

SECTION 12 - HOSPITALS, SANITARIUMS, NURSING HOMES, AND REST HOMES**12-1 SALES TO AND BY HOSPITALS, SANITARIUMS, NURSING HOMES, AND REST HOMES****A. Purchases of Tangible Personal Property**

Hospitals, sanitariums, nursing homes, and rest homes are primarily engaged in rendering services and are deemed to be the users or consumers of all tangible personal property which they purchase for use in connection with the operation of such institutions. Hospitals, sanitariums, nursing homes, and rest homes are liable for payment of sales or use tax on their purchases of such property except as hereinafter set forth.

B. Purchases of Medicines and Drugs

Hospitals, sanitariums, nursing homes, and rest homes are deemed to be the users or consumers of medicines or drugs which they administer to patients. Sales of insulin are exempt from sales or use taxes whether or not sold on prescription. Purchases of prescription drugs are exempt from sales and use tax. “**Prescription**” and “**drug**” are defined separately in G.S. 105-164.3(29) and (8a), respectively. Purchases of over-the-counter drugs, as defined in G.S. 105-164.3(25a), are exempt from tax only when sold on prescription.

C. Sales of Medicines and Drugs

Sales of the following drugs, the packaging materials, and any instructions or information about the product included in the package with the drugs are exempt from sales and use tax:

1. drugs required by federal law to be dispensed only on prescription;
2. over-the-counter drugs sold on prescription; and
3. insulin.

Note: For additional information on drugs, refer to Section 11 of the Sales and Use Tax Technical Bulletins.

D. Purchases of Foodstuffs and Sales of Meals

1. Purchases by hospitals, sanitariums, nursing homes, or rest homes of foodstuffs for use in furnishing meals to patients are subject to the 2% county sales or use tax. There is no State sales or use tax on sales and purchases of qualifying food. The ½% Mecklenburg County Sales and Use Tax for Public Transportation does not apply to food that is exempt from State sales and use tax.

“**Food**” is defined in G.S. 105-164.3(10). The basis for taxation of food is found in G.S. 105-164.13B. For additional information on taxation of food, refer to Section 19 of the Sales and Use Tax Technical Bulletins.

2. If, in addition to furnishing meals to patients, the institution operates a cafeteria from which it makes sales of prepared meals or foods to guests, visitors, employees, staff, or other persons, the institution must register with the Department of Revenue and collect and remit the general rate of State tax and applicable local tax on its sales.
3. If the foodstuffs purchased by the institution for use in furnishing meals to patients cannot be distinguished from those purchased for resale through a cafeteria, the institution may purchase all the foodstuffs under a **Streamlined Sales and Use Tax Certificate of Exemption, Form E-595E**. An institution that does this assumes liability for payment of

the sales or use tax on foodstuffs used in furnishing meals to its patients and on sales of meals by the cafeteria.

E. Sales of Meals to Student Nurses

If a hospital is operated by a state or private educational institution and serves meals and food products to student nurses, such sales are exempt from tax in accordance with G.S. 105-164.13(27).

F. Use of a Certificate of Exemption

Except as provided by Paragraph D. of this Bulletin, **Streamlined Sales and Use Tax Agreement Certificates of Exemption, Form E-595E**, may not be used by hospitals, sanitariums, nursing homes, or rest homes when making taxable purchases of tangible personal property for use or consumption. The tax due on taxable purchases from North Carolina suppliers or out-of-state suppliers who charge North Carolina sales or use tax must be paid to the suppliers. The institutions which make taxable purchases from out-of-state suppliers who do not collect and remit North Carolina sales or use tax thereon must register with the Department and remit the tax due on such purchases.

History Note: Authority G.S. 105-164.3; 105-164.4; 105-164.6; 105-164.13;
105-164.28; 105-264;
Issued: June 1, 1996;
Revised: April 1, 2008; March 1, 2007; July 1, 2005;
February 1, 2004; June 1, 2002; October 1, 1999;
January 15, 1999; October 15, 1998; March 1, 1997.

12-2 REFUNDS TO HOSPITALS, SANITARIUMS, RELIGIOUS INSTITUTIONS AND ORGANIZATIONS, NURSING HOMES, AND REST HOMES NOT OPERATED FOR PROFIT

A. Semiannual Refunds - G.S. 105-164.14(b)

Hospitals, sanitariums, religious institutions and organizations, nursing homes, and rest homes not operated for profit are entitled to **semiannual refunds** of sales and/or use taxes paid by them on their direct purchases of tangible personal property, including drugs, for use in carrying on their work. Sales or use taxes paid by contractors on their purchases of building materials, supplies, fixtures, and equipment which become a part of or are annexed to a building or structure being erected, altered, or repaired under contract with such hospitals, sanitariums, nursing homes, and rest homes for use in carrying on their nonprofit activities are deemed to be taxes paid on direct purchases and are refundable. A hospital that is not allowed a refund under G.S. 105-164.14(b) of sales and use taxes paid on its direct purchases of tangible personal property is allowed a semiannual refund of sales and use taxes paid by it on medicines and drugs purchased for use in carrying out its work.

A request for a refund for the first six months of a calendar year is due the following October 15th; a request for a refund for the second six months of a calendar year is due the following April 15th. Refunds applied for more than three years after the due date are barred.

B. Documentary Proof of Purchases

Regarding taxes paid on purchases for use other than those made by contractors performing work for the claimant, invoices or copies of invoices showing the property purchased, the cost thereof, the date of purchase, and the amount of sales or use tax paid thereon during the refund period will constitute proper documentary proof.

To substantiate a refund claim for sales or use taxes paid on purchases of building materials, supplies, fixtures, and equipment by its contractor, the claimant must secure from such contractor certified statements setting forth specific required information. A “**certified statement**” is a statement that is signed by the contractor/owner, a corporate officer, or an employee of the contractor who is authorized to provide the information. The certified statement must include all of the following information:

1. the date the property was purchased;
2. the type of property purchased;
3. the cost of property purchased and the amount of sales and use taxes paid thereon;
4. the project for which the property was used;
5. if the property was purchased in this State, the county to which it was delivered; and
6. if the property was not purchased in this State, the county in which the property was used.

C. Annual Refunds For Agencies of Counties, Incorporated Cities and Towns - G.S. 105-164.14(c)

Sales and/or use taxes paid by hospitals, sanitariums, nursing homes, and rest homes which are agencies of counties and incorporated cities and towns on their direct purchases of tangible personal property, including drugs, and by their contractors on purchases of building materials, supplies, fixtures, and equipment that become a part of or annexed to any building or structure that is owned or leased by the governmental entity and is being erected, altered, or repaired for use by the governmental entity are refundable. The refund provision also applies to the University of North Carolina Health Care System.

A request for a refund is due within six months after the end of the governmental entity’s fiscal year. Refunds applied for more than three years after the due date are barred.

The documentary proof as explained in Paragraph B. of this Bulletin shall be submitted to the county or incorporated city or town filing the claim. Nonprofit hospitals owned and controlled by a unit of local government may file for a refund on a semiannual basis under G.S. 105-164.14(b) rather than file annually as a part of the local government unit. In order to file semiannually, the institution must submit a written request to do so to the Secretary of Revenue. The request is effective beginning with the six-month refund period following the date of the request and applies to sales and use tax paid on or after the first day of the refund period for which the request is effective.

D. Nonrefundable Taxes

The refund provisions set forth in G.S. 105-164.14(b) and (c) are not applicable to the following taxes paid by hospitals, sanitariums, religious institutions and organizations, nursing homes, and rest homes:

1. tax paid on taxable sales made by the above-named institutions;
2. sales tax incurred by employees on purchases of food, lodging, or other taxable travel expenses paid by employees and reimbursed by the institution. These expenses are personal to the employee since the contract for food, shelter, and travel is between the employee and the provider and payment of the tax is by the employee individually and personally and the tax shall not be refunded. The institution has incurred and paid no sales tax liability; instead, it has chosen to reimburse a personal expense of the employee.

3. State sales tax levied by G.S. 105-164.4(a)(4a) and G.S. 105-164.4(a)(4c) on sales of electricity and telecommunications and ancillary services; **effective July 1, 2006**, sales or use taxes paid on purchases of alcoholic beverages;
4. occupancy taxes levied and administered by certain counties and cities in this State;
5. prepared food and beverage taxes levied and administered by various local governments in this State;
6. highway use taxes paid on the purchase, lease, or rental of motor vehicles;
7. scrap tire disposal tax levied on new tires;
8. white goods disposal tax levied on white goods;
9. dry-cleaning solvent tax levied on dry-cleaning solvent purchased by a dry-cleaning facility; and
10. excise tax paid on piped natural gas.

Note: For additional information on hospitals, refer to Section 17 of the Sales and Use Tax Technical Bulletins.

History Note: Authority G.S. 105-164.14; 105-264;
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June 1, 2002; October 1, 1999; January 15, 1999; October 15, 1998;
March 1, 1997; January 6, 1997.

12-3 OXYGEN, OXYGEN TANKS, AND OTHER OXYGEN DISPENSING EQUIPMENT

A. Oxygen

The sale of oxygen to hospitals, sanitariums, nursing homes, or rest homes for use in administering oxygen to patients is subject to the general rate of State tax and any applicable local sales or use tax. If oxygen is sold on written prescription of a physician or dentist, it is exempt from sales tax.

B. Oxygen Tanks

An oxygen tank is classified as a reusable container and is exempt from sales or use tax provided its usage meets the provisions of G.S. 105-164.13(23)b.

C. Other Oxygen Dispensing Equipment

Oxygen dispensing equipment such as regulators and tubing are subject to the general rate of State tax and any applicable local sales or use tax when sold to hospitals, sanitariums, nursing homes, or rest homes for use in administering oxygen to patients. Durable medical equipment and durable medical supplies sold on prescription are exempt from tax.

History Note: Authority G.S. 105-164.4; 105-164.6; 105-164.13; 105-264;
Issued: June 1, 1996;
Revised: February 1, 2004; June 1, 2002; October 1, 1999;

October 15, 1998.

12-4 HOSPITAL SUPPLIES

Sales of linens, soap, toilet paper, Kleenex-type tissues, and other supplies to hospitals, sanitariums, and similar institutions and businesses for use are subject to the general rate of State tax and any applicable local sales or use tax.

History Note: Authority G.S. 105-164.4; 105-164.6; 105-264;
Issued: June 1, 1996;
Revised: March 1, 2007; February 1, 2004; June 1, 2002;
October 15, 1998.

12-5 HOSPITALS, ETC. – BUNDLED TRANSACTIONS

If certain taxable and exempt medical products are sold together for one non-itemized price, the transaction may be considered a “**bundled transaction**” and subject to specific taxability rules. For additional information on bundled transactions, refer to Sales and Use Tax Technical Bulletin 34-25.

History Note: Authority G.S. 105-164.3; 105-164.4D; 105-264;
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