

RULE

Department of Revenue Policy Services Division

Sales and Use Tax Exemptions (LAC 61:I.4401)

Under the authority of R.S. 47:301 and R.S. 47:1511 and in accordance with the provisions of the Administrative Procedure Act, R.S. 49:950 et seq., the Department of Revenue, Policy Services Division, has amended LAC 61:I.4401 to provide for uniform state and local sales tax definitions in accordance with the provisions of Act 73 of the 2003 Regular Legislative Session.

Act 73 enacted the Uniform Local Sales and Use Tax Code, R.S. 47:337.1 et seq., to promote uniformity in the administration of state and local sales and use taxes by compiling the local sales and use tax laws in the revised statutes. Revised Statute 47:337.2(C)(2), which provides for the development of uniform state and local sales and use tax regulations, allowed local sales tax collectors until January 1, 2004, to file written requests with the Secretary of Revenue for amendments to any Department of Revenue regulation in effect on July 1, 2003, so that the regulation applies to both state and local sales and use taxes. Local collectors, through the Louisiana Association of Tax Administrators, filed a request with the Secretary of Revenue in December 2003 for amendments to several regulations. Requested amendments to the sales tax definitions are included in this Rule.

Title 61

REVENUE AND TAXATION

Part I. Taxes Collected and Administered by the Secretary of Revenue

Chapter 44. Sales and Use Tax Exemptions

§4401. Various Exemptions from the Tax

A. While state and local sales or use tax laws are classified as general sales or use tax laws indicating that they apply broadly across all sales, use, consumption, or lease of tangible personal property as well as to some selected services, these laws do provide many exemptions.

B. R.S. 47:305(A) and (B) deal primarily with agricultural commodities, and the tax liabilities associated therewith, as they apply to all phases from production to final consumption or disposition. The broadest exemptions apply to the producer of agricultural commodities. Any sale of livestock, poultry, or other farm products made directly from the farm and directly by the producer regardless of the purpose to which it will be put when sold is exempt from these taxes. The producer is also exempt from use tax on any farm products consumed by him or his family. This exemption extends to livestock and livestock products, to poultry and poultry products, to farm, range or agricultural products so long as they are produced by the farmer and used by him and members of his family.

1. ...

a. livestock sold at a public sale which is sponsored by a breeder's association or a registry association is exempt from state sales or use tax;

b. livestock sold at a commercial livestock auction market which holds regularly scheduled auction sales, not limited to any certain producer or producers is exempt from state and local sales or use tax;

c. race horses sold through entry in a claiming race, whereby the horse was claimed, at any racing meet held in Louisiana is exempt from state sales or use tax.

2. Exemptions afforded other persons in connection with agricultural commodities are limited depending upon the purpose for which they are sold. The only exemption in the law for any farm products sold directly to the consumer as a finished product, other than food sold under circumstances described in R.S. 47:305(D), is for sales made by the farmer directly from the farm. There are, however, very broad exemptions from state and local sales or use tax for all agricultural commodities sold by any person other than a producer as raw materials for use or for sale in preparing, finishing or manufacturing the commodities into merchandise intended for ultimate retail sale. This exemption applies to all horticultural, viticultural, poultry, farm and range products, livestock and livestock products. The exemption applies to the tax imposed on the sale, storage, use, transfer or any other utilization or handling of those products except when they are sold as a finished product to the final consumer. The law further provides that in no case shall there be more than one tax applied with respect to agricultural commodities.

3. - 3.c....

d. Specifically excluded from the exemption in R.S. 47:305(A)(4) is feed for animals held primarily for other purposes, even though they might be used in one or more exempt categories of use at times. For example, a registered breed pet which is occasionally bred for the purpose of selling the offspring is not considered held for commercial use.

C. R.S. 47:305(C) provides for the use tax cost basis of motor vehicle dealers' service vehicles which are withdrawn from resale inventory for use, such as towing trucks, parts trucks, delivery vehicles, etc. It provides that in determining the cost basis for use tax, a reduction is allowed if a used and previously taxed vehicle is simultaneously returned to resale inventory. That reduction in the cost basis of the newly withdrawn vehicle will be the wholesale value of the returned vehicle according to the current value published by the National Automobile Dealers Association.

D. In addition to exemptions granted for broad categories of property or transactions, R.S. 47:305(D) grants exemption for the sale or use of specific items of property. The sale at retail, use, consumption, distribution or the storage to be used or consumed, of gasoline, steam, electric power or energy, newspapers, natural gas, or fertilizer and containers used for farm products if they are sold directly to the farmer are specifically exempted from state and local sales or use tax.

1. In addition to the exemption for electric power or energy in R.S. 47:305(D)(1)(d), the sale and purchase of all materials and energy sources used to fuel the generation of electric power for resale by utility companies, and the sale and purchase of materials and energy sources for use by an industrial manufacturing plant to produce electric power for self-consumption or cogeneration are exempt from state and local sales or use tax.

2. Other fuels and specific applications of energy sources are exempted from the tax. R.S. 47:305(D)(1)(h) exempts all energy sources used for boiler fuel except refinery gas. A boiler, for purposes of this exemption, means a pressure-regulated vessel into which water is placed and converted to steam by the application of heat, after which the

steam is sold, used for heating purposes, electrical generation, or any other industrial use. R.S. 47:305(D)(1)(h), together with R.S. 47:305(D)(1)(g), also provides a limited exemption for refinery gas. The language in these two subparagraphs exempt refinery gas from both state and local sales or use tax, except when it is used as boiler fuel. *Refinery gas*, for sales tax purposes, is defined as a *by-product* gas or *waste* gas which is produced in the process of distilling crude petroleum into its refined marketable products. R.S. 47:305(D)(1)(h) also provides the formula by which the cost basis shall be computed annually for use taxation purposes. For the period of July 1, 1985, through December 31, 1985, the value shall be \$0.52 per 1,000 cubic feet, or MCF. For each succeeding calendar year thereafter, the cost basis shall be adjusted by multiplying \$0.52 by a fraction the numerator of which shall be the posted price for a barrel of West Texas Intermediate Crude Oil on December first of the preceding calendar year, and the denominator of which shall be \$29. Each annual cost basis, as computed by the Department of Revenue, shall be the maximum value placed upon refinery gas by any taxing authority.

3. - 4. ...

E.1. R.S. 47:305(D) provides, in part, an exemption from state sales or use tax upon the sale at retail, the use, the consumption, the distribution, and the storage to be used or consumed in this state for orthotic and prosthetic devices and patient aids prescribed by physicians or licensed chiropractors for personal consumption or use. *Orthotic*, by definition, means a branch of mechanical and medical science that deals with the support and bracing of weak or ineffective joints or muscles, and such things as orthopedic shoes, braces, crutches, wheelchairs, surgical supports, and traction equipment are exempt from taxation, while such items as prescription eyeglasses and hearing aids are not covered by the exemption. *Prosthesis*, by definition, means the replacement of a missing part of the body, as a limb or eye, by an artificial substitute, and such things as artificial eyes, legs, or arms are exempt from taxation. Toupees, eyeglasses, corrective lenses, and similar items are not covered by the exemption. Patient aids mean such equipment as sickroom supplies and other tangible personal property used for the convenience and comfort of the patient. In all instances, the orthotic and prosthetic devices and patient aids must be prescribed by a physician or a licensed chiropractor for personal use or consumption in order for the sale to be exempt for sales tax purposes. Further, the rental tax and sales tax for repairs to orthotic and prosthetic devices and patient aids are not exempted under R.S. 47:305(D).

2. For the purposes of state and local sales or use tax, orthotic devices, prosthetic devices, prostheses and restorative materials utilized by or prescribed by dentists in connection with health care treatment or for personal consumption or use and any and all dental devices used exclusively by the patient or administered exclusively to the patient by a dentist or dental hygienist in connection with dental or health care treatment are exempt. Dental prosthesis includes but is not limited to, full dentures, fixed and removable dental prosthesis and all parts thereof, and all other items associated with replacement and restoration of the teeth, which by law also necessitates a prescription from the attending dentist for fabrication.

F.1. R.S. 47:305(D) provides an exemption from state sales or use tax upon the sale at retail of food sold for preparation and consumption in the home as well as for

some other expressed types of food sales. For this purpose, meat, fish, milk, butter, eggs, bread, vegetables, fruit and their juices, canned goods, oleo, coffee and its substitutes, soft drinks, tea, cocoa and products of these items, bakery products, candy, condiments, relishes and spreads, are all considered food items. Items such as flour, sugar, salt, spices, shortening, flavoring and oil that are generally purchased for use as ingredients in other food items constitute food. Items considered to be food are not limited to the examples set forth above. The listing is not all inclusive.

2. - 4. ...

5. Sales of meals furnished to the staff and students of educational institutions including kindergartens; the staff and patients of hospitals; the staff, inmates and patients of mental institutions; boarders of rooming houses; and occasional meals furnished in connection with or by educational, religious or medical organizations are exempt from state and local sales or use tax, provided the meals are consumed on the premises where purchased. Sales of food by any of these institutions or organizations in facilities open to outsiders or to the general public are not exempt and tax should be charged on the entire gross receipts rather than just the receipts from the outsiders or the general public.

6. ...

7. For state sales or use tax purposes, stores, institutions, and organizations can purchase food items for resale without paying the advance sales tax that must be collected by wholesale dealers under R.S. 47:306(B) provided the ultimate retail sale or consumption of the food is exempt. Regardless of the type of purchaser, if a majority of the food purchased and disposed is taxable under the established rules, advance sales tax must be paid by the purchaser.

G. For state sales or use tax purposes, drugs prescribed by a physician, dentist or other persons authorized to issue medical prescriptions for personal consumption or use are exempt. For a definition of *drugs*, refer to R.S. 47:301(20). Retail establishments are authorized to allow this exemption for any retail sale thereof which is sold due to the presentation of a medical prescription authorizing such sale. Persons selling drugs, medicine, or ingredients thereof to drug stores which cannot be sold at retail without the authorization of a medical prescription are deemed to be making exempt sales, and as such, the advance state sales tax should not be charged. Since hospitals and sanitariums are primarily engaged in the business of selling services supervised and directed by medical doctors, persons selling drugs, medicine, or ingredients thereof to such institutions are deemed to be making exempt sales, and as such, state sales taxes should not be charged. If a hospital or sanitarium operates any divisions that sell tangible personal property to the public, such as a prescription department, then the hospital or sanitarium becomes liable for the tax upon the gross receipts or gross proceeds derived from such sales, except for drugs sold on prescriptions which are specifically exempt from taxation. For sales tax exemptions pertaining to insulin, see R.S. 47:305.2.

1. In addition to drugs, R.S. 47:305(D) provides an exemption from state sales or use tax for any and all medical devices, but only when they are used personally and exclusively by the patient, and only when the medical device is purchased by the patient on the written authority of a registered physician for use in the medical treatment of a

disease. Purchases of identical medical devices by hospitals and other medical institutions, for use in administering the medical treatment to a patient would not qualify for exemption under R.S. 47:305(D)(1)(s).

2. All of the exemptions provided by R.S. 47:305(D), except for the exemptions on food and drugs, orthotic and prosthetic devices, and patient aids prescribed by physicians or licensed chiropractors for personal consumption or use apply to state and local sales or use tax. The exemptions for food and drugs, orthotic and prosthetic devices, and patient aids prescribed by physicians or licensed chiropractors apply only to state sales or use tax.

H. R.S. 47:305(D)(1)(i) provides, in part, an exemption from state and local sales or use tax for new automobiles and new aircraft withdrawn from stock by factory authorized new automobile and new aircraft dealers, with the approval of the secretary and titled in the dealers' name for use as demonstrators. There are several restrictions involved in this particular exemption: first, the dealer must be a factory authorized new automobile or aircraft dealer; second, the car or plane withdrawn from stock must be a new automobile or aircraft; and third, the car or plane must be titled in the dealer's name for use solely as a demonstrator. In order to qualify as a demonstrator, the units can be driven or flown only by personnel attached to the respective dealership or by a prospective customer accompanied or supervised by personnel from the respective dealership. The car or plane cannot be used by members of the family of dealership personnel nor can the units be used to run errands or for pleasure purposes. The term demonstrators will be construed in its narrowest sense and is limited to use of the property for display of its qualities to prospective customers. Only a very limited use by authorized dealer personnel is permissible in accordance with the provisions of R.S. 47:305(H). Approval of the secretary is required in titling the car as a demonstrator. Writing of the word demonstrator across the face of the license application will be accepted as sufficient request for approval and issuance of the license by the secretary on an application bearing such notation will constitute full approval by the secretary. Since new aircraft are titled in the name of the dealership upon purchase, a request for and approval of the unit as a demonstrator will be granted provided the dealership dates and signs the bill of sale and retains it in his possession for verification by Department of Revenue personnel. If any misuse of the demonstrator is detected subsequent to approval of the unit as a demonstrator, the transaction immediately becomes taxable, and the dealer will be held responsible for the tax due thereon.

I. R.S. 47:305(E) makes it clear that the taxes imposed under state and local sales or use tax laws do not apply to tangible personal property manufactured or produced in this state or imported in this state for export outside the state. The exemption applies solely to the property for export and does not apply to tangible personal property used, consumed, or expended in the manufacturing process, unless the conditions for exemption set forth in R.S. 47:301(10) are met. Neither do state and local sales or use tax laws levy a tax on bona fide interstate commerce. In addition, it has been provided that when property comes to rest in a taxing jurisdiction and has become a part of the mass of the property in that taxing jurisdiction, it is no longer involved in interstate commerce and its sale, use, consumption, distribution or storage for use there will be taxable. Specific

pieces of property which have been clearly labeled for transshipment outside the taxing jurisdiction at the time of its manufacture or importation into the taxing jurisdiction would meet the exemption requirements even though it may be stored for an indefinite period of time. Any disposition of the property for a purpose contrary to that originally intended would immediately subject the property to the tax.

J. R.S. 47:305(F) exempts materials and the use of film, video or audio tapes, records, and any other means of exhibition or broadcast, supplied by licensors to radio and television broadcasters from the taxes imposed by state and local sales or use tax laws. The exemption applies to amounts paid for the right to exhibit or broadcast copyrighted material and to the use of other materials supplied by licensors but does not apply to film, tapes, or records purchased outright by the broadcaster and retained in his private library. The exemption from the sales and use tax is further extended to apply to licensors or distributors of such material. This exemption, however, does not apply to the lease tax which might be due by licensors or distributors in cases where they lease the material from the owner or producer thereof.

AUTHORITY NOTE: Promulgated in accordance with R.S. 47:305.

HISTORICAL NOTE: Promulgated by the Department of Revenue and Taxation, Sales Tax Section, LR 13:107 (February 1987), amended by the Department of Revenue, Policy Services Division, LR 29:1520 (August 2003), LR 30:2864 (December 2004).

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