

**COMMONWEALTH OF KENTUCKY STATE FISCAL NOTE STATEMENT
LEGISLATIVE RESEARCH COMMISSION
2016 REGULAR SESSION**

MEASURE

2016 BR NUMBER **0388**

HOUSE BILL NUMBER **192**

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, equine.**

SPONSOR **Representative 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

FISCAL ESTIMATES	2015-2016	2016-2017	2017-2018	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES		(\$9,840,000)	(10,100,000)	(10,100,000)
EXPENDITURES				
NET EFFECT		(\$9,840,000)	(10,100,000)	(10,100,000)

() 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 used in the treatment of 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 sales and use tax, to exempt drugs and over-the-counter drugs if used in the treatment of beef cattle, dairy cattle, sheep, swine, poultry, llamas, alpacas, buffalo, aquatic organisms, cervids, ratite birds, or equine.

FISCAL EXPLANATION: This proposal, if enacted, would exempt both drugs and over-the-counter drugs sold or purchased for the treatment of beef cattle, dairy cattle, sheep, swine, poultry, llamas, alpacas, buffalo, aquatic organisms, cervids, ratite birds, or equine. As defined, over-the-counter drugs are products that contain a drug facts panel on its label. As a result, a

number of veterinary nutraceutical products that contain compounds found in food and herbs as well as any type of drug for which the product is required to include a drug facts panel on its label will become exempt under this proposal.

Public information is not available regarding the dollar amount of over-the-counter products that may be included under the definition contained in this proposal. 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, poultry, and equine) accounts for the majority of sales, but the nutraceutical and companion animal segments of the market are the fastest growing and will continue to increase in 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 this proposal, resulting in a negative fiscal impact to the General Fund of approximately \$9.84 million in FY 2016-2017, and approximately \$10.1 million in FY 2017-2018, assuming a growth of 3% in the cost of these items to the consumer. Due to the delayed effective date of August 1, 2016, there is no fiscal impact in FY 2015-2016.

DATA SOURCE(S): 2007 Economic Census, 2012 KY Equine Survey, University of Kentucky, Released September 6, 2013

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