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BILL ANALYSIS

Senate Fiscal Agency

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House Bill 4613 (Substitute S-12 as reported by the Committee of the Whole)**Sponsor: Representative Teola Hunter****House Committee: Taxation****Senate Committee: Finance****Date Completed: 12-7-88****RATIONALE**

Medicare does not cover prescription drugs, so those senior citizens who can neither qualify for assistance under Medicaid nor obtain private health insurance coverage for prescriptions often have difficulty paying for medications they need. Seniors who, when forced to choose between medications and other necessities, forgo prescribed medications sometimes develop far more serious conditions than those the prescriptions were intended to combat. The result can be hospitalization that could have been avoided with proper drug treatment. This not only is a calamity for those directly affected but adds costs to the health care system as a whole. Some people advocate the creation of a tax credit aimed at helping some older persons to pay for necessary medications.

CONTENT

The bill would amend the Income Tax Act to allow a qualified senior citizen to claim an income tax credit for expenditures for unreimbursed prescription medication for personal use, for the 1988 tax year and beyond. The credit could be claimed for an amount equal to the amount that a senior's expenditure exceeded 5% of the senior's household income, up to \$600 per individual. A senior could not claim the credit unless he or she met the following qualifications:

- The senior was at least 65 years old.
- The senior's and his or her spouse's gross income did not exceed 150% of the Federal poverty income standards as defined and determined annually by the U.S. Office of Management and Budget, and as approved by the State Treasurer. (The poverty standard for a senior couple in 1988 is \$7,731.)
- The senior was not eligible for participation in Medicaid under the Social Welfare Act.
- The senior was not a resident of a health care or mental health facility licensed or operated by the State, not including a licensed home for the aged.

The credit provided by the bill would be a refundable credit; that is, if the credit claim exceeded tax due, the amount of the credit not used to offset income tax liability would be paid to the claimant in the same manner as other refunds under the Act.

The bill would require the Treasury Department to submit an annual report to the Legislature on the amounts of the credits claimed and refunds paid.

The bill states that if Senate Bill 996 were enacted, "it is the intent of the Legislature that revenues generated as the result of the enactment of Senate Bill No. 996 be used

to pay for refunds..." claimed under House Bill 4613. The Department would have to submit an annual report to the Legislature on the amount of revenue generated as a result of Senate Bill 996. (Senate Bill 996, as passed by the Senate, would amend the Use Tax Act to change the way in which the use tax is applied to construction contractors.)

Proposed MCL 206.273

SENATE COMMITTEE ACTION

As passed by the House, the bill would have created a homeowner tax credit and limited the Homestead Property Tax Credit, increased the personal exemption, and subjected military pay and lottery winnings to the State income tax.

The substitute S-12 as adopted by the Senate Finance Committee eliminated the House language and replaced it with provisions as reflected in CONTENT, above.

BACKGROUND

A proposal to establish a program to assist seniors in the purchase of prescription drugs, House Bill 4141, was vetoed by the Governor earlier this year. The bill would have amended the Older Michiganians Act to establish a program to assist low-income seniors by subsidizing the purchase of prescription drugs. The Governor vetoed the bill, in part, "because sufficient revenues were not provided to pay the projected cost of the bill".

FISCAL IMPACT

Assuming eligible taxpayers claimed the credit, the bill would lead to a reduction of General Fund/General Purpose revenues of approximately \$17.5 million per year.

ARGUMENTS**Supporting Argument**

The bill would establish a tax credit to help older people who do not qualify for Medicaid pay for their prescription drugs. The costs of medication are said to be increasing faster than almost any other health-related service. There are few forms of help for seniors; private insurance is not always available or affordable, and Medicare doesn't cover prescriptions. Older people who cannot afford to postpone taking prescribed medications often suffer a deterioration in their health and sometimes, as a result, need to be hospitalized, which adds unnecessary costs to the health care system. The current proposal improves upon an earlier version which was vetoed by the Governor, by proposing a specific source of revenue to pay for the program. The program would provide meaningful relief to

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senior citizens, and it would do so in a manner that did not overburden the State budget.

Opposing Argument

The bill has a laudable goal, but questions remain to be answered. While it is true that older people should not be denied needed medications because of inability to pay, should anyone be? Are there other deserving segments of the population with similar or competing needs who could benefit from the credit?

Response: The bill addresses those seniors who are not eligible for Medicaid, but are not financially able to cover the rising costs of needed medications with their fixed incomes. To allow all age groups to use the credit would not be fiscally responsible for the State and, without dedicated revenues, would likely result in another gubernatorial veto.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.