

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3174-01  
Bill No.: HB 1372  
Subject: Health Care; Taxation and Revenue - Sales and Use  
Type: Original  
Date: February 4, 2002

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	(\$3,443,140)	(\$4,297,038)	(\$4,468,920)
School District Trust	(\$1,147,713)	(\$1,432,346)	(\$1,489,640)
Conservation	(\$143,464)	(\$179,043)	(\$186,205)
Parks and Soil	(\$114,771)	(\$143,235)	(\$148,964)
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>(\$4,849,088)</b>	<b>(\$6,051,662)</b>	<b>(\$6,293,729)</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
None			
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
<b>Local Government</b>	<b>(\$1,721,570)</b>	<b>(\$2,148,519)</b>	<b>(\$2,234,460)</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 4 pages.

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## FISCAL ANALYSIS

### ASSUMPTION

Officials of the **Department of Revenue (DOR)** state this legislation exempts sales tax on diabetic medical supplies and devices. This is a complete exemption. Therefore, this bill would not have an administrative impact on DOR. DOR assumes the revenue impact is unknown.

Officials of the **Department of Health and Senior Services (DOH)** assume this legislation would allow a tax savings for an approximate 6.7% of Missouri's population who have diabetes. State tax revenue and local tax revenue would be reduced by the tax exemption on sales of diabetic supplies and equipment.

Based on the 2000 Behavioral Risk Factor Surveillance System (BRFSS), it is estimated that 6.7% of Missouri's adult population have diabetes (273, 290 persons). Adults covered by Medicare (121,724-BRFSS estimate) and Medicaid (31,758-from Department of Social Services) are excluded from calculations except for syringes as these purchases are already tax exempt, so the estimated total of non-Medicare, non-Medicaid adult population considered is 119,808. Using 2000 Census data, American Diabetes Association estimates that 2,500 children (persons <19) have diabetes. 1,048 of these children are currently covered by Medicaid. The total number of non-Medicaid children with diabetes (persons <19) is 1,452 (2,500 - 1,048). The total estimated persons utilizing diabetes supplies for monitoring of blood glucose is 121,260 (119,808 + 1,452). The use of supplies is dependent on the number of times per day a physician or other provider has instructed a patient to test their glucose and how well the person's diabetes is controlled, but \$80/month is an average (mid-range) cost for lancets and glucose strips (the major annual supply cost).

The annual sales for these items is estimated at \$116,409,600 ( $\$80/\text{mo} \times 12 \text{ mo.} \times 121,260$ ). Glucose monitoring machines are replaced an average of every 3 years. A mid-priced monitor costs \$50. The estimated sales of monitors is \$2,000,790 ( $121,260 \times .33 \times \$50$ ). BRFSS estimates that 79,028 adults use insulin which would require syringe supplies. For purposes of this fiscal note, it is estimated that all of the 1,452 persons under age 19 have Type 1 diabetes and therefore require insulin. An average monthly estimated cost for syringes is \$20. The estimated annual sales of syringes is \$19,315,200 ( $80,480 \times \$20/\text{mo.} \times 12 \text{ mo.}$ ). Insulin pumps and other insulin delivery devices are currently exempt from sales tax as they are only available with a physician's prescription. The total amount of the state sales tax loss is estimated at \$5,818,906 [ $(\$116,409,600 + \$2,000,790 + \$19,315,200) \times .04225$ ].

The estimated State tax revenue loss for fiscal year 2003 is based upon the proposed legislation enacted for 10 months (\$4,849,088). A 4% yearly inflation factor was used for medical supplies purchased in FY 2004 (\$6,051,622) and 2005 (\$6,293,728).

ASSUMPTION (Continued)

DOH assumes local fiscal impact will vary by locality depending upon the level of local sales tax and is difficult to accurately determine.

Officials from the **Office of Administration - Budget and Planning (BAP)** has not been able to find any empirical basis to estimate the fiscal impact of this proposal.

Since **Oversight** assumes the exemption will become effective on September 1, 2002, the fiscal year revenue losses for both state and local sales tax would be \$6.6 million in FY03, \$8.2 million in FY04 and \$8.5 million in FY05. Oversight assumes the average local sales tax rate is 1.5% and has computed losses to local governments based on that rate.

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

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
<u>Loss to State Funds:</u>			
General Revenue Fund	(\$3,443,140)	(\$7,297,038)	(\$4,468,920)
School District Trust Fund	(\$1,147,713)	(\$1,432,346)	(\$1,489,640)
Conservation Sales Tax Fund	(\$143,464)	(\$179,043)	(\$186,205)
Parks and Soil Sales Tax Fund	<u>(\$114,771)</u>	<u>(\$143,235)</u>	<u>(\$148,964)</u>
<b>ESTIMATED NET EFFECT ON ALL FUNDS</b>	<b><u>(\$4,849,088)</u></b>	<b><u>(\$6,051,662)</u></b>	<b><u>(\$6,293,729)</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
<u>Loss to Political Subdivisions</u>	<u>(\$1,721,570)</u>	<u>(\$2,148,519)</u>	<u>(\$2,234,460)</u>
<b>ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS</b>	<b><u>(\$1,721,570)</u></b>	<b><u>(\$2,148,519)</u></b>	<b><u>(\$2,234,460)</u></b>

FISCAL IMPACT - Small Business

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

DESCRIPTION

This act exempts from state and local sales and use taxes all sales of diabetic supplies and equipment, including but not limited to insulin syringes; insulin pumps and other insulin delivery devices and supplies; blood glucose monitors, strips, tablets, and supplies; urine test strips; lancers, lancets, and insulin carry kits.

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  
Department of Health and Senior Services  
Office of Administration  
    Budget and Planning



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