

## Avoid Troubles with Taxes: The Nuts and Bolts of Sales and Use Tax

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You most likely have heard the joke that no one can avoid death and taxes. In Arizona that expression pertains to your veterinary practice too! What I am specifically talking about here is transaction privilege tax, better known as sales tax.

Here are two absolutes for sales tax: The Arizona Department of Revenue (AZDOR), and Arizona cities are very aggressive in collecting sales tax. It is one of the primary revenue sources for funding governmental operations. Fail to follow the applicable laws and there's a good chance you may be audited or penalized.

When and on what to collect and report for sales tax purposes, is often confusing to the busy practice manager or owner and mistakes can be costly. Rather than suggest you read Arizona Revised Statutes, Title 42-Taxation: Chapter 5 on Transaction Privilege and Affiliated Excise Taxes, which would surely put you to sleep, I am going to share the nuts and bolts on sales tax as it relates to your veterinary practice. Basically, sales tax is made up of two components in Arizona; transaction privilege tax and use tax.

### Transaction Privilege Tax

This tax is imposed on the "privilege" of conducting business in Arizona. The tax is levied on items that are considered tangible personal property. For veterinary practices, this includes everything you purchase which is not exempt (see later) and ranges from nonprescription drugs, to medical bandages, and office supplies to digital X-rays; basically everything you use in your practice to run your business. Your vendors should include and collect the appropriate sales tax on these purchases, but I do suggest checking your invoices to ensure accuracy.

When you purchase items from vendors that you then make available for sale in your practice, it becomes a bit trickier! Your vendor should not charge sales tax on items you purchase for resale and on which you ultimately collect sales tax. Vendors will often, and should, request a completed Arizona Resale Certificate which is a fairly simple tax form. It can be found online; look for Arizona Form 5000A. The state requires this form be kept on file by vendors for any business that purchases items for resale.

AZDOR holds the seller responsible for any and all sales tax imposed, whether collected or not. The seller is allowed to pass the tax on to the purchaser, but ultimately, you and your clinic are responsible for all legally imposed transaction privilege tax on anything you sell. This is a compelling reason to insure you understand which items are taxable, which are exempt, and that you are collecting properly.

### Exempt items include:

Veterinary Services - gross proceeds of sales or gross income from professional service occupations.

### Prescription Drugs and Medical Oxygen

Inconsequential Sales - cost of tangible personal property when it represents less than 15% of the charge to the

consumer for the veterinary service and is not typically subject to retail sale (i.e. bandages, tick dip, etc.) and it is not separately stated on the invoice.

You may have noted that "Prescription Diet" was not included in the list of exemptions. Because the common name for dietary or therapeutic pet food is "Prescription Diet," there has been much debate regarding its taxability. This is my attempt to settle that debate, at least here, in Arizona! Yes, these diets are only available from a veterinarian and they are specially formulated by the manufacturers to correct or alleviate particular medical conditions. And yes, the food aids in the treatment of various diseases by providing a properly balanced diet. In addition, sales of dietary pet food are limited by the manufacturer to sales through veterinarians. But, Title 42 only allows an exemption from transaction privilege tax for drugs on prescription. To qualify for the exemption, the pet food must contain a legend drug, requiring that a prescription must be written. Dietary and therapeutic pet foods which do not contain legend drugs do not qualify for the exemption, despite the name. This is specific to Arizona law, other states can and do differ.

### Use Tax

Use tax is due on any tangible personal property used in your practice, on which sales tax has not been paid. There are two typical occasions where this might occur:

- Items your clinic purchased for resale which are actually used in the practice, such as Diet pulled out of inventory and fed to hospitalized or boarded pets.
- Items purchased for use in the practice, from an out-of-state vendor that did not assess and collect sales tax on the purchase.

Use tax is reported as a separate item on your sales tax reports and should be paid along with the sales tax you collect and pay to the AZDOR and Arizona cities.

Because you are ultimately responsible for any sales tax on items you sell, you should review your practice software frequently to ensure that tax is being collected on all taxable items. In addition, you should regularly check tax rates for your location. Although governing authorities do issue notice of tax rate changes, they can easily be overlooked because everyone is so busy taking care of business! It's worth a little extra time to avoid this, because it can be a costly surprise to discover you haven't collected enough during a period where the tax rate increased and you are out of pocket for the difference!

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## Canine Influenza Primer, *continued from page 2*

may be performed to confirm infection, especially if the PCR results are negative and the case is highly suspicious for canine influenza infection. RT-PCR tests for H3N8 influenza will not detect H3N2 influenza.

Other diagnostic options applicable to dogs that have died from pneumonia are viral culture and PCR analysis using fresh (not formalin-preserved or frozen) lung and tracheal tissues. In-house ELISA tests designed to detect influenza types A and

B in humans may also be helpful in early diagnosis of CIV.

Veterinary expertise is required to establish the best course of treatment or treatment options. As for all viral diseases, treatment is largely supportive. Good husbandry and nutrition may assist dogs in mounting an effective immune response. Most dogs recover from canine influenza within 2-3 weeks. The presence of secondary bacterial infection, pneumonia,

*Influenza Primer, continued on page 6*