

**COMMONWEALTH OF KENTUCKY STATE FISCAL NOTE STATEMENT  
LEGISLATIVE RESEARCH COMMISSION  
2015 REGULAR SESSION**

**MEASURE**

2015 BR NUMBER **0358**

**HOUSE** BILL NUMBER **157**

RESOLUTION NUMBER \_\_\_\_\_

AMENDMENT NUMBER \_\_\_\_\_

**SUBJECT/TITLE** **An ACT relating to the taxation of drugs used in the production of cattle, sheep, swine, poultry, llamas, alpacas, buffalo, aquatic organisms, cervids, ratite birds, or equine.**

**SPONSOR** **Representative Michael Meredith**

**NOTE SUMMARY**

FISCAL ANALYSIS:  IMPACT     NO IMPACT     INDETERMINABLE IMPACT

LEVEL(S) OF IMPACT:  STATE     LOCAL     FEDERAL

BUDGET UNIT(S) IMPACT: \_\_\_\_\_

FUND(S) IMPACT:  GENERAL     ROAD     FEDERAL     RESTRICTED AGENCY \_\_\_\_\_     OTHER

**FISCAL SUMMARY**

<b>FISCAL ESTIMATES</b>	<b>2014-2015</b>	<b>2015-2016</b>	<b>ANNUAL IMPACT AT FULL IMPLEMENTATION</b>
<b>REVENUES</b>		(\$9,840,000)	(\$9,840,000)
<b>EXPENDITURES</b>			
<b>NET EFFECT</b>		(\$9,840,000)	(\$9,840,000)

( ) indicates a decrease/negative

**MEASURE'S PURPOSE:** This proposal, if enacted, would exempt from the 6% sales and use tax the sale or purchase of drugs and over-the-counter drugs if used in the diagnosis, cure, mitigation, treatment, or prevention of disease in beef cattle, dairy cattle, sheep, swine, poultry, llamas, alpacas, buffalo, aquatic organisms, cervids, ratite birds, or equine.

**PROVISIONS/MECHANICS:** Amend KRS 139.472, relating to the sales and use tax, to exempt drugs and over-the-counter drugs if used in the diagnosis, cure, mitigation, treatment, or prevention of disease in beef cattle, dairy cattle, sheep, swine, poultry, llamas, alpacas, buffalo, aquatic organisms, cervids, ratite birds, or equine; EFFECTIVE JULY 1, 2015.

**FISCAL EXPLANATION:** HB 157, if enacted, would exempt both drugs and over-the-counter drugs used in the diagnosis, cure, mitigation, treatment, or prevention of disease in beef cattle, dairy cattle, sheep, swine, poultry, llamas, alpacas, buffalo, aquatic organisms, cervids, ratite birds, or equine. The over-the-counter drug exemption will apply to any product that contains a

drug facts panel. As a result, a number of veterinary nutraceutical products may be included.

Public information is not available regarding the dollar amount of over-the-counter products that may be included under the definition contained in HB 157. Industry reports indicate the US animal health products market is approximately \$12.7 billion—including veterinarian pharmaceuticals and nutraceuticals. These reports indicate the commercial animal sector (e.g., livestock and poultry) accounts for the majority of sales, but the nutraceutical and the companion animal segments are the fastest growing and will continue to increase their share of total sales.

The large animal share of the US animal health market is approximately 43% of the \$12.7 billion market (\$5.46 billion). Kentucky's share of the large animal market is 3%. Based on these two estimates, approximately \$164 million in animal health expenditures would fall under the provisions of HB 157, which indicates that the negative fiscal impact to the General Fund would be approximately \$9.84 in FY 2015-2016.

#### **Estimated Fiscal Impact**

#### **Sales and Use Tax Exemption for Agricultural-Related Drug/Over-the-Counter Drug Costs**

US Animal Health Market	\$12.7 billion
Large Animal Share of US Health Market	43%
KY's Share of Large Animal Market	3%
Est. Animal Health Expenditures included under HB 157	\$164 million
<b>Estimated HB 157 Fiscal Impact (FY 2015-2016)</b>	<b>\$9.84 million</b>

**DATA SOURCE(S): 2007 Economic Census PREPARER: Charlotte Quarles, A/R staff, Perry Nutt, Staff Economist NOTE NUMBER: 40 REVIEW: GMR DATE: 2/24/2015**