

Department of Legislative Services  
 Maryland General Assembly  
 2005 Session

FISCAL AND POLICY NOTE

House Bill 195 (Delegate Hixson)  
 Ways and Means and Health and Government Operations

Prescription Drugs - Label with Audible Capability

This bill requires licensed pharmacies to provide prescription labels that have audible capability upon request from a customer with a documented vision impairment and creates an income tax credit for the purchase of a device that creates prescription labels with audible capability.

Fiscal Summary

**State Effect:** General fund revenues could decrease by approximately \$638,000 in FY 2006 due to credits being claimed against the personal and corporate income tax. Transportation Trust Fund (TTF) revenues could decrease by approximately \$140,000 in FY 2006; the State’s share would decrease by \$98,000. Minimal revenue loss in out-years due to replacement and newly constructed pharmacy purchases. No effect on expenditures.

| (in dollars) | FY 2006     | FY 2007 | FY 2008 | FY 2009 | FY 2010 |
|--------------|-------------|---------|---------|---------|---------|
| GF Revenue   | (\$638,000) | (-)     | (-)     | (-)     | (-)     |
| SF Revenue   | (140,000)   | (-)     | (-)     | (-)     | (-)     |
| Expenditure  | \$0         | \$0     | \$0     | \$0     | \$0     |
| Net Effect   | (\$778,000) | \$0     | \$0     | \$0     | \$0     |

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

**Local Effect:** Local governments’ share of State corporate income tax revenues would decrease by approximately \$42,000 in FY 2006. Minimal revenue loss in the out-years. No effect on expenditures.

**Small Business Effect:** Meaningful.

## Analysis

**Bill Summary:** The tax credit is available to licensed pharmacies who purchase equipment that produces prescription labels with audible capability. The tax credit is equal to 100% of the purchase price, not to exceed \$1,000 or the tax liability for the tax year. Any unused amount of the credit cannot be carried forward. The tax credit is available in tax years 2005 and beyond.

The bill defines prescription labels with audible capability as having the ability to be read by a device that speaks out information using speech synthesis technology.

**Current Law:** No State tax credit of this type exists.

Drugs that are dispensed under a prescription must include certain information including: (1) the name and address of the dispenser; (2) the serial number of the prescription; (3) the date of the prescription; (4) the name of the prescriber; and (5) if stated in the prescription the name of the patient, directions for use, and cautionary statements.

**Background:** Prescriptions with audible capability employ “smart labels” that are affixed to the prescription bottle and contain embedded radio frequency identification (RFID)-based microchips. The microchips are preprogrammed with information at a pharmacy. The information on the microchip is translated to audible speech when the patient engages the bottle’s label with a special reading device, allowing the patient to hear the information. The labels are designed to assist people who take medication and have difficulty reading, thereby potentially preventing medication errors.

In October 2004, the U.S. Department of Veterans Affairs began a phased implementation at medical centers requiring that any veteran who needs prescription labels with audible capability and services associated with them have access to these services. The federal Medicare Prescription Drug, Improvement, and Modernization Act of 2003 required the Department of Health and Human Services (HHS) to undertake a study and report to Congress on how to make prescription pharmaceutical information, including drug labels and usage instructions, accessible to blind and visually impaired individuals. HHS is anticipating that the study will be released later this year.

**State Revenues:** Corporate and personal income revenues would decrease by approximately \$778,000 in tax year 2005, resulting in a general and special fund decrease of approximately \$778,000 in fiscal 2006. This estimate is based on the following facts and assumptions:

- printers capable of producing audible prescription labels cost approximately \$1,500;

- there are currently 1,489 active licensed pharmacies, including 320 out-of-state pharmacies, according to the Maryland Board of Pharmacy;
- approximately 3/4 of credits are claimed against the corporate income tax and 1/4 are filed against the personal income tax;
- out-of-state pharmacies file a Maryland tax return (as required) and claim the credit;
- several companies operate multiple pharmacies in the State – approximately 700 pharmacies in the State are owned by these companies and it is assumed that each one of these companies files one tax return and claims a \$1,000 credit for all the pharmacies it operates;
- the number of credits claimed in fiscal 2006 and beyond due to replacement purchases and new pharmacies is minimal;
- taxpayers have sufficient tax liability to claim the entire amount of the credit; and
- taxpayers can only claim the credit for the purchase of a printer that produces audible labels and not for the audible labels themselves.

To the extent that all 700 chain pharmacies file a separate tax return, revenue losses would be greater and could total approximately \$1.5 million in fiscal 2006. As mentioned previously, HHS is studying audible prescription label technology. Based on this study, if the Centers for Medicare and Medicaid Services requires different technology that would require Maryland pharmacies to purchase new equipment that qualifies for the tax credit, revenues could decrease substantially in fiscal 2007 and beyond.

**Small Business Effect:** Approximately one-quarter of licensed pharmacists are small businesses. These small businesses would be required to purchase equipment that produces prescription labels with audible capability. Although up to \$1,000 of this cost could be refunded in April following the year in which the equipment was purchased, these small businesses would be negatively affected by decreased cash flow and the approximately \$500 of equipment price that is not reimbursed by the tax credit. These pharmacists would unlikely be able to pass the price along to consumers given that prescriptions are typically paid by third-party insurers.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, Maryland Board of Pharmacy,  
Department of Legislative Services

**Fiscal Note History:** First Reader - February 7, 2005  
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