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SFA BILL ANALYSIS

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Senate Bill 481 (as introduced 3-24-99)
Senate Bill 606 (as introduced 5-19-99)
Senate Bill 636 (as introduced 6-8-99)
Sponsor: Senator Mike Rogers (S.B. 481)
Senator Dale L. Shugars (S.B. 606)
Senator Bev Hammerstrom (S.B. 636)
Committee: Health Policy

Date Completed: 10-26-99

CONTENT

Each of the bills would amend Section 273 of the Income Tax Act to revise the senior citizen prescription drug credit provisions. The bills would index the per-person credit limit to inflation; allow individuals whose household income exceeded Federal poverty income standards to take the credit; and increase the total amount of credits allowed.

Currently, a qualified senior citizen (65 years old or older) may claim a credit equal to the amount by which the person's expenditures for unreimbursed prescription drugs exceed 5% of household income. The credit may not exceed $600 per individual; the total amount of the credits refunded may not exceed $20 million per year, minus the amount spent in the year for the Older Michiganian's Pharmaceutical Assistance Fund.

Senate Bill 481 provides that for 1999 and each year thereafter, the $600 maximum credit allowed per person would be indexed to inflation; that is, it would have to be adjusted by the percentage increase in the Detroit Consumer Price Index for the immediately preceding year.

Currently, to qualify for the credit, an individual's household income may not exceed 150% of the Federal poverty income standards. (The current Federal poverty income standards are $8,240 for a single person and $11,060 for a couple.) Senate Bill 606 provides that a taxpayer with a household income that exceeded the Federal poverty income standards for the taxpayer's family size (as defined and determined annually by the U.S. Office of Management and Budget) could claim the credit, but the credit would have to be reduced by $1 for every $1 that the household income exceeded the Federal poverty income standards.

Senate Bill 636 would increase from $20 million to $26 million the total amount of credits that may be refunded in a year (minus the amount spent for the Older Michiganian's Pharmaceutical Assistance Fund).

MCL 206.273 Legislative Analyst: G. Towne

FISCAL IMPACT

Senate Bill 481

Given current rates of inflation, the maximum credit would increase by somewhere around $15 to $18 annually. However, as the average refunded tax credits ($475.17 for tax year 1997) has yet to exceed the existing maximum credit, the additional cost of this increase in the first year should be under $200,000 (assuming that only 25% of the claims exceed the cap), holding all other things constant.

Senate Bill 606

As currently written, this bill would limit the full credit to individuals and couples at or below the Federal poverty level ($8,240 and $11,060 annual income, respectively). For each additional dollar of income, the tax credit would be reduced by one dollar, in effect phasing out eligibility for the credit for anyone with income over the poverty level plus $600. This would result in a reduction in revenue offset from the credit refund in the area of $8 million to $10 million.

One should note the likelihood that the intent of this bill is to eliminate the “cliff” effect for persons with income near, but over, the current income eligibility level of 150% of poverty. If so, the full credit would still be available to those currently eligible and provide a partial credit to those with income up to 150% of poverty plus $600. Though this would increase program costs, the amount should be nominal in the short run.

Senate Bill 636

At face value, this bill could reduce FY 1999-2000 first quarter revenue by $6 million due to the overlap of tax year 1999 with the aforementioned fiscal year. However, there are two mitigating factors. First, while total tax credit refunds and expenditures under Michigan Emergency Pharmaceutical Program for Seniors (MEPPS) have continued to grow (mostly from MEPPS), aggregate costs are not expected to exceed $26 million for tax year 1999. More pragmatically, the Legislature has supplemented both the FY 1998-99 and FY 1999-2000 budget for MEPPs by $6 million GF/GP. In effect, there is already $26 million in total resources available for these two programs so, from a revenue offset perspective, the additional “cost” of this bill should be a wash.

One final note on this package of bills: If the Elder Prescription Insurance Coverage (EPIC) program is actually implemented as envisioned, it should result in a significant reduction in the use of the refundable tax credit and MEPPS. However, when fully implemented, it would “use” the bulk of funds currently used by the tax credit and MEPPs. In addition, there is a possibility that if these three programs are run simultaneously, there may be some persons who will continue to use the tax credit and/or MEPPS and not realize the full benefit (reduced out-of-pocket cost and enhanced negative drug interaction monitoring) of the EPIC program.

Fiscal Analyst: J. Walker

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