

DEPARTMENT OF TAXATION

2018 Fiscal Impact Statement

1. **Patron** James A. "Jay" Leftwich

3. **Committee** Senate Finance

4. **Title** Retail Sales and Use Tax Exemptions;
Veterinarians

2. **Bill Number** HB 747

House of Origin:

 Introduced

 Substitute

 Engrossed

Second House:

 X **In Committee**

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would allow veterinarians a broad Retail Sales and Use Tax exemption on their purchases of medicines and drugs.

Under current law, as professional service providers, veterinarians are considered to be the end users of all medicines and drugs they purchase. Although they receive a limited exemption for their purchase of medicines and drugs used in the treatment of agricultural production animals or for resale to farmers for use with such animals, they must pay sales tax on all other purchases of medicines and drugs, even if the items are purchased for resale.

The effective date of the bill is not specified.

6. **Budget amendment necessary:** No.

7. **Fiscal Impact Estimates are:** Not available. (See Line 8.)

8. **Fiscal implications:**

Administrative Costs

The Department of Taxation ("the Department") considers implementation of this bill as routine and does not require additional funding.

Revenue Impact

This bill would result in an unknown revenue loss starting in Fiscal Year 2019. The revenue loss is unknown because there is no data available on the amount of prescription medicines and drugs purchased by veterinarians that are not used in agricultural production animals.

The Department estimates that the revenue impact of the current exemption for drugs and medicines used in agricultural production is approximately \$5 million for Fiscal Year 2018.

However, this estimate includes both prescription and non-prescription medicine for agricultural production animals.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No

11. Other comments:

Background

Veterinarians are considered professional service providers for purposes of the Retail Sales and Use Tax. As such, charges for their services are not subject to the tax. Rather, like other service providers, veterinarians are considered the users or consumers of the items they purchase for use in their practice. Veterinarians must pay sales tax on their purchases of medicines, drugs, medical supplies, and equipment, including their purchase of medicines or drugs they will resell. The only medicines and drugs that may be purchased by veterinarians exempt from the tax are those used directly in the care, medication, and treatment of agricultural production animals or for resale to a farmer for direct use in producing an agricultural product for market.

Medicines and drugs sold by veterinarians or on their prescriptions are exempted from the tax under the medicines and drugs exemption and the agricultural exemption.

If a veterinarian maintains an inventory of nonprescription items, including flea spray, flea powder, shampoos, conditioner, soap, leashes, collars and other pet accessories, he must register to collect the sales tax, regardless of whether the sale is in conjunction with an office visit. Because the veterinarian is required to collect sales tax, the veterinarian may purchase such goods exempt using a resale exemption certificate.

Proposal

This bill would provide a broad exemption from the Retail Sales and Use Tax for all medicines and drugs purchased by a veterinarian, regardless of whether the medicines and drugs are used or consumed in his practice or resold.

The effective date of this bill is not specified.

cc : Secretary of Finance

Date: 2/16/2018 SK
DLAS File Name: HB747F161