

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 2935-02
BILL NO.: HB 1971
SUBJECT: Revenue Dept.; Taxation and Revenue-General-Sales and Use
TYPE: Original
DATE: February 24, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$148,234)	(\$186,775)	(\$196,113)
School District Trust	(\$49,411)	(\$62,258)	(\$65,371)
Conservation	(\$6,177)	(\$7,782)	(\$8,171)
Parks and Soil	(\$4,941)	(\$6,226)	(\$6,538)
Total Estimated Net Effect on <u>All</u> State Funds	(\$208,763)	(\$263,041)	(\$276,193)

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

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	(\$74,117)	(\$93,388)	(\$98,057)

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Revenue (DOR)** state this legislation exempts from sales and use tax, nonprescription over the counter drugs to persons over 65 years of age, and eliminates this same exemption for disabled individuals under 65. DOR staff state this proposal would not impact their agency administratively.

The Department of Revenue believes the revenue impact of this proposal to be a negative unknown probably in excess of \$100,000.00. DOR staff reasoning is that the over the counter drug exemption for the disabled is hardly recognized by retailers. DOR has met with retailing organizations and alerted all sales tax accounts of this exemption however the retailing community tells DOR if someone that is disabled asks for this exemption now they will allow it but they refuse to promote it. When those over 65 are allowed this exemption the AARP and other retired persons organizations will promote it and it will be widespread. It should also be noted that Department of Revenue has been unable to find a definition of “over the counter drugs.”

Officials of the **Office of Administration (COA)** state that according to the Bureau of Economic Analysis, overall spending in Missouri on non-prescription drugs for 1997-1999 was:

	Mo. Spending on <u>Non-Prescription Drugs</u>
1997	\$512.2 million
1998	\$544.7 million
1999	\$586.8 million

The Missouri population for age 65 and over is about 750,000 (14%) out of a total population of 5,468,000. The number of Missouri residents age 16-64 with a disability in 1990 was about 408,000 (13%) out of a total of 3,172,200 people.

Assuming that 14% of the total population of Missouri is representative of 14% of spending on Non-Prescription Drugs, taxable sales lost due to this exemption for 1999 would be \$75,293,400.

ASSUMPTION (continued)

Assuming that 13% of the total of Missouri residents age 16-64 with a disability is representative of 13% of spending on Non-Prescription Drugs, taxable sales gained due to the elimination of the sales tax exemption for 1999 would be \$69,915,300. **Oversight** assumed a 5 percent growth rate.

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

<u>FISCAL IMPACT - State Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
GENERAL REVENUE FUND			
<u>Income to General Revenue Fund</u>			
Elimination of Sales tax exemption for nonprescription and over-the-counter drugs for disabled under 65	\$1,927,040	\$2,428,071	\$2,549,475
<u>Loss to General Revenue Fund</u>			
Sales tax exemption for nonprescription and over-the-counter drugs	(\$2,075,274)	(\$2,614,846)	(\$2,745,588)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$148,234)</u>	<u>(\$186,775)</u>	<u>(\$196,113)</u>
SCHOOL DISTRICT TRUST FUND			
<u>Income to School District Trust Fund</u>			
Elimination of Sales tax exemption for nonprescription and over-the-counter drugs for disabled under 65	\$642,347	\$809,357	\$849,825
<u>Loss to School District Trust Fund</u>			
Sales tax exemption for nonprescription and over-the-counter drugs	(\$691,758)	(\$871,615)	(\$915,196)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>(\$49,411)</u>	<u>(\$62,258)</u>	<u>(\$65,371)</u>
CONSERVATION FUND			

<u>FISCAL IMPACT - State Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
<u>Income to Conservation Fund</u>			
Elimination of Sales tax exemption for nonprescription and over-the-counter drugs for disabled under 65	\$80,293	\$101,170	\$106,228
<u>Loss to Conservation Fund</u>			
Sales tax exemption for nonprescription and over-the-counter drugs	(\$86,470)	(\$108,952)	(\$114,399)
ESTIMATED NET EFFECT ON CONSERVATION FUND	<u>(\$6,177)</u>	<u>(\$7,782)</u>	<u>(\$8,171)</u>
PARKS AND SOIL FUND			
<u>Income to Parks and Soil Fund</u>			
Elimination of Sales tax exemption for nonprescription and over-the-counter drugs for disabled under 65	\$64,235	\$80,936	\$84,982
<u>Loss to Parks and Soil Fund</u>			
Sales tax exemption for nonprescription and over-the-counter drugs	(\$69,176)	(\$87,162)	(\$91,520)
ESTIMATED NET EFFECT ON PARKS AND SOIL FUND	<u>(\$4,941)</u>	<u>(\$6,226)</u>	<u>(\$6,538)</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
<u>Income to Local Political Subdivisions</u>			
Elimination of Sales tax exemption for nonprescription and over-the-counter drugs for disabled under 65	\$963,520	\$1,214,035	\$1,274,737

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<u>FISCAL IMPACT - Local Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
<u>Loss to Local Political Subdivisions</u>			
Sales tax exemption for nonprescription and over-the-counter drugs	(\$1,037,637)	(\$1,307,423)	(\$1,372,794)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENT	<u>(\$74,117)</u>	<u>(\$93,388)</u>	<u>(\$98,057)</u>

FISCAL IMPACT - Small Business

Small businesses who sell nonprescription and over-the-counter drugs would be expected to be fiscally impacted to the extent that they would no longer collect and pay sales tax on these items.

DESCRIPTION

This legislation exempts from sales and use tax, nonprescription and over the counter drugs for persons 65 years of age and over, and eliminates this same exemption for disabled individuals under 65. This proposal excludes alcohol and tobacco from this exemption.

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
Office of Administration



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