

Department of Legislative Services

Maryland General Assembly

2001 Session

FISCAL NOTE

House Bill 30

(Delegate Stern)

Ways and Means

Income Tax - Credit for Prescription Drug Expenses

This bill provides an income tax credit under the Maryland income tax for 50% of the expenses paid by an individual during the taxable year for prescription drugs prescribed for the individual. The credit applies to only those individuals who are least 62 years of age and the prescription expenses paid are not compensated by insurance or otherwise. The amount of the credit for the taxable year cannot exceed the lesser of \$1,000 or the State income tax imposed for the taxable year. Any unused credit may not be carried forward to another taxable year. The credit also applies to nonresidents and part-year residents.

The bill takes effect July 1, 2001 and applies to taxable years beginning after December 31, 2000.

Fiscal Summary

State Effect: General fund revenue decrease of approximately \$98.0 million in FY 2002. Future year decreases reflect 1% growth in the number of eligible individuals and 5.5% growth in out-of-pocket prescription drug expenses. No effect on expenditures.

(\$ in millions)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
GF Revenue	(\$98.0)	(\$104.4)	(\$111.3)	(\$118.6)	(\$126.4)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$98.0)	(\$104.4)	(\$111.3)	(\$118.6)	(\$126.4)

Note: () = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None. The credit is claimed against the State income tax only.

Small Business Effect: None.

Analysis

Current Law: No such tax credit exists under the Maryland income tax.

State Fiscal Effect: General fund revenues would decrease by approximately \$98.0 million in fiscal 2002 based on the following facts and assumptions:

- based on tax return data, there are an estimated 395,700 seniors who would be eligible for the credit in 2001;
- 70% of seniors have prescription drug coverage; 30% of seniors have no prescription drug coverage;
- the mean expenditures on outpatient prescription drugs for insured elderly persons in 1998 was \$1,099; the mean out-of-pocket expenditures was \$134;
- in fiscal 2000, the average annual per person cost of prescription drugs for individuals ages 65 and over who are enrolled in the Maryland Pharmacy Assistance Plan, a State-run prescription drug program for lower income individuals, was \$1,285;
- the average credit claimed is \$643;
- the population of those eligible for the credit is estimated to increase by 1% annually from 2001 to 2005; and
- out-of-pocket expenses are expected to increase by 5.5% annually from 2001 to 2005; this figure is based on current trends in the number of prescriptions per person and the cost of prescription drugs (both increasing), and the percentage of drug expenses that are out-of-pocket (decreasing).

The assumptions used to estimate the cost of this tax credit are based upon the following information. In order to estimate the prescription drug expenditures, the Department of Legislative Services indicates that the average annual per person cost of prescription drugs for individuals ages 65 and over who are enrolled in the Maryland Pharmacy Assistance Plan, a State-run prescription drug program for lower income individuals, is \$1,285. Because the amount of the credit is for 50% of prescription drug expenses not covered by insurance, and then limited to the lesser of \$1,000 or the individual's State tax for the year, it is assumed the average amount of the credit would be \$643 (\$1,285 x 50%) per individual. This amount is expected to increase by 5.5% annually.

The bill would also allow insured seniors to claim the credit for any out-of-pocket expenses, including both co-payments and deductibles, for prescription drugs for those

seniors who do have prescription drug coverage. As noted above, the mean out-of-pocket prescription drug expenditures was \$134 in 1998. Assuming an annual growth rate of 5.5%, this amount would be \$157 in 2001.

Because the amount of the credit would be limited to the lesser of an individual's State income tax liability or \$1,000, not all eligible seniors would have sufficient State income tax liability to take full advantage of the credit. However, it should also be noted that the cost of the bill could be higher than the estimate if the eligible population increases more than 1% each year and if out-of-pocket prescription drug expenses increase by more than 5.5% each year. Also, the above estimate is based upon historical and current data. To the extent that the bill changes behavior (increased drug expenditures, for example), the cost could also increase above the estimate.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller of the Treasury (Bureau of Revenue Estimates), Department of Legislative Services

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