

# Fiscal Note

**BILL #** HB 2629

**TITLE:** TPT; exemption; pacemakers

**SPONSOR:** Bolick

**STATUS:** As Introduced

**PREPARED BY:** Jeremy Gunderson

## Description

The bill would exempt pacemakers from the state Transaction Privilege Tax (TPT) and Use Tax beginning January 1, 2021.

## Estimated Impact

The JLBC Staff estimates that HB 2629 would reduce General Fund revenue by up to \$(427,200) in FY 2021 and \$(1.0) million in FY 2022.

The bill is also estimated to reduce local government revenues, including county and municipal excise taxes, by up to \$(1.1) million annually.

These figures represent an upper bound estimate of the impact of exempting pacemakers from the state TPT based on an assumption that all pacemaker purchases are subject to the TPT. The JLBC Staff is continuing to seek additional information on the applicability of current TPT statutes and exemptions to pacemaker purchases.

The Department of Revenue has not yet provided their estimated impact of the bill.

## Analysis

Pacemakers are medical devices implanted in a patient's chest to help the heart beat more regularly by sending electronic impulses to the heart. Academic research estimates that there were 61.6 pacemakers implanted per 100,000 persons in the U.S. in 2009. Assuming this rate of implantations remained constant, there would be 202,196 implants in 2019. The JLBC Staff assumes Arizona's share of the national total would be 2.2%, or 4,484 pacemaker implants.

In a 2017 report to Congress, the Medicare Payment Advisory Commission reported that the median price surveyed hospitals paid for pacemakers was \$6,197. Based on this price and the estimated number of pacemaker implants, \$27.8 million is spent annually in Arizona on pacemakers. At a current tax rate of 5%, exempting pacemakers from the state TPT and Use Tax would reduce total state revenue by up to \$(1.4) million annually [= \$27.8 million x 5.0% state TPT rate], of which \$(1.0) million would be General Fund based on the statutory TPT distribution formula.

These estimates reflect a full year of implementation. HB 2629 makes the TPT exemption effective January 1, 2021. As such, the General Fund impact in FY 2021 would be an estimated \$(427,200) and would be \$(1.0) million in FY 2022.

In addition to the 5.0% TPT rate, the state levies a 0.6% Proposition 301 TPT tax for education. HB 2629 would decrease Proposition 301 revenues by up to \$(69,500) in FY 2021 and \$(166,700) in FY 2022.

At least some pacemaker purchase may be exempt from TPT under current law. We are still attempting to confirm their current tax status.

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**Local Government Impact**

HB 2629 would reduce the state-shared portion of TPT revenues. Revenues shared with counties would decrease by up to \$(93,800) in FY 2021 and \$(225,100) in FY 2022. Revenues shared with cities would similarly decrease by up to \$(57,900) in FY 2021 and \$(138,900) in FY 2022.

Assuming that pacemakers are purchased across the state in proportion to local population, along with state-shared TPT revenues, the bill would also decrease county and municipal excise tax revenues. County excise tax revenues, including transportation taxes levied by Maricopa and Pima Associations of Governments, would decrease by up to \$(81,700) in FY 2021 and \$(196,100) in FY 2022. City excise tax revenues would decrease by an estimated \$(243,800) in FY 2021 and \$(585,000) in FY 2022.

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