Louisiana Legislative Fiscal Office Fiscal Notes

LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On:	**SB 144** SLS 12RS 335
Bill Text Version:	**ENGROSSED**
Opp. Chamb. Action:	
Proposed Amd.:	
Sub. Bill For.:	

Date: April 19, 2012 4:01 PM **Author:** MILLS

Dept./Agy.: Revenue

Subject: Exemption from local sales tax for certain prescription drugs **Analyst:** Deborah Vivien

TAX/SALES EG -$5,000,000 LF RV See Note

Phases in an exemption from local sales tax on certain inhibitors and complex biologics if the Revenue Estimating Conference estimates a certain percentage increase in state general sales tax. (7/1/12)

Current law exempts prescription drugs from state sales and use tax and allows a local exemption based on local approval, although Caddo Parish is explicitly exempt in R.S. 47:337.10(K)(1). Oncological drugs and related chemotherapy drugs are exempt from both state and local sales and use tax. Proposed law exempts the sale and use of vaso-endothelial growth factor, known as VEGF inhibitors, including but not limited to Visudyne and Macugen, from local sales and use tax for all local taxing authorities (the special local exemption for Caddo Parish is repealed). The bill also provides for an exemption from local sales and use tax for complex biologics such as monoclonal antibodies, including but not limited to Infliximab. The exemption is permanently triggered if the adopted estimate of the Revenue Estimating Conference for general sales tax for the ensuing year increases by at least 2% over the current year in the first forecast in place at the beginning of the fiscal year. The trigger must be announced by the Secretary of Revenue by August 1 and will begin, at the earliest, on January 1, 2014, with 50% of the tax exempt. The next January 1 and thereafter, 100% of the sales tax will be exempt.

EXPENDITURES	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	($1,250,000)	($3,750,000)	($5,000,000)	($5,000,000)	**($15,000,000)**
Annual Total	**$0**	**($1,250,000)**	**($3,750,000)**	**($5,000,000)**	**($5,000,000)**	**($15,000,000)**

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION

The drugs described in this exemption are administered only in a physician's office to treat cardiovascular disease, prevent transplant rejection, cancer, viral infection, inflammatory diseases, and to suppress the immune system. At this time, physicians in nearly all parishes are subject to local sales tax as the consumer of the medication because they administer it. This bill seeks to exempt all transactions involving these types of drugs from local sales and use taxation (they are already exempt at the state level).

According to IMS Health data provided by proponents of the legislation for 2010, total sales of biologics subject to tax in Louisiana (excluding the existing local exemptions) are about $120 million per year. Assuming a weighted average local sales tax rate of 4% and inflationary growth to adjust the data into 2012, exempting these sales from the local sales tax results a local revenue loss of about $5 million per year. A trigger mechanism in the bill will only let the exemption become effective if the official state forecast in place just prior to the first day of the fiscal year for general sales tax revenue is increasing by 2% between the current and ensuing fiscal years. In the first year of activation, the exemption would be 50% of the cost beginning on January 1 (the earliest is January 1, 2014). In the second and all subsequent years, the exemption would be for 100% of the cost beginning on January 1 of the second fiscal year. Thus, the full year impact of the 100% exemption would not be implemented until the third year of the trigger. If the trigger is met, the impact is estimated to be $1.25 million in year 1, $3.75 million in year 2, and $5 million in the years thereafter with the earliest possible impact beginning in FY 14. The current official revenue forecast exhibits projected sales tax growth rates in excess of 2% in each year of the forecast horizon (through FY16). Thus, it seems likely that the provisions of this bill will be triggered within the fiscal note horizon, possibly at the earliest possible point of January 1, 2014.

The bill also contains a provision for the exemption of VEGF inhibitors from sales and use tax. Specific data to project the additional sales tax revenue loss due to this class of drugs was not available but will increase the local revenue loss above the amount discussed above. While it is expected that sales of complex biologics above will produce the majority of the revenue loss, that loss should be considered a minimum local revenue loss.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		☐ 6.8(F)1 >= $500,000 Annual Fiscal Cost {S}
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Gregory V. Albrecht
Chief Economist