

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1746-01
Bill No.: HB 791
Subject: Elderly; Drugs and Controlled Substances; Revenue Dept.; Taxation and Revenue-General, Sales and Use
Type: Original
Date: March 6, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	(\$2,179,038)	(\$2,745,588)	(\$2,882,867)
School District Trust	(\$726,346)	(\$915,196)	(\$960,956)
Conservation	(\$90,793)	(\$114,399)	(\$120,119)
Parks and Soil	(\$72,635)	(\$91,520)	(\$96,096)
Total Estimated Net Effect on <u>All</u> State Funds*	Could Exceed (\$3,068,812)	Could Exceed (\$3,866,703)	Could Exceed (\$4,060,038)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	??	??	??

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	Could exceed (\$1,089,519)	Could exceed (\$1,372,794)	Could exceed (\$1,441,434)

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, as written, would exempt sales of nonprescription and over-the-counter drugs to people age 65 and older from sales tax. DOR staff state this proposal would not impact their agency administratively. DOR has assumed sales tax revenues to state and political subdivisions will be reduced, revenue impact is unknown.

In a similar prior proposal, DOR assumed the revenue impact of this proposal to be a negative unknown probably in excess of \$100,000.00. 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.”

In a similar prior proposal, officials of the **Office of Administration - Division of Budget and Planning (BAP)** stated that according to the Bureau of Economic Analysis, overall spending in Missouri on non-prescription drugs for 1997-1999 was:

	<u>Mo. Spending on 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. Assuming that 14% of the total population of Missouri is representative of 14% of spending on Non-Prescription Drugs, taxable sales related to this exemption for 1999 would be \$75,293,400. **Oversight** assumed a 5 percent growth rate.

It should be noted that the determination of whether a person is eligible for the sales tax exemption would fall on the retailer. Maintaining records regarding exempt sales may be burdensome; however, compliance with the provisions of this proposal may not occur at a high rate unless records are required to be maintained. Oversight assumes costs could exceed the amount estimated, depending on the regulations promulgated by DOR.

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

<u>FISCAL IMPACT - State Government</u>	FY 2002 (9 Mo.)	FY 2003	FY 2004
<u>Loss - General Revenue Fund</u>			
Elimination of sales tax on nonprescription and over-the-counter drugs to age 65 and older.	Could Exceed <u>(\$2,179,038)</u>	Could Exceed <u>(\$2,745,588)</u>	Could Exceed <u>(\$2,882,867)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	Could Exceed <u>(\$2,179,038)</u>	Could Exceed <u>(\$2,745,588)</u>	Could Exceed <u>(\$2,882,867)</u>
SCHOOL DISTRICT TRUST FUND			
<u>Loss - School District Trust Fund</u>			
Elimination of sales tax on nonprescription and over-the-counter drugs to age 65 and older.	(\$726,346)	(\$915,196)	(\$960,956)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>Could exceed (\$726,346)</u>	<u>Could exceed (\$915,196)</u>	<u>Could exceed (\$960,956)</u>
CONSERVATION FUND			
<u>Loss - Conservation Fund</u>			
Elimination of sales tax on nonprescription and over-the-counter drugs to age 65 and older.	(\$90,793)	(\$114,399)	(\$120,119)
ESTIMATED NET EFFECT ON CONSERVATION FUND	Could exceed <u>(\$90,793)</u>	Could exceed <u>(\$114,399)</u>	Could exceed <u>(\$120,119)</u>
PARKS AND SOIL FUNDS			
<u>Loss - Parks and Soil Funds</u>			
Elimination of sales tax on nonprescription and over-the-counter drugs to age 65 and older.	(\$72,635)	(\$91,520)	(\$96,096)
ESTIMATED NET EFFECT ON PARKS AND SOIL FUNDS	Could exceed <u>(\$72,635)</u>	Could exceed <u>(\$91,520)</u>	Could exceed <u>(\$96,096)</u>

FISCAL IMPACT - Local Government

FY 2002
(9 Mo.)

FY 2003

FY 2004

Loss - Local Political Subdivisions

Elimination of sales tax on
nonprescription and over-the-counter
drugs to age 65 and older.

(\$1,089,519)

(\$1,372,794)

(\$1,441,434)

**ESTIMATED NET EFFECT ON
LOCAL GOVERNMENT**

**Could exceed
(\$1,089,519)**

**Could exceed
(\$1,372,794)**

**Could exceed
(\$1,441,434)**

FISCAL IMPACT - Small Business

A direct fiscal impact could be expected to those small businesses that sell over-the-counter drugs to persons age 65 or older.

DESCRIPTION

This bill exempts from state and local sales and use taxes all sales of non-prescription or over-the-counter drugs, excluding alcohol and tobacco, to persons 65 years of age or older.

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
Division of Budget and Planning



Jeanne Jarrett, CPA
Director
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