

Fiscal Estimate Narratives

DOR 1/10/2006

LRB Number	05-0433/1	Introduction Number	AB-894	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 the first day of the second month after publication.

According to the Kline and Company report, "Nonprescription Drugs USA 2005", nationwide retail sales of nonprescription drugs were about \$15.951 billion in 2004. Also according to Kline, sales of nonprescription drugs are increasing at about 2.6% per year, primarily due to the reclassification of prescription drugs as nonprescription drugs. A table showing the categories of nonprescription drugs on which the fiscal estimate is based is attached.

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 would be about \$289 million in 2004. Assuming an annual 2.6% increase, Wisconsin sales would be about \$309 million in FY07. Assuming the sales tax exemption under the bill takes effect July 1, 2006 and a 95% compliance rate, sales and use taxes would decrease by about \$14.7 million in FY07 under the bill.

County and stadium sales taxes were about 7.63% of state sales taxes in FY05; it is assumed this percentage remains constant. Assuming an effective date of July 1, 2006, due to the two-month lag from the month of sale to the month of distribution, the decrease under the bill would first affect the September 2006 distribution of county and stadium sales taxes. Under the above assumptions, county and stadium sales taxes would decrease by about \$0.9 million in FY07 and about \$1.1 million in FY08.

Administrative costs of the bill are minimal and would be absorbed.

Long-Range Fiscal Implications

CATEGORIES OF NONPRESCRIPTION DRUGS

ALLERGY, ASTHMA AND SINUS PRODUCTS

- Allergy relief products
- Asthma medications
- Sinus medications

COUGH AND COLD PREPARATIONS

- Cold medications
- Cough drops and lozenges
- Cough syrups
- Nasal decongestants
- Sore throat remedies
- Topical vapor products

DIGESTIVE PRODUCTS

- Antacids and anti-gas products
- Antidiarrheal preparations
- Antinausea preparations
- Laxatives

FEMININE PRODUCTS

- Contraceptive products
- Feminine deodorants and itching remedies
- Feminine yeast infection remedies
- Personal lubricants

INTERNAL ANALGESICS

- Arthritis pain relievers
- General pain relievers
- Menstrual relief products

NUTRITIONAL PRODUCTS

- Herbal products
- Vitamins and minerals

TOPICAL PRODUCTS

- Anti-itch products
- Corn, callus and wart removers
- Diaper rash products
- Eye care products
- First aid products
- Fungicidal preparations
- Hair regrowth treatments
- Hemorrhoidal preparations
- Oral care products
- Topical analgesics

OTHER PRODUCTS

- Home diagnostic test kits
- Sleeping aids
- Smoking cessation aids

From Kline and Company, Inc., "Nonprescription Drugs USA 2005", Table 1 (brochure).

Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

LRB Number 05-0433/1		Introduction Number AB-894	
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):			
Assuming an effective date of 7/1/06, only 10 months of distributions of county and stadium sales and use taxes in FY07 would be affected by the exemption. These local sales and use taxes would decrease by \$0.9 million in FY07.			
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, ets.)			
		Increased Rev	Decreased Rev
GPR Taxes		\$	\$-14,700,000
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues		\$	\$-14,700,000
NET ANNUALIZED FISCAL IMPACT			
		State	Local
NET CHANGE IN COSTS		\$	\$
NET CHANGE IN REVENUE		\$-14,700,000	\$-1,100,000
Agency/Prepared By		Authorized Signature	Date
DOR/ Blair Kruger (608) 266-1310		Paul Ziegler (608) 266-5773	1/9/2006