

Colorado Legislative Council Staff

**STATE
FISCAL IMPACT**

Drafting Number: LLS 01-0156	Date: January 15, 2001
Prime Sponsor(s): Rep. Mace Sen. Evans	Bill Status: House HEWI Fiscal Analyst: Harry Zeid (303-866-4753)

TITLE: CONCERNING A CREDIT AGAINST STATE INCOME TAXES FOR PRESCRIPTION MEDICATIONS.

Fiscal Impact Summary	FY 2001/2002	FY 2002/2003
State Revenues General Fund		
State Expenditures General Fund	\$54,239	
FTE Position Change	0.7 FTE	0.0 FTE
New TABOR Refund Mechanism Six-Tier Sales Tax Refund Mechanism*	\$92,418,966 (\$97,039,914)	\$93,061,423 (\$97,714,494)
Effective Date: 90 days after adjournment (August 7, 2001) unless a referendum petition is filed, and would apply to income tax years commencing on or after January 1, 2001.		
Appropriation Summary for FY 2001/2002: \$54,239 GF and 0.7 FTE for the Dept. of Revenue**		
Local Government Impact: None Identified		

**The six-tier sales tax refund mechanism would be reduced by 105 percent of the increase in the value of any new TABOR refund mechanism, as per the provisions of HB99-1001.*

***No new state appropriations will be required to implement the bill if the Department of Revenue's FY2001-02 budget request for a base funding adjustment for computer programming personnel is approved.*

Summary of Legislation

This bill establishes a *refundable* tax credit for prescription medications against state income taxes for income tax years commencing on or after January 1, 2001, for years in which the state is required to refund excess TABOR revenue. In order to qualify for the credit an individual must be a Colorado resident who is 65 years of age or older, and either:

- incurs an expense that is not reimbursed or covered through a health benefit plan, as defined in Section 10-16-102, C.R.S.;
- is a qualified medicare beneficiary who is a medicare-eligible individual; or
- is a qualified medicaid beneficiary who is medicaid-eligible.

The amount of the credit is equal to the amount expended for prescription medication during the taxable year, not to exceed \$500 for a single individual, or \$1,000 for a married couple filing a joint tax return. The maximum credit amount would be adjusted annually to reflect the rate of growth of Colorado personal income for the preceding calendar year. An individual would be entitled to the maximum credit if the individual's Colorado adjusted gross income (AGI)(see the Omissions and Technical or Mechanical Defects section of the Fiscal Note) is \$20,000 or less (\$40,000 or less for married couples). For income above this amount, the value of the credit would be reduced by two dollars for every \$100 of additional income. The credit would be eliminated for individuals with Colorado AGI above \$45,000 (\$90,000 for married couples).

State Revenues

An April 2000 report prepared by the U.S. Department of Health and Human Services (HHS) on prescription drug coverage, spending, and utilization and prices, provides background data on the amount of out-of-pocket prescription drug costs for individuals 65 years of age and older by Federal Adjusted Gross Income in increments of \$5,000. Based on an analysis of this national study, the Department of Revenue has estimated the number of single individuals and married couples filing joint income tax returns that would qualify for the prescription medication income tax credit, and the amount of the qualified income tax credit by income class. The results of the analysis for income tax year 2001 are summarized in Table 1 below.

Table 1. Estimated Value of the Prescription Drug Tax Credit for Income Tax Year 2001

	Number of Single Filers	Number of Joint Filers	Total Eligible Returns	Credit Value for Single Filers	Credit Value for Joint Filers	Total Credit Value
Full Credit Eligibility	72,972	79,564	152,536	\$27,846,919	\$47,280,873	\$75,127,792
Partial Credit Eligibility	<u>23,548</u>	<u>30,814</u>	<u>54,362</u>	<u>5,525,555</u>	<u>11,765,619</u>	<u>17,291,174</u>
Total	96,520	110,378	206,898	\$33,372,474	\$59,046,492	\$92,418,966

The analysis shows that the average income tax credit for qualified single filers with Federal AGI of \$20,000 or less is \$382 (\$594 for married couples filing jointly with Federal AGI less than \$40,000). This is due to the fact that some seniors who qualify for the credit will not have out-of-pocket expenses greater than \$500. As the credit phases out for higher income seniors, the average credit claimed will be \$235 for qualified single filers with Federal AGI greater than \$20,000 but less than \$45,000 (\$382 for married couples filing jointly with Federal AGI greater than \$40,000 but less than \$90,000).

State Expenditures

The Department of Revenue has identified the one-time need for **\$54,239 and 0.7 FTE in FY 2001-02** in order to implement the provisions of the bill. As a TABOR refund mechanism, the

amount of the income tax credit must be tracked separately by the Department of Revenue. In order to add a new line and key to the income tax system, 900 hours of computer programming is necessary. An additional 500 hours of one-time computer programming will be necessary to modify the computer codes related to the department's Netfile/Telefile system, FSEF, and the Fair Share Audit systems. This additional workload represents the equivalent of 0.7 FTE (1,400 hours / 2,080 hours per year = 0.7 FTE Information Technology Professional III). Including PERA and Medicare, total one-time personal services costs are estimated to be \$51,217. Additional requirements include operating costs (\$350); computer (\$1,068); capital outlay (\$1,345); and telephone (\$259). Total costs are projected to be **\$54,239 in FY 2001-02**.

For fiscal note purposes, these costs are shown as permanent FTE of the Department of Revenue due to the department's ongoing need to make computer system modifications as a result of annual tax law changes. Computer programming costs shown as permanent FTE is based on a mutual agreement made between the staff of the Department of Revenue, Legislative Council, the Joint Budget Committee, and Office of State Planning and Budgeting pursuant to Footnote 221a to the 2000 Long Appropriations Bill. It should be noted that if the department's FY 2001-02 budget request for a base funding adjustment for computer programming is not approved, computer programming hours will have to be funded for this bill on a contract basis at the hourly rate of \$80 per hour. Additionally, it is possible that substantial economies of scale will occur in the area of computer programming if more than one bill is passed that requires modifications to the mainframe income tax system and the other computer programs related to the income tax system.

State Appropriations

The Department of Revenue will require a General Fund appropriation of \$54,239 and 0.7 FTE in FY 2001-02 in order to implement the provisions of the bill. However, no additional appropriation will be required if the department's FY 2001-02 budget request for a base funding adjustment for ongoing computer programming needs is approved.

Departments Contacted

Revenue Legislative Council Staff

Omissions and Technical or Mechanical Defects

The credit in the bill is income-tested based on the term "Colorado Adjusted Gross Income". This term is not defined in the bill or in current statute. Colorado individual income tax returns identify "Federal Adjusted Gross Income" and "Colorado Taxable Income". Since Colorado excludes the first \$24,000 of pension income for individuals 65 years of age or older from Colorado Taxable Income, the actual value of the credit may be higher than the amount identified in this fiscal note, depending on how "Colorado Adjusted Gross Income" is later defined.