

+ HOW DENTISTS AND DENTAL LABS MEET THEIR SALES AND USE TAX LIABILITIES

+---+

|TO:| DENTISTS, DENTAL
+---+ LABORATORIES, AND
PRACTITIONERS

HOW DO I PAY TAX ON
MEDICAL APPLIANCES
TRANSFERRED IN
CONJUNCTION WITH THE
SERVICE I PERFORM?

- If your invoices do not separately state your charges for medical appliances and service, you pay us tax on 50 percent of your gross receipts or your cost, whichever is greater.

Changes in tax law effective January 1, 1990, have affected the way in which dentists, dental laboratories, and suppliers of dental appliances meet their sales tax (Service Occupation Tax) and use tax liabilities.

The answer depends upon the ratio of your average annual costs for medical appliances to your average annual gross receipts.

If you have registered with us and are collecting and paying sales tax to us, you are entitled to buy these medical appliances tax free from your suppliers as long as you provide them with a valid certificate of resale including your registration number.

Although Illinois does not generally tax charges for service alone, the state does levy sales and use tax on the selling price of materials transferred in conjunction with service.

For purposes of this bulletin, MEDICAL APPLIANCES are such items as crowns, bridges, fillings, dentures, and other parts of the finished product which are transferred to the service customer.

MOST OF YOU have a cost/receipt ratio that is below this 35 percent threshold. If this is the case, you have three options:

HOW DO I PAY TAX ON
ITEMS PURCHASED FOR USE
OR CONSUMPTION?

If your average annual costs for medical appliances are equal to or greater than 35 PERCENT of your average annual gross receipts) the amount you charge for medical appliances and service), you must register with us, collect sales tax on your SELLING PRICE, and pay us directly.

- You may pay sales tax on your cost directly to your supplier.
- If you buy from a supplier who does not collect Illinois sales tax, you must register with us and pay us Illinois Use Tax directly at the rate of 1 PERCENT of your cost of these medical appliances (see the discussion of use tax on Page 2).

When you buy items used in your business, such as furniture and office supplies, you pay either sales tax or use tax. If your supplier is registered with us to collect sales tax, you pay sales tax to the supplier as part of the transaction. If your supplier is not registered-- typically when the supplier sells from a location outside Illinois-- you pay Illinois Use Tax at the rate of 6.25 PERCENT of your cost directly to us.

- If your invoices separately state the charges for medical appliances and service, you pay us tax on your charges for the medical appliances.

- You may register with us and charge tax to service customers on the selling price of medical appliances in the same manner that is required for servicepersons over the 35 percent threshold.

I AM A DENTIST WHOSE COST/RECEIPT RATIO IS LESS THAN THE 35 PERCENT THRESHOLD, AND THE LAB FROM WHICH I PURCHASE MEDICAL APPLIANCES DOES NOT CHARGE ME TAX. DO I OWE ILLINOIS TAX?

In this situation, you must pay Illinois USE TAX to us directly, even if the lab paid sales tax to its supplier. Figure your tax using either of these methods:

- If the lab's invoice separately states the charges for medical appliances and service, your tax is 1 percent of the lab's selling price of the medical appliances.
- If the lab's invoice does not separately state the charges for medical appliances and service, your tax is 1 percent of half of the lab's selling price.

WHAT IS THE MOST CONVENIENT WAY TO PAY SALES TAX?

FOR DENTISTS...

Dentists whose cost/receipt ratio is less than the 35 percent threshold may wish to purchase their medical appliances from labs and suppliers which charge sales tax. A dentist who pays sales tax on his or her cost for medical appliances usually has no further sales tax liability.

FOR LABS...

Labs which purchase medical appliances for resale may wish to register with us and collect and pay us sales tax even though their cost/receipt ratio is less than the 35 percent threshold discussed on Page 1. By so doing, they provide their dentists clients with a tax-paid purchase and relieve them of the responsibility of registering and paying use tax. Registered labs may then purchase tax free those medical appliances intended for resale.

I SELL TO THE PUBLIC RETAIL ITEMS WHICH ARE NOT SOLD IN CONJUNCTION WITH SERVICE. HOW DO I MEET MY SALES TAX LIABILITY?

Dentists and labs that sell items such as toothbrushes, tooth polish, mouthwash, and dental floss over the counter MUST register with us as retailers and collect and pay us sales tax (Retailers' Occupation Tax) on these items. Registering permits them to purchase these items tax free for resale from their suppliers.

QUESTIONS?

If you have questions or need more information, please call or write us. Our telephone numbers and address are listed at the bottom of this bulletin.

+++++

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
