COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0202-02
Bill No.: SB 22
Subject: Elderly; Drugs and Controlled Substances; Health Care; Pharmacy; Physicians; Taxation and Revenue-Income
Type: Original
Date: January 29, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	($40,117)	(Unknown)	(Unknown)
Total Estimated Net Effect on All State Funds*	**($40,117)**	**(UNKNOWN)**	**(UNKNOWN)**

*** Expected to exceed $100,000,000 per year.**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
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 names the pharmaceutical tax credit the "Missouri Pharmaceutical Assistance Program". For tax years January 1, 2001 through December 31, 2005, a tax credit, not to exceed $1,500, is authorized for individuals 65 years or older equal to 50% of the total costs for drugs used to treat chronic illness or pharmaceutical insurance purchased to cover such drugs. To receive the maximum credit, the taxpayer's income must not exceed two hundred percent of the poverty level. If a taxpayer's income exceeds two hundred percent of the poverty level, the credit will be reduced two dollars for every one hundred dollars.

ADMINISTRATIVE IMPACT:

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 4,000 pieces of correspondence received regarding the credit. The Division of taxation will also need one Tax Processing Tech I for every 20,000 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 383 additional calls per month, and one Tax Season Temporary employee for every additional 107 walk-ins per month in the field offices.

This legislation will require modifications, including edits to the individual income tax systems. The Division of Taxation estimates these modifications, including programming changes, will require 1,081 hours of contract labor, at a cost of $36,462. Modifications to the income tax returns and schedules will be completed with existing resources. State Data Center implementation costs will be $3,655.

Officials of the **Office of Administration - Budget and Planning (BAP)** did not respond to our fiscal note request. However, BAP, in the fiscal note for SB 14 (1999) assumed a total population of 261,000 Missourians could have been eligible for the current pharmaceutical tax credit. **Oversight** further reduced that number to reflect individuals receiving Medicaid and the utilization trend on other programs affecting senior citizens to arrive at a population of approximately 130,500. The actual number of individuals receiving credits during the first year of implementation was 449,416. According to DOR, verification of qualifying factors was not performed. It may be possible that individuals receiving the credit did not qualify. Due to the generous implementation strategy employed by DOR, Oversight is unable to use the 2000 tax

ASSUMPTION (continued)

filings as a basis for estimating this proposal. Costs would be expected to be significant, likely in excess of $100,000,000 annually and possibly four or five times that amount if DOR continues to administer the program in the same fashion.

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

FISCAL IMPACT - State Government	FY 2002 (6 Mo.)	FY 2003	FY 2004
GENERAL REVENUE FUND			
Loss to General Revenue Fund*			
Pharmaceutical Tax Credit	$0	(Unknown)	(Unknown)
Cost - Department of Revenue			
Reprogramming costs	($40,117)	$0	$0
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND*	**($40,117)**	**(UNKNOWN)**	**(UNKNOWN)**
***Expected to exceed $100,000,000 per year**.			

FISCAL IMPACT - Local Government	FY 2002 (6 Mo.)	FY 2003	FY 2004
	$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 creates the "Missouri Pharmaceutical Assistance Program" which expands on the current prescription drug tax credit for the elderly. Currently, Section 135.095 allows a maximum tax credit of $200 for persons age 65 or older with incomes of $15,000 or less. This act sunsets the current provisions of Section 135.095 for all tax years after 2000.

DESCRIPTION (continued)

A new subsection 3 is added to cover all tax years from 2001 to 2006. It provides that all persons age 65 or older will be allowed a credit of up to fifty percent of the total cost of drugs prescribed for the treatment of chronic illness or of the cost of pharmaceutical insurance to cover such drugs. Individuals with incomes of up to 200 percent of the federal poverty level will be entitled to this credit up to a maximum of $1500 annually. If the individual already receives prescription reimbursement from another source, then he or she will not be eligible for this program.

New language also allows the Department of Revenue to define the term "for the treatment of chronic illness" by rule. It requires the definition to include, but not be limited to, generic drugs prescribed for the treatment of cancer, cardiovascular and diabetic conditions. Brand name drugs may also be included if no generic substitute is available or if the generic prescription is overridden by the prescribing physician.

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

Department of Revenue

NOT RESPONDING: Office of Administration- Budget and Planning

Jeanne Jarrett, CPA
Director
January 29, 2001