

Minnesota revenue notice number 98-05

MinnesotaCare - Sale of Drugs By Hospitals and Health Care Providers

This Revenue Notice explains the application of the MinnesotaCare tax to payments received by a hospital, or by a health care provider ("provider"), for drugs that are sold or administered ("sold") to patients or consumers when a hospital or provider is part of the same legal entity as a pharmacy.

The MinnesotaCare tax is imposed on gross revenues received for patient services provided by a hospital or provider (a provider is a person whose health care occupation is regulated by the state, such as a physician). Patient services are defined in Minnesota Statutes, § 295.50, subdivision 9b, as "inpatient and outpatient services and other goods and services provided by hospitals , or health care providers." The list of patient services includes various "health care goods and services provided to a patient or consumer", including drugs. The tax is also imposed on gross revenues received by wholesale drug distributors from the sale of prescription (legend) drugs that are delivered in Minnesota. These wholesalers are allowed to pass on the expense of the tax to hospitals and providers that purchase the drugs. Hospitals and providers who pay the tax on receipts for patient services are allowed to deduct the cost of the legend drugs.

The MinnesotaCare law applies to drugs sold to patients or consumers in the following manner:

- All receipts from the sale of drugs by a hospital, including drugs sold by a pharmacy licensed as a hospital pharmacy under Minnesota Rules, chapter 6800, are patient services and, therefore, subject to the MinnesotaCare tax (unless excluded under one of the exemptions to the tax). This includes discharge drugs (take-home prescriptions) and drugs sold to employees.
- All receipts from the sale of drugs by a provider are subject to the MinnesotaCare tax (unless excluded under one of the exemptions to the tax).
- The receipts from the sale of drugs by a pharmacy licensed as a community pharmacy under Minnesota Rules, chapter 6800, are not subject to the MinnesotaCare tax even when the pharmacy is part of the same legal entity as a hospital or provider.

Dated: 23 March 1998

Jennifer L. Engh
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