

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 4111-02
BILL NO.: SB 908
SUBJECT: Elderly, Revenue Dept.; Taxation and Revenue-General-Income
TYPE: Original
DATE: March 6, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$36,084)	(\$110,325,000)	(\$110,325,000)
Total Estimated Net Effect on <u>All</u> State Funds	(\$36,084)	(\$110,325,000)	(\$110,325,000)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Revenue (DOR)** state this legislation modifies the pharmaceutical tax credit by eliminating the current language requiring a taxpayer to have less than \$15,000 of Missouri adjusted gross income and replacing it with language stating the taxpayer's income must be less than 300% of the federal poverty level. The language also increases the credit amount to \$1,000 and indicates the credit is for offsetting medicines on the Medicaid formulary rather than for just legend drugs. If the expenses were paid by a private or public insurance or government assistance program, then the taxpayer will not be entitled to the tax credit.

This legislation also requires the Department to notify any taxpayer who files a tax return and who has not taken the pharmaceutical credit that they may be potentially eligible for the tax credit.

The number of taxpayers eligible for this credit is unknown at this time. The Division of Taxation will need one temporary tax season employee (a cost of \$6,067) for every 75,000 credits filed with this credit (key entry) and one Tax Processing Tech I for every 3,000 pieces of correspondence received regarding the credit. The Division of taxation will also need one Tax Processing Tech I for every 30,000 additional errors generated by this legislation. The Department anticipates a 20% increase in errors because of the income qualification.

The Division of Taxation also anticipates a significant impact on the telephone section and the field personnel. Customer Assistance Bureau will need one temporary tax season employee for every 3,000 additional calls per month, and one Tax Season Temporary employee for every additional 328 walk-ins per month in the field offices.

This legislation will require modifications to the individual income tax systems. The Division of Taxation estimates these modifications, including programming changes, will require 1,200 hours of contract labor, at a cost of \$36,084. Modifications to the income tax returns and schedules will be completed with existing resources.

Officials of the **Department of Social Services (DOS)** state this legislation expands the pharmaceutical tax credit for individuals 65 years of age or older. Presently, a credit of up to two hundred dollars for offsetting the cost of legend drugs is allowed for individuals with a Missouri adjusted gross income of fifteen thousand dollars or less. This legislation would allow a credit of up to one thousand dollars for offsetting the cost of drugs and medicines on the Medicaid formulary if the individual's income does not exceed three hundred percent of the federal poverty

ASSUMPTION (continued)

level for an individual. Individuals whose expenses were paid by a private or public insurance or government assistance program are not entitled to the credit. The Department of Revenue would be required to notify qualified claimants of their potential eligibility for the credit. As of December 1999, there were 77,025 individuals age 65 or older in the Medicaid program. Since those individuals are not eligible for the tax credit, DOS staff expect no fiscal impact to their agency as a result of this legislation.

According to DOS staff, the federal poverty level for a family of one is \$8,350. Three hundred percent of that amount would be approximately \$25,000.

Officials of the **Office of Administration (COA)** assume this proposal would raise the pharmaceutical tax credit from \$200 to \$1,000 for senior citizens with incomes of up to \$25,000. Based on the same data as was used for SB14, COA estimates that the revenue impact of this proposal would be a loss of \$147.1 million annually. This assumes a 50% participation rate, and a family of one. The cost may be higher because a credit of \$200 or more may induce greater participation. The proposal contains nothing that would compel seniors to prove that they actually spent \$1,000 on prescriptions. Therefore, COA staff assumes all would claim the full credit.

According to the assumptions in SB 14 the average prescription drug expense is \$750. Therefore **Oversight** assumes, for purposes of this fiscal note, that seniors would claim an average pharmaceutical tax credit of \$750.

This proposal would result in a decrease in Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2001 (6 Mo.)	FY 2002	FY 2003
GENERAL REVENUE FUND			
<u>Loss to General Revenue Fund</u>			
Pharmaceutical Tax Credit	\$0	(\$110,325,000)	(\$110,325,000)
<u>Cost - Department of Revenue</u>			
Reprogramming costs	(\$36,084)	\$0	\$0
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$36,084)</u>	<u>(\$110,325,000)</u>	<u>(\$110,325,000)</u>

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<u>FISCAL IMPACT - Local Government</u>	FY 2001 (6 Mo.)	FY 2002	FY 2003
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This act allows an individual who is sixty-five years of age or older a maximum credit of \$1000 for offsetting the cost of drugs and medicines on the Medicaid formulary. An individual is eligible for the entire credit if such individual's income does not exceed three hundred percent of the federal poverty level. The act contains a provision instructing the Missouri Department of Revenue to notify all individuals who may be eligible to take the tax credit.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration
Department of Social Services
Department of Revenue



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Director
March 6, 2000