

DEPARTMENT OF STATE REVENUE

Information Bulletin #79
Sales Tax
November 2022
Effective Date: Upon Publication
(Replaces Bulletin #79, dated January 2010)

SUBJECT: Application of Indiana Sales Tax to Purchases Covered by Medicare and/or Medicaid

REFERENCES: [IC 6-2.5-5-16](#); [IC 6-2.5-5-18](#); [IC 6-2.5-5-24](#)

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SUMMARY OF CHANGES

Apart from technical, nonsubstantive changes, this bulletin has been revised to include an introduction section that explains the underlying exemptions that provide the basis for the guidance in this bulletin.

INTRODUCTION

There is no statutory exemption Indiana sales tax specifically addressing purchases covered by Medicare or Medicaid. However, there is a statutory exemption for purchases made by the federal government, and a statutory exemption for purchases made by the State of Indiana. For more information on these governmental exemptions, please refer to Sales Tax Information Bulletin #4, available online at in.gov/dor/legal-resources/tax-library/information-bulletins/sales-tax-information-bulletins/.

Further, there is a statutory exemption for purchases of certain medical supplies and devices made by an end user patient pursuant to a prescription or drug order. For more information on these governmental exemptions, please refer to Sales Tax Information Bulletin #48, available at the link above.

The purpose of this bulletin is to provide guidance on how these exemptions apply to purchases covered by Medicare or Medicaid.

MEDICARE AND MEDICAID PURCHASES MADE BY THE FEDERAL GOVERNMENT OR THE STATE OF INDIANA

Payments under Medicare Part A are made by the federal government directly to a provider/vendor and do not allow for reimbursements of state sales tax. Accordingly, purchases made by a patient under Medicare Part A are exempt from Indiana sales tax as purchases made by the federal government.

Payments under Medicare Part B are made by the federal government to either the patient or directly to the provider/vendor. Such purchases are not considered purchases made by the federal government. These purchases are considered purchases made by a nonexempt person (i.e., a patient) that are subject to reimbursement by the federal government. The exemption applying to purchases by the federal government requires that the purchase be made directly by the federal government. Purchases made by an individual that are reimbursed by the federal government are not eligible for the exemption. Therefore, purchases made by a patient under Medicare Part B are not exempt from sales tax for this reason, regardless of whether the payment is made directly to the provider/vendor or patient. The purchase would therefore be taxable unless another exemption applies (see the Caveat section below).

Payments under Medicaid are made by the State of Indiana directly to the provider/vendor. Purchases made by a patient under Medicaid are exempt as purchases made by the State of Indiana.

Example #1: A patient purchases a prosthetic device pursuant to her coverage under Medicare Part A. The purchase of the prosthetic device is exempt from Indiana sales tax because the purchase is considered to be made by the federal government.

Example #2: A patient purchases a prosthetic device pursuant to her coverage under Medicare Part B. Payment for the prosthetic device is made by the federal government directly to the provider/vendor. The

purchase of the prosthetic device is subject to Indiana sales tax because the purchase is considered to be made by the nonexempt person (i.e., patient).

Example #3: A patient purchases a prosthetic device pursuant to her coverage under Medicaid. The purchase of the prosthetic device is exempt from Indiana sales tax because the purchase is considered to be made by the State of Indiana.

PURCHASES MADE BY A PATIENT SUBJECT TO REIMBURSEMENT

Purchases made by a patient subject to reimbursement by the federal government or its instrumentalities through Medicare are not eligible for the exemption for purchases made by the federal government because the purchases are being made by a nonexempt person (i.e., patient). The purchase would therefore be taxable unless another exemption applies (see the Caveat section below).

All payments under Medicaid are made by the state directly to a provider/vendor, so there are no purchases made by a patient under Medicaid that are subject to reimbursement.

Example #4: A patient purchases a prosthetic device pursuant to her coverage under Medicare Part B. Payment for the prosthetic device is made by the patient directly to the provider/vendor, subject to full reimbursement by the federal government. The purchase of the prosthetic device is subject to Indiana sales tax because the purchase is considered to be made by the nonexempt person (i.e., patient).

PURCHASES MADE PARTLY BY THE FEDERAL GOVERNMENT AND PARTLY BY THE PATIENT

Where payment for tangible personal property sold or consumed in this state is made partly by the United States or its instrumentalities and partly by nonexempt persons (i.e., patients), the payment is exempt to the extent of the government entity's share, provided the government entity's share is exempt (pursuant to the guidelines above). If the nonexempt person makes full payment and then seeks reimbursement from the government entity, the entire amount is not exempt as explained above even though the government entity may reimburse the nonexempt person in full or in part. The purchase would therefore be taxable unless another exemption applies (see the Caveat section below).

All payments under Medicaid are made by the state directly to a provider/vendor, so there are no purchases made partly by the state and partly by a patient under Medicaid.

Example #5: A patient purchases a prosthetic device pursuant to her coverage under Medicare Part B. Payment for the prosthetic device is made to the provider/vendor by both the patient and the federal government. The federal government pays 70% of the purchase price directly to the provider/vendor, and the patient pays the remaining 30% of the purchase price. 30% of the purchase price of the prosthetic device is subject to Indiana sales tax.

Example #6: A patient purchases a prosthetic device pursuant to her coverage under Medicare Part B. Payment for the prosthetic device is made to the provider/vendor by the patient. The federal government subsequently reimburses the patient 100% of the purchase price. The entire purchase price of the prosthetic device is subject to Indiana sales tax.

CAVEAT

Even if a purchase does not qualify for exemption pursuant to the guidelines discussed above, the purchase may still qualify for another exemption, such as the exemption for medical supplies and equipment purchased in conjunction with a valid prescription as outlined in Sales Tax Information Bulletin #48 referenced above.

Example #7: A patient purchases a prosthetic device pursuant to her coverage under Medicare Part B. The patient has a valid prescription for the prosthetic device. Payment for the prosthetic device is made to the provider/vendor by the patient. The federal government subsequently reimburses the patient 100% of the purchase price. While the purchase of the prosthetic device is not exempt as a purchase by the federal government, the entire purchase price of the prosthetic device is exempt from Indiana sales tax pursuant to an exemption for durable medical equipment.

If you have any questions concerning this bulletin, please contact the Tax Policy Division at taxpolicy@dor.in.gov.

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Commissioner

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