

Insurance payments for medical equipment

Medical equipment includes both durable medical equipment and mobility enhancing equipment.

Durable medical equipment is equipment that withstands repeated use to serve a medical purpose. It includes the equipment itself as well as replacement parts and repairs to the equipment. Examples of durable medical equipment include:

- Hospital beds.
- IV stands.
- Heart lung machines.
- X-ray machines.

Mobility enhancing equipment is used to provide or increase the ability for a person to move from one place to another before, during, or after a medical service. Examples of mobility enhancing equipment include:

- Wheelchairs.
- Walking canes.
- Lifting chairs.
- Crutches.

Generally, sales or rentals of medical equipment are subject to retail sales tax.

How insurance payments impact taxability of medical equipment

The method of reporting retail sales tax for medical equipment is determined by the terms of the contract between the medical supply vendor and the insurance company. Generally, the contract must include the following:

- Disclose whether insurance payments are for a fixed amount.
- Separately identify the sales tax that is included in the payment.

The terms of the contract will determine whether the medical supply vendor may “back out” retail sales tax from the amount received when the person’s use of medical equipment is covered by insurance, or whether the vendor must pay retail sales tax on the total amount received.

For state tax purposes, the vendor is allowed to back out the retail sales tax from the amount received from the insurance company when the:

- Contract between the medical supply vendor and the insurance company is for a fixed amount.
- Vendor is not entitled to collect the balance from the covered person (or other persons).

“Backing out” the retail sales tax

To calculate the taxable amount of a payment that includes retail sales tax, the vendor must:

1. Add 1 to the retail sales tax rate.
2. Divide the amount of the payment by the sum determined above.

Examples

The following scenarios represent how medical supply vendors report sales of medical equipment. Each scenario that includes an “insured” person assumes that the contracts between the medical supply vendors and the insurance companies are in compliance with RCW 48.43.290. Each scenario also assumes an 8% retail sales tax rate.

Scenario 1

An **uninsured** person buys medical equipment from a medical supply vendor. The selling price of the equipment is \$1,000 plus retail sales tax of \$80. The uninsured person pays the vendor \$1,080.

The vendor reports \$1,000 under both the retailing B&O tax and retail sales tax classifications and remits the \$80 of retail sales tax collected.

Scenario 2

An **insured** person buys medical equipment from a medical supply vendor. The selling price of the equipment is \$1,000 plus retail sales tax of \$80. The contract between the insurance company and the medical equipment vendor

indicates that the retail sales tax must be separately stated, and the insurance payment is not for a fixed amount. The insurance company pays the vendor \$1,080.

The vendor reports \$1,000 under both the retailing B&O tax and retail sales tax classifications and remits the \$80 of retail sales tax collected.

Scenario 3

An **insured** person buys a wheelchair from a medical supply vendor. The insurance company is billed \$200 plus retail sales tax of \$16. The medical supply vendor is paid \$100 per terms of their contract with the insurance company. Under her private coverage, the purchaser is obligated to pay the vendor the balance of \$116, (\$216 - the \$100 payment by the insurance company), which the purchaser pays.

The vendor reports \$200 under both the retailing B&O tax and retail sales tax classifications and remits the \$16 of retail sales tax collected.

Scenario 4

An **insured** person buys a walking cane from a medical supply vendor. The insurance company is billed for \$200 plus retail sales tax of \$16. The vendor's contract with the insurance company states that the insurance company is under no obligation to remit more than the contractual amount of \$200 and the vendor must accept this as payment in full. The medical supply vendor is paid \$200 by the insurance company.

Under this circumstance, the vendor will not receive the additional retail sales tax from the insurance company due to the contract language. However, the vendor may back out the retail sales tax from the amount paid by the insurance company.

Selling Price Calculation	Amount paid / (1 + retail sales tax rate) \$200 / 1.08 = \$185.19
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Retail Sales Tax Calculation	\$185.19 X .08 = \$14.81 or \$200 - \$185.19 = \$14.81
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The vendor reports \$185.19 under both the retailing B&O tax and retail sales tax classifications and remits the \$14.81 of retail sales tax.

Scenario 5

An **insured** person buys medical equipment from a medical supply vendor. The insurance company is billed for \$500 plus retail sales tax of \$40. The vendor's contract with the insurance company states that the insurance company is under no obligation to remit more than the contractual amount of \$400 and the vendor must accept this as payment in full. The medical supply vendor is paid \$400 by the insurance company.

Under this circumstance, the vendor will not receive the additional \$100 of the selling or the retail sales tax of \$40 from the insurance company due to the contract language. In this case, the vendor may back out the retail sales tax from the amount paid by the insurance company.

Selling Price Calculation	Amount paid / (1 + retail sales tax rate) \$400 / 1.08 = \$370.37
Retail Sales Tax Calculation	\$370.37 X .08 = \$29.63 or \$400 - \$370.37 = \$29.63

The vendor reports \$370.37 under both the retailing B&O tax and retail sales tax classifications and remits the \$29.63 of retail sales tax.

References

WAC 458-20-18801 - Medical substances, devices, and supplies for humans - Drugs prescribed for human use - Medically prescribed oxygen - Prosthetic devices - Mobility enhancing equipment - Durable medical equipment.

RCW 48.43.290 – Coverage for prescribed durable medical equipment and mobility enhancing equipment – sale and use taxes.

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