

ARIZONA DEPARTMENT OF REVENUE

ARIZONA TRANSACTION PRIVILEGE TAX RULING

TPR 95-6

This substantive policy statement is advisory only. A substantive policy statement does not include internal procedural documents that only affect the internal procedures of the agency and does not impose additional requirements or penalties on regulated parties or include confidential information or rules made in accordance with the Arizona administrative procedure act. If you believe that this substantive policy statement does impose additional requirements or penalties on regulated parties you may petition the agency under Arizona Revised Statutes § 41-1033 for a review of the statement.

(Note: On 10/14/2020 the statute cites were updated to the current numbers. See footnotes for details. No substantive changes were made.)

ISSUE:

Use tax exemption for medical prescription plan identification cards.

APPLICABLE LAW:

Arizona Revised Statutes (A.R.S.) § 42-5155(A)¹ levies an excise tax on the storage, use or consumption in this state of tangible personal property purchased from a retailer as a percentage of the sales price.

A.R.S. § 42-5159(A)(38)² provides that the use tax does not apply to the storage, use or consumption in this state of:

Tangible personal property which is or directly enters into and becomes an ingredient or component part of cards used as prescription plan identification cards.

DISCUSSION:

¹ This ruling originally cited A.R.S. § 42-1408.A which was renumbered as A.R.S. § 42-5155(A).

² This ruling originally cited A.R.S. § 42-1409.A.36 which was renumbered as A.R.S. § 42-5159(A)(38).

This exemption was added by Laws 1994, Chapter 305, Section 1. Effective July 17, 1994, the exemption only applies prospectively. It is intended to have no effect on tax liabilities that accrued before the effective date, including liabilities established pursuant to audit and administrative or judicial appeal.

Some comprehensive medical health care plans include coverage for prescription drugs while other plans provide coverage solely for prescription drugs. Covered individuals in these plans are furnished an identification card by the third party plan administrator. The cardholder presents the card at a member pharmacy and is able to obtain prescription drugs under the terms defined by the health care plan.

An identification card provided to enrollees in a comprehensive health care plan which serves the dual purpose of providing identification for obtaining medical services as well as prescription drugs qualifies for exemption as a prescription plan identification card.

However, to qualify for exemption, the card must serve the exclusive purpose of obtaining prescription drugs and medical services under the provisions of a health care plan. Multi-purpose identification cards which can also be used for obtaining merchandise or services in addition to prescription drugs and medical services do not qualify for exemption.

Identification cards may be constructed simply of paper, plastic laminated paper, or they may be sophisticated plastic cards similar to the credit or debit cards issued by financial institutions.

The prescription plan cards are imprinted or embossed with pertinent information. Additionally, the cards may be magnetically encoded which permits a card to be used in a point-of-sale "card swipe" device at the participating pharmacy which facilitates the electronic filing of the pharmacist's claim with the plan administrator.

These identification cards may be prepared in Arizona for use by covered individuals both within and without the state.

RULING:

Effective July 17, 1994, Arizona use tax does not apply to the storage, use or consumption of prescription plan identification cards or tangible personal property which directly enters into and becomes an ingredient or component part of such cards.

This exemption was added by Laws 1994, Chapter 305, Section 1. Effective July 17, 1994, the exemption only applies prospectively. It is intended to have no effect on tax liabilities that accrued before the effective date, including liabilities established pursuant to audit and administrative or judicial appeal.

Prescription plan identification cards are those cards which enrollees in a health care plan are required to present at a participating pharmacy to enable the covered individuals to obtain prescription drugs under the terms defined by the health care plan. The card may serve the dual purpose of providing identification to establish entitlement to medical services as well as prescription drugs.

Multi-purpose identification cards which can also be used for obtaining merchandise or services, in addition to the prescription drugs and medical services provided under a health care plan, do not qualify for exemption under this statutory provision.

Harold Scott, Director
Signed May 30, 1995

Explanatory Notice

The purpose of a tax ruling is to provide interpretive guidance to the general public and to department personnel. A tax ruling is intended to encompass issues of law which are not adequately covered in statute, case law or administrative rules. A tax ruling is a position statement which provides interpretation, details or supplementary information concerning the application of the law. **Relevant statute, case law, or administrative rules, as well as a subsequent ruling, may modify or negate any or all of the provisions of any tax ruling.** See GTP 92-1 for more detailed information regarding documents issued by the Department of Revenue.