

DEPARTMENT OF TAXATION

2006 Fiscal Impact Statement

1. **Patron** R. Edward Houck

2. **Bill Number** SB 73

House of Origin:

 Introduced

 Substitute

 Engrossed

3. **Committee** Passed House and Senate

4. **Title** Sales and Use Tax Exemption;
Certain Medicines and Drugs

Second House:

 In Committee

 Substitute

 X **Enrolled**

5. Summary/Purpose:

This bill would provide an exemption from the sales and use tax for medicines and drugs that are:

- used by veterinarians in treating agricultural production animals;
- sold to farmers for direct use in producing an agricultural product for market; or
- used by a veterinarian for agricultural production animals and dispensed or sold on prescription by the veterinarian.

The effective date of this bill is not specified.

6. Fiscal Impact Estimates are: Final. (See Line 8.)

6a. Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2005-06	\$0	GF
	\$0	TTF
	\$0	Local
2006-07	<\$71,900>	GF
	<\$10,500>	TTF
	<\$21,000>	Local
2007-08	<\$78,400>	GF
	<\$11,500>	TTF
	<\$22,900>	Local
2008-09	<\$78,400>	GF
	<\$11,500>	TTF
	<\$22,900>	Local

2009-10	<\$78,400>	GF
	<\$11,500>	TTF
	<\$22,900>	Local
2010-11	<\$78,400>	GF
	<\$11,500>	TTF
	<\$22,900>	Local
2011-12	<\$78,400>	GF
	<\$11,500>	TTF
	<\$22,900>	Local

7. Budget amendment necessary: No.

8. Fiscal implications:

The revenue impact of this bill is considered in the budget amendments adopted by both the House and Senate. It is estimated that this bill would reduce revenues by \$103,400 in fiscal year 2007 and by \$112,800 in fiscal years 2008 through 2012. These estimates were determined based upon a survey conducted by the Virginia Veterinary Medical Association (VVMA). Ninety-eight Virginia veterinarians treating agricultural production animals were asked to provide the amount of dollars spent on prescription drugs in 2004. The survey revealed that an estimated \$2.3 million were spent on prescription drugs by the sample of veterinarians. The fiscal year estimate for 2007 was reduced to reflect the anticipated one-month lag in the revenue impact.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Generally

This bill would provide an exemption from the sales and use tax for medicines and drugs when sold to a veterinarian, provided that those items are to be used or consumed directly in the care and treatment of agricultural production animals. Current law identifies veterinarians as the users or consumers of medicines, drugs, medical supplies, equipment and other tangible personal property purchased for use in their operation, and requires that veterinarians pay tax to their suppliers on purchases of these items.

Currently, an exemption is available for agricultural supplies sold to farmers for use in agricultural production for market. A supplemental exemption is available for medicines and drugs sold on written prescription of a veterinarian, but a veterinarian must remit sales tax on his or her purchase of medicines and drugs of any sort. Medicines and drugs purchased by a veterinarian are subject to sales tax despite the fact that the veterinarian's subsequent distribution of these medicines to farmers amounts to a resale transaction.

This bill would provide veterinarians an exemption whenever they purchased medicines and drugs that they themselves used to treat, care and medicate agricultural production animals. An exemption would also be available to veterinarians for medicines and drugs purchased for resale to a farmer for direct use in producing an agricultural product for market.

This exemption would apply only to medicines and drugs used for the treatment of "agricultural production animals" and would not apply to those items used to treat domesticated animals such as dogs and cats, and recreational animals, such as horses.

Other States

Various other states that provide similar exemptions for purchases of medicines and drugs used to treat agricultural production animals include Iowa, Kansas, Minnesota, and California.

Iowa: Iowa exempts a veterinarian's purchase of food, drugs, medicines and various other items that are used to treat livestock raised as part of agricultural production from its sales tax, but specifically excludes these items from exemption if used in treating pets for hobby purposes.

Kansas: Kansas exempts the sale of drugs and pharmaceuticals to veterinarians for their use in the professional treatment of animals raised for human consumption or for producing dairy products. The sale of those items to veterinarians for use in the professional treatment of any other animals remains subject to the tax.

Minnesota: Minnesota exempts the sale of materials to a veterinarian to be used or consumed in the care, medication, and treatment of agricultural production animals and horses.

California: California exempts a licensed veterinarian's purchase of drugs, medicines and other items, purchased to be administered either as an additive or directly to food animals or non-food animals which are being held for sale in the regular course of business, where the primary purpose of the medicine is the prevention or control of disease of the food animals.

Similar Legislation

House Bill 69 is identical to this bill.

cc : Secretary of Finance

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