

## **INFORMATION BULLETIN #79**

### **SALES TAX**

**JANUARY 2010**

**DISCLAIMER:** Information bulletins are intended to provide non-technical assistance to the general public. Every attempt is made to provide information that is consistent with the appropriate statutes, rules and court decisions. Any information that is inconsistent with the law, regulations, or court decisions is not binding on either the Department or the taxpayer. Therefore, information provided in this bulletin should serve only as a foundation for further investigation and study of the current law and procedures related to its subject matter.

**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.

#### **I. Medicare and Medicaid Purchases Made by the Federal or State of Indiana Government**

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, pursuant to IC 6-2.5-5-24.

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., patient) that are subject to reimbursement by the federal government. Purchases made by a patient under Medicare Part B are not exempt from sales tax, regardless of whether the payment is made directly to the provider/vendor or patient.

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, pursuant to IC 6-2.5-5-16.

—EXAMPLE—

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—

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—

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.

## **II. 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 taxable because the purchases are being made by a nonexempt person (i.e., patient).

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—

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).

## **III. 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 taxable even though the government entity may reimburse the nonexempt person in full or in part.

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—

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—

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.

#### **IV. 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 durable medical equipment purchased in conjunction with a valid prescription, pursuant to IC 6-2.5-5-18.

—EXAMPLE—

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.



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