients. Without this robust institutional support, family physicians, especially independent practices, would have to seek out resources that likely would not be tailored to their unique specialty and circumstances and would add an additional cost to their overhead.

As Congress considers policy options to fund tax reform policies, the Academy urges the Committee to ensure that the important role that we and our state chapters play in supporting our family physician workforce and access to care for patients in all communities is not undermined. The AAFP, along with numerous other non-profit organizations, urge you to consider alternative offsets as tax reform discussions continue. We understand the budget constraints that Congress faces as it develops a large tax package, and we look forward to working with you to explore fiscally responsible ways to achieve our collective goals.

Thank you again to the Committee for taking the time to consider these policies as discussions around tax reform continue. The Academy looks forward to partnering with you and the rest of the Committee on these issues to ensure that we best support family physicians and the patients they serve. If you have any questions, please contact Megan Mortimer, Manager of Legislative Affairs at mmortimer@aafp.org.

Sincerely,

Steve Furr, M.D., FAAFP

Steve Furr, MD, FAAFP
American Academy of Family Physicians, Board Chair

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[i] Physician Employment in an Era of Market Consolidation | AAFP
[ii] Physician Employment in an Era of Market Consolidation | AAFP
[iii] 7 bold policies to reshape rural healthcare | Healthcare Dive
[iv] Inflation Reduction Act Health Insurance Subsidies: What is Their Impact and What Would Happen if They Expire? | KFF
[v] HEALTH INSURANCE MARKETPLACES 2024 OPEN ENROLLMENT REPORT

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[vi] Inflation Reduction Act Health Insurance Subsidies: What is Their Impact and What Would Happen if They Expire? | KFF
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[viii] Inflation Reduction Act Health Insurance Subsidies: What is Their Impact and What Would Happen if They Expire? | KFF
[ix] An early look at what is driving health costs in 2023 ACA markets - Peterson-KFF Health System Tracker
[x]High deductible health plans and health savings accounts : U.S. Bureau of Labor Statistics
[xi] 2020 Employer Health Benefits Survey | KFF
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[xiii] AAFP Backgrounder: Physician Preceptor Tax Credits

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