

Fiscal Estimate Narratives
DOR 5/27/2009

LRB Number	09-2221/1	Introduction Number	AB-0254	Estimate Type	Original
Description A sales tax and use tax exemption for nonprescription drugs					

Assumptions Used in Arriving at Fiscal Estimate

The bill exempts from sales and use tax nonprescription drugs that are for human consumption only, prepackaged for use by consumers, and labeled in accordance with the requirements of state and federal law. The exemption would take effect on July 1, 2011.

The bill would not have any fiscal impact on FY10 and FY11.

According to the most recent available data, nationwide retail sales of nonprescription drugs were about \$13.2 billion in 2005. Based on annual increases in personal consumption expenditures for medical care, including non-prescription drugs, it is estimated that nationwide retail sales of nonprescription drugs will increase to \$16.3 billion by FY12. Nonprescription drugs in this estimate include products for allergy relief, cold medications, cough drops, decongestants, antacids, pain relief medications, sleep aids, and other products. Vitamins and other nutritional products are excluded from this estimate because Wisconsin's definition of "drug" (effective October 1, 2009) excludes dietary supplements.

Assuming the percentage share of nonprescription drugs purchased by Wisconsin consumers is the same as Wisconsin's share of disposable personal income, sales of nonprescription drugs in Wisconsin are estimated to be \$284.7 million in FY12.

Based on the July 1, 2011 effective date, and assuming a 95% compliance rate, sales and use taxes would decrease in FY12 by a minimum of \$13.4 million under the bill.

Beyond the products considered above, however, the bill would also exempt grooming and hygiene products that are treated and regulated as drugs. These items include shampoos, toothpastes, mouthwashes, antiperspirants and other products that are required to carry "Drug Facts" or "active ingredients" labeling. Information on the portion of these products that would fall under state and federal definitions of "drug" is not available. Consequently, it is not possible to provide an estimate of the revenue loss that would be incurred by grooming and hygiene products that would become exempt under the bill. This revenue loss could, however, be substantial.

County and stadium sales taxes were about 7.85% of state sales taxes in FY08. Assuming this percentage remains unchanged, county and stadium sales taxes would decrease by a minimum of \$1.1 million in FY12.

The Department of Revenue's costs to administer the bill are minimal and would be absorbed within existing budget authority.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2009 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Description A sales tax and use tax exemption for nonprescription drugs			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
State Operations - Salaries and Fringes		\$	\$
(FTE Position Changes)			
State Operations - Other Costs			
Local Assistance			
Aids to Individuals or Organizations			
TOTAL State Costs by Category		\$	\$
B. State Costs by Source of Funds			
GPR			
FED			
PRO/PRS			
SEG/SEG-S			
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)			
		Increased Rev	Decreased Rev
GPR Taxes		\$	\$-13,400,000
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S		0	0
TOTAL State Revenues		\$0	\$-13,400,000
NET ANNUALIZED FISCAL IMPACT			
		State	Local
NET CHANGE IN COSTS		\$	\$
NET CHANGE IN REVENUE		\$-13,400,000	-\$1,100,000
Agency/Prepared By		Authorized Signature	Date
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