

+ CHANGE IN THE THRESHOLD FOR FIGURING SALES TAX ON PRESCRIPTION DRUGS

 +---+

|TO:| PHARMACISTS
 +---+
 If you do not dispense prescription drugs, please disregard this bulletin.

However, if your prediction is wrong and your eventual costs and receipts show that you were not under the 75% threshold, you will owe the additional tax, as well as penalty and interest.

IF I AM AT OR OVER THE 75% THRESHOLD, HOW DO I FIGURE OUT HOW MUCH TAX TO PAY?

Here is how it will work:

Beginning March 20, 1990, when you buy prescription drugs from your supplier tax free, you may pay tax to us on your cost price when you sell a prescription if your cost is less than 75% of your total receipts from sales of prescription drugs. (The former law established a limit of less than 35%.)

HERE IS HOW IT WILL WORK:

How you write the bill to your customer will determine how much tax you pay.

HOW DO I FIGURE OUT IF I AM UNDER THE 75% THRESHOLD?

In order to figure out if you are under the 75% threshold, you may use your previous year's receipts from sales of prescription drugs as a guide. First, separate your receipts for prescription drugs from your receipts for prescription medical appliances and your receipts for other services. If the total cost of the prescription drugs you sold in your service is less than 75% of your total receipts from the sale of prescription drugs and you believe this pattern will

Method 1

You pay tax to us (or to your supplier) on your cost price for all prescription drugs you purchase to sell in your service if you can accurately predict that the total cost of the prescription drugs sold is less than 75% on your total sales of prescription drugs.

- You may separate the selling price of the drug from the price of your labor or service fee. In this case, you pay tax on only the selling price of the drug. However, if you sell the drug for less than your cost, you must pay tax on what you paid for the drug. The tax must be added to the customer's bill as a separate item.

Method 2

You pay tax to us on the selling price of all your prescription drug transactions if the total cost of the prescription drugs sold is 75% or more of your total sales of prescription drugs.

- You may decide not to separate the price of the drug from the price of your labor or service fee. In this case, you pay tax on 50% of your total bill. However, if your cost of the drug is more than 50% of your total bill, you must pay tax on what you paid for the drug. The tax must be added to the customer's bill as a separate item.

Method 3

There is another method that you may use if you want to pay your supplier on your "less than 75% transactions" and pay us on your "75% or more transactions."

(over)

continue, you may choose to pay tax to us on your cost price for the drugs.

This method requires extensive bookkeeping. If you have questions about this method, contact us.

IF I AM UNDER THE 75% THRESHOLD AND CHOOSE TO PAY YOU ON THE COST PRICE, HOW DO I FILL IN MY FORM ST-1, SALES AND USE TAX RETURN?

If the total cost of prescription drugs sold in your service is less than 75% of your total service sales on prescription transactions and you choose to pay tax to us, here is how you fill in your Form ST-1, Sales and Use Tax Return:

1. Include your gross receipts from prescriptions on line 1.
2. Turn over your ST-1 to the "ST-1 Worksheet for Line 2," and deduct your sales to exempt purchasers on line 10 and the balance of your receipts from prescription sales on line 9B.

3. Turn back to your ST-1. On line 13a, write that part of the amount in line 9B that represents your cost for the prescription drugs you reported on line 9B of the worksheet.

Note: If you are at or over the 75% threshold, you may contact us if you have questions about how to fill in your ST-1, Sales and Use Tax Return.

AM I STILL UNDER THE 35% RULE FOR ALL OTHER SERVICE SALES?

Yes. The only items that have the 75% threshold are prescription drugs. If you also sell prescription medical appliances, you must figure your tax for this category of item based on the 35% threshold.

For example, some businesses might have a drug store and an auto repair shop in the same store. For this type of business, you must separate your prescription transactions from your auto repair transactions and figure each category separately. Only the prescription drug transactions have a 75% threshold.

QUESTIONS?

If you have other questions you may contact us at the address and phone numbers at the bottom of this page.

+++++

FOR INFORMATION

CALL: 1 800 732-8866 or
1 217 782-3336
WRITE: Illinois Department of Revenue
101 W. Jefferson St., P.O. Box 19044
Springfield, IL 62794-9044
