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FISCAL IMPACT REPORT

SPONSOR Malooof DATE TYPED 2/16/98 HB _____
 SHORT TITLE Prescription Drug Tax Credit Increase SB 47/aSFC
 ANALYST Gallegos

REVENUE (Thousands)

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY99	FY00			
\$ (3,600)	\$ (6,700)	\$ na	Recurring	Gen. Fund
\$ (2,700)	\$ (6,700)	\$ na	Recurring	Local Govts

(Parenthesis () Indicate Revenue Decreases)

Duplicates/Conflicts with/Companion to/Relates to CS/SB20&93/SWMC, SB54, HB18 & HB24, HB100

SOURCES OF INFORMATION

Taxation and Revenue Department

SUMMARY

Synopsis of SFC amendments

The SFC amendments change the impact of this bill from an income tax credit to a deduction of the receipts from gross receipts for the sale of prescription drugs and repeals the current income tax credit for prescription drugs.

Section 1- replaces the previous section 1 with a new section amending the definitions by adding a new definition for "prescription drugs".

Section 2- replaces previous section 2 with a new section that creates a new deduction under the Gross Receipts and Compensating Tax Act for the sale of prescription drugs.

Section 3- repeals the current income tax credit for prescription drugs.

Sections 4 and 5 makes the repeal of the income tax credit applicable to taxable years beginning on or after January 1, 1999 and the deduction is effective January 1, 1999.

There is no effective date for this bill therefore it is presumed to be 90 days after adjournment (May 20, 1998).

FISCAL IMPLICATIONS

The SFC amendments does change the previous fiscal implications.

The Taxation and Revenue Department previous fiscal impact reports has estimated that a loss of \$3,600 thousand to the general fund and \$2,700 thousand to municipalities and counties will occur in FY99. In FY00 the loss is estimated at a net \$6,700 thousands to the general fund and \$6,700 thousands to municipalities and counties.

The figures for FY00 are:(thousands)

Gross Receipts Deduction	(9,000)	State General Fund
Gross Receipts Deduction	(6,700)	Municipalities and Counties
Repeal-Prescription Drug Credit	<u>2,300</u>	State General Fund
General Fund Total	(6,700)	State General Fund
Muni/County	(6,700)	Municipalities and Counties

Revenue assumption:

Total purchases of prescription drugs by New Mexico residents = \$507 million for FY 1998; of this total, \$231 million will be purchased at retail within the state from taxable entities (excluding hospital pharmacies); of this total 28% will be out-of-pocket expenses totaling \$65 million.

ADMINISTRATIVE IMPLICATIONS

The SFC amendments do not change the previous administrative implications.

CONFLICT/DUPLICATION/COMPANIONSHIP/RELATIONSHIP

CS/SB20&93/SWMC, SB54, HB18, HB24, HB100

OTHER SUBSTANTIVE ISSUES:

The SFC amendments raise the following substantive issue:

The definition of prescription drugs in Section 1 is not very restrictive. It will allow over the counter drugs to be deductible. These drugs do not require a prescription, they are merely being controlled for either inventory or use by minors, etc. May want to look at definitions in the Chapter 26, Section 26-1-2 NMSA 1978 for guidance on the definition of a prescription drug.

PREVIOUS FISCAL IMPACT REPORT

REVENUE
(Thousands)

<u>Estimated Revenue</u>		<u>Subsequent Years Impact</u>	<u>Recurring or Non-Rec</u>	<u>Fund Affected</u>
<u>FY99</u>	<u>FY00</u>			
\$ <u>(2,300)</u>	\$ <u>(2,500)</u>	\$ <u>na</u>	<u>Recurring</u>	<u>Gen. Fund</u>

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

Taxation and Revenue Department

SUMMARY

Synopsis of Bill

This bill proposes to increase the income tax credit on prescription drugs and remove the cap.

Section 1- This section increases the credit from 3% to 6% and removes the \$150 cap per federal exemption and the \$300 cap per return.

This bill is applicable to tax years beginning on or after January 1, 1998.

Significant Issues

This bill targets the credit to those taxpayers at every age level and income level not just those who have no insurance or minimal insurance coverage.

FISCAL IMPLICATIONS

Tentative discussions with Taxation and Revenue Department indicate that there is an additional loss of \$2,300 in FY99 due to the increase in credit percentage and removal of cap on per return.

ADMINISTRATIVE IMPLICATIONS

The proposed changes will require instruction and form redesign as well as changes to the current TRD automated system to accommodate the new percentage and no per exemption cap or per return cap. The Taxation and Revenue Department estimates that it will need .1 FTE at a cost of \$4,500 to implement the changes proposed by this bill. The old caps on the system must be replaced with an "audit list" of claimants with large amounts of purchases for future investigation.

CONFLICT/DUPLICATION/COMPANIONSHIP/RELATIONSHIP

SB20, SB54, HB18, HB24, HB100

OTHER SUBSTANTIVE ISSUES

The Taxation and Revenue Department has determined that the average credit claim to be \$18 for single returns and \$22 for married filing jointly returns. This corresponds to a single person claiming an average of \$600 in unreimbursed prescription drugs and an average of \$750 for married filing jointly returns for unreimbursed prescription drugs.

MFG/njw