

City of Colorado Springs

Tax Guide

Prescription Drugs

CS CODE SECTION

2.7.104 Words and Phrases:
Drugs Dispensed in
Accordance with a
Prescription
Medical Supplies
Prescription Drugs for Animals
2.7.404, 2.7.429

Related Tax Guides

Medical Exemptions
Dentists and Dental
Laboratories

This guide provides an overview of specific subject matter and is not intended to be substituted for the full text within the City of Colorado Springs Tax Code.

01/2019

Question? email us at:
salestax@springsgov.com

A drug is a medicinal substance intended for use in the diagnosis, cure, mitigation, treatment, or prevention of disease or other medical conditions. Drugs classified as "prescription" are substances only obtainable by a licensed physician's directive.

The Food and Drug Administration further defines a drug as a substance recognized by an official pharmacopeia or formulary, non-food substances that are intended to affect the structure or any function of the body, and substance intended for use as a component of a medicine but not a device or a component, part or accessory of a device.

Prescription Drug Exemption

Prescription drugs are exempt from tax when dispensed in accordance with a written prescription issued by a licensed physician of the healing arts. The prescription must specify the name and address of the patient and the directions placed on the label.

Prescription drugs purchased by a licensed physician and furnished as part of the professional services provided to the patient are exempt. Purchases of prescription drugs in bulk quantities by hospitals, clinics, nursing homes, or other medical facilities, to be administered in individual doses to a specific patient under the directive of a licensed physician are exempt from tax in the same manner as if furnished by the physician.

Prescription drugs for animals are also exempt from city tax when dispensed in accordance with any written or oral order by a veterinarian specifying the animal for which the medicine or drug is offered and directions to be placed on the label.

Over-The-Counter Drugs

"Over-the-counter" drugs are medicinal substances, the sale of which does not require a physician's prescription. "Over-the-counter" drugs include items such as aspirin, pain relievers, cold remedies, anti-bacterial ointments, and so forth. Sales or purchases of over-the-counter drugs are taxable unless sold to an exempt organization or sold to a licensed physician and furnished by the physician as part of a professional service.



Medical Facilities

Hospitals, clinics, nursing homes, or other medical facilities are businesses that provide medical care. As such, purchases of over-the-counter drugs by these businesses are taxable. However, many hospitals qualify as tax-exempt organizations or are owned by governmental entities. Sales to tax-exempt organizations, for use in the conduct of their tax-exempt functions, and all direct sales to governmental entities, are exempt from tax.

Common Examples

1. A patient receives a written prescription for penicillin from a physician and takes it to a neighborhood pharmacy. The pharmacy fills the prescription according to the doctor's written instructions and dispenses the properly labeled medication to the patient. This sale of the medication by the pharmacy qualifies as the sale of a drug dispensed in accordance with a prescription and is exempt from sales tax.
2. In this example, the hospital is a qualified charitable organization that ministers to the medical needs of the indigent. The hospital purchases a variety of over-the-counter and prescription drugs. Over-the-counter medications are provided to patients on an as-needed basis. Prescription medications are provided to patients only under a written or oral directive of a doctor. All purchases of drugs by the hospital are tax exempt.
3. In this example, the hospital operates as a for-profit medical care facility. The hospital pharmacy dispenses medications to patients only with the written or oral directive of a licensed physician. Purchases of prescription medications by the hospital are tax exempt. However, purchases of over-the-counter medications by the hospital, regardless of use, are subject to city sales or use tax.
4. A patient makes an appointment to see his physician for a flu shot. While he is in the doctor's office, the doctor gives the patient two aspirin to treat a mild headache. The sale of the flu vaccine to the doctor is the exempt sale of a prescription drug, and since the aspirin was provided to the patient by a physician as part of a medical service, the sale of the aspirin to the doctor is exempt from sales tax.
5. An individual purchases medical marijuana through a local center. Medical marijuana does not qualify as a tax-exempt purchase since it does not meet the City Code definition for prescription drugs.