

# HEALTH CARE ORGANIZATION EXEMPTIONS

To better serve you, the Arizona Department of Revenue offers online assistance and filing of your business taxes. To file your taxes online or to register to use the website, go to [www.aztaxes.gov](http://www.aztaxes.gov).

This publication contains general information about exemptions from Arizona Transaction Privilege Tax and Use tax for qualified hospitals, health care organizations and rehabilitation programs for the mentally or physically handicapped. The Arizona Transaction Privilege Tax is commonly referred to as a sales tax; however, the tax is on the privilege of doing business in Arizona and is not a true sales tax.

The Transaction Privilege Tax is imposed by Arizona Revised Statutes, Title 42, Chapter 5. For complete details, refer to the statutes and Title 15, Chapter 5 of the Arizona Administrative Code. In case of inconsistency, error or omission in this publication, the language of the Arizona Revised Statutes and the Arizona Administrative Code will prevail.

In Arizona there are certain types of organizations that can receive an annual exemption letter from Arizona's Transaction Privilege and Use Tax Audit Section. These organizations include hospitals, community health centers, rehabilitation programs for mentally and/or physically handicapped persons and health care organizations.

For an organization to receive an exemption from Arizona transaction privilege tax, it must apply to the Arizona Department of Revenue ("department") on an annual basis. The request should be submitted at least 30 days prior to the first day of the exemption period. "Exemption Period" means the 12-month period beginning on the month following the issue date of the Exemption Letter or the 12-month period requested by the organization. All requests must be in writing and include a copy of the organization's Internal Revenue Code §501(c) determination letter unless the department already has a copy on file. Mail to:

Arizona Department of Revenue  
Transaction Privilege Tax  
Health Care Exemption Requests  
1600 W Monroe, Room 620  
Phoenix AZ 85007

See Transaction Privilege Tax Procedure TPP 99-5 (available on the Department's website) for more detailed information on this process.

If an organization requests an exemption letter for prior years and submits all required documentation, the request will be reviewed and the exemption letter for a previous year may be granted. The department will not issue letters for more than four prior years.

Once the department has determined that the organization qualifies for exemption, the organization

will receive a letter from the department which lists those exemptions to which the organization is entitled. The organization thereafter will receive only those exemptions provided by statute as listed in that letter. If a classification is not mentioned in the exemption letter, the organization will not be exempt from the Transaction Privilege Tax for that classification.

## Qualifying Hospital

Pursuant to statute, a qualifying hospital is defined as:

1. A licensed hospital that is organized and operated exclusively for charitable purposes, and no part of the net earnings benefit any private shareholder or individual.
2. A licensed nursing care institution or licensed residential care institution or kidney dialysis center that provides medical services, nursing services or health related services and is not used or held for profit.
3. A hospital, nursing care institution or residential care institution that is operated by the federal government, the state of Arizona or a political subdivision of Arizona.

To receive the exemption under the hospital classification, the request must include a copy of the organization's current license along with the IRC §501(c) determination letter.

## Qualifying Community Health Center

A qualifying community health center is defined as an entity that is recognized as non-profit under IRC §501(c)(3) and is a community-based primary care clinic, with a community-based board of directors. The community health center must be either the sole provider of primary care in the community, or a non-hospital affiliated clinic that is located in a federally designated medically under-served area of the state.

## Rehabilitation Programs For Mentally and/or Physically Handicapped Persons

The following requirements must be met in order for rehabilitation programs for mentally and/or physically handicapped persons to qualify for exemption:

1. The nonprofit charitable organization must qualify under Section §501(c)(3) of the United States Internal Revenue Code.
2. The organization must operate programs for mentally or physically handicapped persons.
3. The programs must be in the areas of training, job placement, rehabilitation or testing.
4. The tangible personal property purchased or leased by the organization must be used exclusively for the purposes listed in 2 and 3.

To receive the exemption as a rehabilitation program,

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the organization must include a letter attesting to the exclusive use of the items of tangible personal property purchased or leased along with the IRC §501(c)(3) determination letter.

## Qualifying Health Care Organization

A qualifying health care organization is defined as an entity that is recognized as nonprofit under IRC §501(c) and which uses 80 percent of all monies received from all sources each year only for health and medical related education and charitable services.

To receive the exemption under the health care classification, the entity must include a copy of their IRC §501(c) determination letter and the organization's current annual financial audit certifying that 80 percent of all monies collected from all sources are used for health and medical related education and charitable services. The audit must be performed by an independent Certified Public Accountant according to generally accepted accounting principles. The department will rely on the financial audit for determination of the statutory requirement regarding 80 percent usage of all funds for the exempt purpose of the organization.

Under statutory requirements, it is generally acknowledged that the following types of organizations are health and medical related:

1. Organizations related to the maintenance of health.
2. Medical research organizations.
3. Support organizations which may not necessarily treat the patient directly, but support other exempt organizations which do.
4. Mental and physical health organizations, e.g. a school for emotionally disturbed children.
5. Organizations related to and for the treatment of alcoholism, drug abuse, or physical abuse.
6. Organizations specializing in testing and evaluation for mental, physical and other health related maladies.
7. Support group organizations.
8. Organizations related to public health education.
9. Organizations publishing health related publications.
10. Organizations conducting / organizing health fairs.
11. Organizations operated for the maintenance of conditions conducive to health.
12. Organizations dedicated to providing educational, therapeutic, rehabilitative and family medical education training for blind, visually impaired and multi-handicapped children.

## Exemptions

Listed is a brief description of each tax classification that a qualifying hospital or a qualifying health care organization may be exempt from if all applicable

statutory requirements are met:

1. (Retail) The purchase of tangible personal property sold at retail.
2. (Utilities) The purchase of electricity, natural or artificial gas and water. This classification does not include phone services.
3. (Publications) The purchase of newspapers, magazines or other periodicals and publications published in Arizona.
4. (Job Printing) The purchase of printing, engraving, embossing and copying.
5. (Pipeline). The purchase of pipeline services.
6. (Personal Property Rental) The leasing or rental of tangible personal property which would have been exempt under Arizona Revised Statutes if it had been purchased instead of leased or rented by the lessee.
7. (Restaurant & Bar) Purchases from restaurants, dining cars, dining rooms, lunchrooms, lunch stands, soda fountains, catering services or similar establishments where articles of food or drink are sold for consumption on or off the premises.
8. (Use Tax) The use tax on purchases of tangible personal property from out-of-state vendors.

The following is a partial list of the classifications from which qualifying hospitals and qualifying health care organizations are not exempt:

- Transient lodging
- Telecommunications
- Amusement

## For Additional Information, call:

Phoenix ..... (602) 255-2060  
Toll free from area codes 928 & 520 .. (800) 843-7196

## For Hearing Impaired - TDD only:

Phoenix ..... (602) 542-4021  
Toll free from area codes 928 & 520 .. (800) 397-0256

## Or Write to:

Arizona Department of Revenue  
Taxpayer Information & Assistance  
1600 W Monroe  
Phoenix AZ 85007

## For Related Tax Information:

Internet Address..... [www.azdor.gov](http://www.azdor.gov)  
Recorded Tax Information..... (602) 542-1991  
Forms by Mail ..... (602) 542-4260  
Forms by Fax ..... (602) 542-3756

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