

DEPARTMENT OF TAXATION

2022 Fiscal Impact Statement

1. **Patron** Don L. Scott

2. **Bill Number** HB 551

House of Origin:

 Introduced

 Substitute

 Engrossed

3. **Committee** Passed House and Senate

4. **Title** Retail Sales and Use Tax; Exemption for
Medicine and Drugs Purchased by
Veterinarians

Second House:

 In Committee

 Substitute

 X **Enrolled**

5. **Summary/Purpose:**

This bill would exempt veterinarians from Retail Sales and Use Tax on their purchases of prescription medicines and drugs that are administered or dispensed to patients within a veterinarian-client-patient relationship beginning July 1, 2022, and ending July 1, 2025. The bill would also repeal provisions of current law which provide that a veterinarian dispensing or selling medicines or drugs on prescription is deemed to be the user or consumer of all such medicines and drugs.

Under current law, veterinarians dispensing or selling medicines or drugs on prescription are deemed to be the user or consumer of all such medicines and drugs, and must pay Retail Sales and Use Tax on such purchases. State law does provide for an exemption for medicines and drugs sold to a veterinarian provided they are used or consumed 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.

If enacted during the regular session of the 2022 General Assembly, this bill would become effective July 1, 2022.

6. **Budget amendment necessary:** Yes

7. **Fiscal Impact Estimates are:** Preliminary (See Line 8.)

8. **Fiscal implications:**

Administrative Costs

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

Revenue Impact

This bill would result in an estimated negative revenue impact as shown in the following table:

		FY2023	FY2024	FY2025	FY2026	FY2027	FY2028
GF - Unrestricted	2.265%	\$ (2.8)	\$ (3.1)	\$ (3.2)	\$ (3.3)	\$ (3.5)	\$ (3.6)
GF - Restricted	1.115%	\$ (1.4)	\$ (1.5)	\$ (1.6)	\$ (1.6)	\$ (1.7)	\$ (1.8)
Transportation	0.900%	\$ (1.1)	\$ (1.2)	\$ (1.3)	\$ (1.3)	\$ (1.4)	\$ (1.4)
Local Option	1.000%	\$ (1.2)	\$ (1.4)	\$ (1.4)	\$ (1.5)	\$ (1.5)	\$ (1.6)
Other	0.492%	\$ (0.6)	\$ (0.7)	\$ (0.7)	\$ (0.7)	\$ (0.8)	\$ (0.8)
Total	5.772%	\$ (7.1)	\$ (8.0)	\$ (8.3)	\$ (8.5)	\$ (8.8)	\$ (9.1)

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No

11. Other comments:

Background

The Retail Sales and Use Tax is imposed upon the charge for the sale or use of tangible personal property, unless an exemption applies. Virginia law defines “tangible personal property” as personal property that may be seen, weighed, measured, felt, or touched, or is in any other manner perceptible to the senses. In general any retail merchant is allowed to purchase items that it intends to resell to its customers exempt from the tax because it will collect the tax from its customers at the time of sale.

Veterinarians

Under current law, veterinarians are deemed professional service providers who are the users or consumers of prescription drugs and other prescription products purchased by them and used in their practices. This means that veterinarians must pay sales tax on all prescription medicine and other prescription products that they purchase.

Veterinarians’ professional services and any prescription drugs used in their practices are not taxable to the patient. This is true even if the prescription products are sold to patients at the veterinarian’s office.

Medicines and Other Products Sold on a Veterinarian’s Prescription

Medications and other prescription products sold by veterinarians, pharmacies, pet stores, and other sellers on a veterinarian’s prescription are exempt from the Retail Sales and

Use Tax. Although pharmacies, pet stores, and other sellers are allowed to purchase these items exempt from the tax using the resale exemption, veterinarians are required to pay sales tax on these items.

Agricultural Production Animals

State law provides for an exemption for medicines and drugs sold to a veterinarian provided they are used or consumed 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.

Non-Prescription Items Sold to Patients

Any non-prescription items purchased by a veterinarian for resale to patients qualify for the resale exemption. For example, if a veterinarian keeps an inventory of non-prescription pet foods and items such as leashes, flea powder, soaps, or collars, the veterinarian can purchase the items without paying sales tax using the resale exemption, but must charge sales tax to patients when selling the products.

Proposal

This bill would exempt veterinarians from Retail Sales and Use Tax on their purchases of prescription medicines and drugs that are administered or dispensed to patients within a veterinarian-client-patient relationship beginning July 1, 2022, and ending July 1, 2025. The bill would also repeal provisions of current law which provide that a veterinarian dispensing or selling medicines or drugs on prescription is deemed to be the user or consumer of all such medicines and drugs.

If enacted during the regular session of the 2022 General Assembly, this bill would become effective July 1, 2022.

Similar Legislation

Senate Bill 517 is identical to this bill.

cc : Secretary of Finance

Date: 3/8/2022 SK
HB551FER161