

Senate Fiscal Agency  
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**SFA**



**BILL ANALYSIS**

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Senate Bill 311 (as reported without amendment)  
Sponsor: Senator Dave Jaye  
Committee: Finance

Date Completed: 3-18-99

## **RATIONALE**

According to the Michigan Diabetes Coalition, diabetes is the leading cause of blindness, kidney failure, and lower-limb amputation, and increases a person's risk of heart disease or incidence of stroke by two to four times. The American Diabetes Association (ADA) reports that diabetes causes over 180,000 deaths nationwide each year. In Michigan there are approximately 375,000 cases of diagnosed diabetes. About 10% of these are Type I, that is, persons who must take insulin daily or face death. The remaining 337,500 are considered Type II diabetics. About 135,000 of these persons take insulin daily in an effort to treat their conditions; the remainder of those diagnosed with diabetes handle their conditions with varying combinations of treatments. Reportedly, over 200,000 persons in the State have diabetes but have not been diagnosed.

Despite the incidence of the disease and the severe conditions that can result from it, the ADA reports that with proper treatment the risk of developing further complications from diabetes can be reduced by 50% to 76%. While some persons with diabetes may be able to halt or delay complications from the disease with monitoring, diet, and exercise, Type I and most Type II diabetics need a host of daily medication and treatment, including insulin, syringes, blood glucose monitors, test strips, lancets, insulin pumps, etc. It has been pointed out that daily medication requirements, and the use of testing and monitoring equipment, can be expensive. Since unmanaged diabetes can lead to such severe conditions, and many of those conditions can be delayed or prevented with proper treatment, some people believe that steps should be taken to help people to afford the equipment and medication needed to control the disease. It has been suggested that medical equipment used in controlling and monitoring diabetes should be exempted from the 6% sales tax.

## **CONTENT**

The bill would amend the General Sales Tax Act to exclude from the tax sales of medical equipment used in the dispensing of any form of medication for diabetes, including syringes; or used in testing blood

for the control and treatment of diabetes.

Proposed MCL 205.54h

## **ARGUMENTS**

*(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)*

### **Supporting Argument**

Diabetes is a major health problem nationwide, and this State has not been spared from the troubles it causes. In fact, Michigan has the fifth highest rate of diabetes prevalence in the country, according to the Michigan Diabetes Coalition. Diabetes, if left untreated or inadequately treated, can lead to severe health conditions, including heart attacks, strokes, kidney failure, blindness, and amputations. Obviously, short of causing immediate death, these conditions can leave a person disabled, prevent the person from holding a job, and result in enormous medical bills for continuing treatment.

The good news is that proper management of diabetes can prevent or delay the onset of the related health problems. Once established, diabetes is a lifelong condition that requires daily self-management. Persons with diabetes need to manage their conditions by monitoring blood sugar levels, sometimes several times a day. The equipment and materials needed for continual monitoring of blood sugar levels, and the insulin or other medications that persons with diabetes need to help control their condition, can result in significant expenses. These expenses often are more than people can afford if they have no health insurance, or have health insurance that does not cover, or only partially covers, diabetes treatment. By creating a sales tax exemption for monitoring, testing, and medication delivery equipment, the bill would make this equipment more affordable, and would help remove a disincentive for persons to care for themselves.

### **Supporting Argument**

Also before the Legislature is a group of bills (Senate

Bills 260, 261, 262, and 414) that would mandate health insurers to include in their health plans coverage for certain diabetes equipment, supplies, and educational training. While these bills would greatly enhance the ability of diabetics to care for themselves, many employee and employer groups oppose the effort based on the argument that mandated coverages increase insurance costs, and further restrict the ability of purchasers to choose the coverages, as they determine, that best meet their needs and financial resources. If the State is to make an attempt to ease the financial burden of persons with diabetes, the approach proposed in Senate Bill 311 is preferable to mandated insurance coverage.

**Response:** Use of tax laws to reduce health care costs should not stop with this bill. The State could significantly lower the costs of health care to businesses if it would amend the Single Business Tax Act to remove from the tax base expenditures for health care.

### **Opposing Argument**

The General Sales Tax Act is replete with exemptions that are narrowly constructed to affect specific entities or groups, and the bill is yet another attempt to extend this unsound tax policy. Further, it could invite more attempts. If an exemption were granted for diabetes equipment and supplies, perhaps persons with other types of diseases that require expensive equipment would feel that they too deserved a tax exemption.

At most, the bill would reduce an individual's out-of-pocket expenses for equipment and supplies by 6%. (The bill also would reduce the amount insurance companies pay for the equipment and supplies.) If persons with diabetes know that, without proper treatment, their condition will worsen, it is questionable whether a 6% difference in the price of equipment would convince them to care for themselves more than they otherwise will. What is known is that the bill would significantly reduce revenues, particularly to the School Aid Fund, and would further narrow the sales tax base.

**Response:** Diabetes is demonstrably different from most other diseases in terms of the specific consequences that can be prevented through intervention and treatment. Money that the State would forgo today in sales taxes could, down the road, result in far less expenditures the State will have to make to take care of diabetics whose conditions have caused them to be disabled, or to take care of the families of persons who have died from diabetes complications. Any sales tax revenue the State lost in an effort to preserve individuals' health and well-being, and possibly to reduce future health care-related costs, may be a price that society deems worthwhile.

Legislative Analyst: G. Towne

### **FISCAL IMPACT**

This bill would reduce sales tax collections by an estimated \$9.5 million in FY 1999-2000. Given the current constitutional and statutory distribution of sales tax revenue, this loss in revenue would affect the following budget areas: School Aid Fund revenue would decline \$6.9 million from what it otherwise will be, revenue sharing revenue would decrease \$2.3 million, and General Fund/General Purpose revenue would decline \$0.3 million. There are approximately 375,000 people diagnosed with diabetes in Michigan. It is estimated that each of these people spends an average of \$421 a year on the medical equipment needed to monitor his or her condition and administer medication, including such items as insulin pumps, glucose monitors, lances, blood test strips, and syringes.

Fiscal Analyst: J. Wortley  
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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.