

Compliance Alert -

Sales Made to Medicare Administrative Contractors



June 2024

Compliance Problem

The Illinois Department of Revenue (IDOR) is aware that some retailers and servicepersons are incorrectly reporting their receipts for sales of tangible personal property that are paid for by Medicare Administrative Contractors (MACs) as tax-exempt sales.

MACs are private entities that have contracted with the United States government to process Medicare Part A and B claims for the Center for Medicare & Medicaid Services. After processing Medicare claims, MACs remit payment to the retailer or serviceperson for tangible personal property provided to Medicare beneficiaries.

These transactions are not exempt from sales tax in Illinois as they are sales to a private contractor, not sales made directly to the U.S. government.

Background

Generally, purchases and leases made by the Federal Government are exempt from State and local taxation. When purchases are made by a prime contractor or by a subcontractor under a prime contract and not by the Government itself, the Government's tax-exempt status does not apply. State or local law may provide for a separate exemption, or, in some cases, the transaction may not be expressly exempt from the tax. ([48 C.F.R. 29.303](#)).

In Illinois, sales of tangible personal property made to a governmental body (federal, State, local, or foreign) are exempt from the Retailers' Occupation Tax and Service Occupation Tax only if the governmental body has an active exemption identification number ("E-number") issued by IDOR. The governmental body must provide this active E-number to the retailer, who records that number instead of collecting the tax. In addition, only sales of tangible personal property invoiced directly to and paid by governmental bodies that possess active E-numbers are exempt. ([35 ILCS 120/2-5\(11\)](#); [86 Ill. Adm. Code 130.2080](#)).

For a purchase to be tax exempt, the purchase must be made by the exempt entity. There are two ways to ensure that a sale is made to a purchaser who is the exempt entity. The first is to require that the payment for such purchase be made using an instrument that contains the name of the exempt entity. The second is to use a purchase order from the exempt entity that is billed to the exempt entity. The exempt entity must pay for its purchase:

- by use of a credit card that is directly billed to the exempt entity and is either (1) in the exempt entity's name only or (2) in the exempt entity's name and the name of a person authorized to use it;
- by a check drawn on an account belonging only to the exempt entity; or
- by use of a purchase order from the exempt entity that is billed to the exempt entity.

([86 Ill. Adm. Code 130.2081](#)).

To properly document sales to tax-exempt entities, retailers and servicepersons must:

- obtain and retain certain documentation in their books and records to support deductions from gross receipts for sales made to the exempt entity holding an active E-number;
- keep a copy of the letter from IDOR issuing the E-number to the exempt entity;
- check the expiration date in the letter issued by IDOR to the exempt entity to ensure that the number is active;
- record the active E-number at the time of sale (e.g., on the bill of sale, purchase order, or other indicia of the tax-free sale) for any subsequent sale to the exempt entity and keep a copy of the bill of sale or purchase order in their books and records; and
- note the form of payment on the bill of sale or the purchase order.

If a retailer or serviceperson fails to obtain and document the information required, the retailer or serviceperson cannot claim the exemption. ([86 Ill. Adm. Code 130.2081](#)).

Note: IDOR offers a tool to [Verify a Sales Tax Exemption number](#) (E-number), which can be accessed from the MyTax Illinois homepage.

Solution

Retailers and servicepersons must properly complete Form ST-1, Sales and Use Tax and E911 Surcharge Return, regarding the sales of tangible personal property to MACs in the following manner:

- include all receipts from sales of tangible personal property to MACs, even if the tangible personal property is for the benefit of Medicare beneficiaries, on Lines 4a, 5a, 6a, 7a, 12a, and 13a; and
- include the tax owed on these items on Lines 4b, 5b, 6b, 7b, 12b, and 13b.

Retailers and servicepersons should review their sales and filing records to ensure they are meeting their tax collection, remittance, and reporting requirements. Retailers and servicepersons that do not comply with the proper tax collection and remittance requirements may face additional penalties and interest.

Retailers and servicepersons that are not collecting and filing properly must correct their actions immediately.

Retailers and servicepersons should contact the MAC that handles their Medicare billing with any questions regarding claiming applicable State and local sales tax.

Voluntary Compliance Initiative

To help persons or entities comply with the law, IDOR is offering the following initiative.

1. For registered taxpayers filing returns, conduct a self-audit of this issue for reporting periods July 2022 to the current period (*i.e.*, June 2024) for monthly and quarterly filers and calendar years 2022 and 2023 for annual filers. IDOR retains the right to verify the accuracy of the retailer's or serviceperson's self-audit determination at any time prior to the expiration of the statute of limitations. Taxpayers who accurately self-audit for reporting periods July 2022 to the current period will be relieved of liability related to the subject of this Alert for periods prior to July 2022.

If you find in your self-audit that you have unreported receipts (net of any sales tax previously paid), file Form ST-1-X, Amended Sales and Use Tax and E911 Surcharge Return. File your amended return prior to September 16, 2024, to receive abatement of applicable late-payment penalties. You may be able to complete your Form ST-1-X electronically using MyTax Illinois. Paper forms are available on our website at **tax.illinois.gov**. If you are filing by paper, mail your completed form on or before September 16, 2024, to the address below to ensure timely processing.

ILLINOIS DEPARTMENT OF REVENUE
SPRINGFIELD IL 62736-0001

In order to receive abatement of penalties on amended returns due to your self-audit, you must email us at **REV.ST-1Amended@Illinois.gov** after submitting your return(s). When sending this email, you must also include your business name, account number(s), the period(s) being amended, and indicate that each amended return submitted is in response to CA-2024-01. IDOR will bill you for any interest that may be due. If you receive a bill that includes penalties that should have been abated, please contact us using the email above for assistance.

2. If you are required to file and pay sales tax but currently are not registered with IDOR, you may qualify for the [Voluntary Disclosure program](#) which is described in [86 Ill. Adm. Code 210.126](#). To begin the process, you must complete [Form BOA-2, Application for Voluntary Disclosure](#), and send it to the address indicated on the form. If you need additional assistance, visit our website at **tax.illinois.gov** or call weekdays between 8:00 a.m. and 5:00 p.m. at **217 524-4772**.
3. If you do not participate in this initiative and do not conduct a self-audit of this issue for reporting periods July 2022 to the current period (*i.e.*, June 2024) for monthly and quarterly filers and calendar years 2022 and 2023 for annual filers, such non-participating retailers or servicepersons may be subject to audit on all open periods for the full statute of limitations and full penalty and interest on any resulting assessment.
4. For taxpayers currently under audit relating to this issue, participation in this initiative will shorten the assessment periods established under those audits.

Questions

For further information, see the following:

Illinois Administrative Code

- [86 Ill. Adm. Code 130.810, Records Required to Support Deductions](#)
- [86 Ill. Adm. Code 130.2080, Sales to Governmental Bodies, Foreign Diplomats and Consular Personnel](#)
- [86 Ill. Adm. Code 130.2081, Tax-Free Purchases By Exempt Entities, Their Employees and Representatives, and Documenting Sales to Exempt Entities, Their Employees and Representatives](#)

Code of Federal Regulations

- [48 C.F.R. 29.101](#)
- [48 C.F.R. 29.302](#)
- [48 C.F.R. 29.303](#)

Illinois Sales Tax Form Instructions

- [Form ST-1 Instructions](#)
- [Form ST-1-X Instructions](#)

You can email us at REV.TA-Sales@Illinois.gov or call us at **1 800 732-8866**, **217 782-3336**, or **1 800 544-5304** (TTY). You may also visit our website at tax.illinois.gov or scan the QR code provided. Language assistance services are available upon request and are free of charge.

