

Questions for the Revenue Department submitted by the KY Veterinary Medical Association (KVMA)

1. Please tell us what the Revenue Cabinet feels that the veterinarians in Kentucky need to know regarding this legislation. **See answers to questions below and be sure to forward additional issues that arise from your membership regarding the taxation of services.**
2. What is the definition of services per the legislation? **Prior to the law change in House Bill 487, KY tax law treated charges veterinarians made for their services as the rendering of professional services not subject to Kentucky sales tax. The new legislation imposes sales tax on all charges made by veterinarians that come within the scope of professional services performed by veterinarians.**
3. Will this tax be payable monthly or quarterly? **Sales tax returns are due on a monthly basis, but the Department does allow less frequent filing based upon the amount of sales tax reported annually. The Department adjusts filing frequencies programmatically each June. Taxpayers may request a filing frequency change directly from the Department as needed; however, taxpayers may not file less frequently than the payment history requires. Please direct filing frequency requests to KRC.WebResponseSalesTax@ky.gov.**
4. Is this an umbrella over the total bill of a visit or is there some distinction between providing a professional service (i.e. exam), performing a procedure, or dispensing a medication? **All of the itemized charges on the bill are subject to sales tax, effective July 1, 2018.**
5. If Rx are taxable then will Kroger, Walmart, etc. have to charge sales tax on prescriptions prescribed for animals? **Yes, retail pharmacies should charge sales tax on prescriptions fulfilled for animals under current law. The prescription drug exemption applies only to human beings.** What is the distinction between and drugs prescribed for use by the client at home vs prescribed for the patient in the hospital? **There is no difference for tax purposes.**
6. Are Prescription diets exempt from taxes if medications are? **Both are subject to tax.**
7. If a laboratory test is, a service is there any distinction between an in-house vs reference lab test? **No, any charges to the client for laboratory tests whether in-house or by reference lab are taxable.**
 - a. Does the new tax apply to outside lab tests? **Charges a veterinarian practice pays for outside lab test are also subject to sales tax if the results are used in the veterinarian practice in Kentucky.**
8. What about cost for cremation billed thru the clinic? **Yes, charges to clients for cremation are taxable.** What if there is no markup on the service? **The charges are taxable whether there is a markup on the service or not.**
9. How do we account for the tax paid to a distributor when an item is ordered and then is used as part of a taxable procedure? To pay tax on the full cost of the procedure would mean that we are paying tax twice on a portion of the procedure fee because we have already paid a use tax on the inventory items. Should veterinarians change their accounts with a distributor so that no tax is charged by them and the end user (the client) pays the tax? **As a retailer of taxable services, veterinarians may claim a resale exemption for purchases of tangible personal property that is sold to and given to the client. However, veterinarians may not claim a resale exemption on purchases of items consumed or used up during the provision of veterinarian services. A veterinarian practice may issue a completed KY resale certificate (Form 51A105) or a Streamlined Exemption Certificate (Form 51A260) to its suppliers for**

items it will resale and give to the client. If tax was paid on inventory items that are then resold (provided to and delivered to the client), the veterinarian may claim a “tax paid purchase resold” deduction on the sales tax return filed for the period when that transaction is reported. However, the “tax paid purchase resold” deduction amount may not exceed the total tax due amount on the return. See KRS 139.260 and KY Regulation 103 KAR 31:090 for further guidance. *(Members may want to consider inventorying drugs and supplies as of June 30, 2018 to establish a base amount in this instance- KVMA)*

10. If we are not charged sales tax by the distributor then how should we account for products where the consumer is not the end user (i.e. cleaning supplies in the clinic)? **The veterinarian will owe tax on its purchase price of items it consumes. You should report the purchase price of the products for consumption on line 23 of the sales and use tax return and remit the 6% tax for that portion along with the rest of the liability for the reporting period.**
11. For mixed animal practices which treat both taxable and exempt species, what documentation or procedures does the Revenue Cabinet feel are vital to decrease the likelihood of incurring an audit? **The veterinarian should keep clear client records that tie back to the billings for services rendered. These records should maintain the distinction between small animal and large animal treatments and charges.**
12. If we perform surgery, do we charge tax on the surgery, anesthesia, materials and implants used? **Yes, all surgery related charges fall within the category of veterinarian services.**
13. Grooming and boarding is taxed just as if we are a boarding or grooming place of business. **Yes, that is correct.**
14. If a veterinary practice is registered with Kentucky and the IRS as a non-profit, then would that business have to pay sales tax or any taxes? **Yes, non-profit veterinarian practices will be liable for the sales tax on their gross receipts derived from the services rendered. These non-profits should bill their customers the tax and collect and remit accordingly.**
15. Will shelters that provide veterinary services have to charge sales tax since they are non-profits? **Yes, see question #14. In addition, shelters that qualify as 501(c)(3) entities with the IRS and have a purchase exemption authorization with the KY DOR may purchase consumable supplies they use in the performance of their non-profit veterinarian services. Also, see question #16.**
16. Are tax exempt organizations that we do work for like the humane society exempt from sales tax? **Yes, 501(c)(3) charitable, educational and religious organizations may purchase veterinarian services exempt from sales tax by fully completing a Purchase Exemption Certificate, (Form 51A126) or a Streamlined Exemption Certificate (Form 51A260). The tax law concerning exempt entities has not changed. Entity exemptions will apply to both taxable products and taxable services. There is a presumption that all receipts are subject to tax and veterinarians should charge tax on all their services from July 1, 2018, forward unless the customer provides a completed exemption certificate to the contrary (KRS 139.260).**
17. Will we have to deconstruct every procedure, separate charges for inventory from service charges, and charge the client sales tax on the IV catheter(s), bandaging materials, gauze sponges, scrub, alcohol, and staples that are used to place the IV catheter? **No, see questions #9 and #12. You should charge tax on the total bill, but there is no reason to itemize more**

charges on billings than you do currently. The difference will be the calculation of sales tax added to the final billing amount due.

18. Are there official specific sales tax forms that are required to be filled out by a clinic? **Yes, a couple of examples are the resale certificates (see question #9) and the Kentucky Sales and Use Tax Return (Form 51A102). However, the Department encourages the use of its EFile System as a convenient way to electronically report and pay each reporting period. Please go to <https://revenue.ky.gov/Collections/Documents/E-file%20Quick%20Start%20Guide.pdf> to establish a user account for electronic filing.**
19. At health department sponsored rabies clinics, is this taxable and 6% on service when acting as an agent for the government? Or would we be considered a contractor? **Based upon the fact that veterinarians participating in these clinics perform the services and charge for the shots, the charges are subject to the 6% sales tax.**
20. How can I be moved from paying quarterly to monthly? **You may contact the Sales and Use Tax Division directly at 502-564-5170 or send an email to KRCWebResponseSalesTax@ky.gov.**
21. Will this tax be imposed on boarding facilities that do not provide veterinary services? **Yes, the new legislation also lists pet care boarding services as one of the new services subject to the 6% sales tax. These services will be taxable when provided by veterinarians as well as by other types of service providers.**
22. Now that veterinarian services will be taxable from 7/1/18 forward, what is the tax treatment for laboratory services provided and charged to veterinarians, which they will use to provide veterinarian services to their clients? **Since these laboratory services are also in the category of veterinarian services, charges for the services should also include KY sales tax billed to the veterinarian. The exempt resale provisions under KRS 139.260 apply only to the resale of tangible personal property and digital property.**
23. Is sales tax paid by the veterinarian when charges are billed to the client or collected from the client? **Generally, businesses operate on an accrual basis by reporting on the sales tax return gross receipts charged for the month in which the sales transaction occurs even if full payment has not been received. Veterinarians should continue reporting their sales on the accrual basis just as they reported their retail sales prior to 7/1/18. See KY Regulation 103 KAR 31:011 for further detail (<http://www.lrc.ky.gov/kar/103/031/011.htm>).**

For more information and monitor for updated information, www.taxanswers.ky.gov

Tim Bennett, Director, Division of Sales & Use Tax, Office of Sales and Excise Taxes, Kentucky Department of Revenue, Finance and Administration Cabinet, 501 High Street, Station 67, P O Box 181, Frankfort, Kentucky 40602, Phone: (502) 564-6828 or email at Tim.Bennett@ky.gov