

Kentucky Tax Alert

COST OF GOODS SOLD (Schedule LLET)

The Department of Revenue has been asked to provide guidance on what items constitute cost of goods sold for purposes of computing the limited liability entity tax (LLET) as provided by KRS 141.0401. As an initial matter, KRS 141.0401(1)(d)3 provides that for any activity other than manufacturing, producing, reselling, retailing, or wholesaling, no costs shall be included in cost of goods sold. For those taxpayers, Kentucky gross profits would only be reduced by returns and allowances attributable to Kentucky gross receipts.

For taxpayers who are engaged in manufacturing, producing, reselling, retailing or wholesaling, KRS 141.0401(1)(d)2 provides that amounts allowable as cost of goods sold must be directly incurred in acquiring or producing a tangible product generating the Kentucky gross receipts. Tangible product means both real and tangible personal property.

Cost of goods sold for purposes of computing LLET shall only include direct labor costs and direct material costs. “Direct labor” means labor that is incorporated into the tangible product sold or is an integral part of the manufacturing process (KRS 141.0401(1)(f)). For example, an assembly line worker is direct labor, while an administrative assistant in human resources or an engineer in quality control is not. Direct labor costs consist of basic compensation, overtime, vacation and holiday pay, sick leave pay, shift differential, payroll taxes, and payments to supplemental unemployment benefit plans relating to direct labor. Direct labor costs do not include pension/profit sharing, workers’ compensation, life insurance, health insurance, membership dues, or union dues, even if relating to direct labor. “Direct material” means material that is incorporated into the tangible product sold or manufactured. The test is whether it is direct or indirect, not whether the cost is necessary. For example, in Internal Revenue Code (IRC) Section 263A, there are direct costs that are necessary for production and indirect costs that are necessary for production.

KRS 141.0401(1)(d) also allows bulk delivery costs as defined in KRS 141.0401(1)(g) to be included in cost of goods sold. KRS 141.0401(1)(g) states that “bulk delivery costs” means the cost of delivering the product to the consumer if: (i) the tangible product is delivered in bulk and requires specialized equipment that generally precludes commercial shipping; and (ii) the tangible product is taxable under KRS 138.220. Consequently, this only applies to a limited number of corporations or limited liability pass-through entities that deliver to consumers gasoline and special fuels that are subject to tax under KRS 138.220.

The following are examples of categories of costs that are not allowed in cost of goods sold for purposes of computing LLET and are typically listed as indirect costs pursuant to IRC Section 263A:

- Utilities;
- Repairs and maintenance;
- Depreciation;
- Insurance;
- Quality control; and
- Rent.

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Should you have questions regarding cost of goods sold for a particular industry or company, please contact the Division of Corporation Tax.

Telephone: (502) 564-8139 or email:

DORWEBRESPONSEPASSTHROUGHENTITY@KY.GOV

or

KRC.WEBResponseCorporationTax@ky.gov

STATE PROPERTY TAX RATE REMAINS UNCHANGED FOR 2013

Rate is 12.2 cents per \$100 assessed value

The Kentucky Department of Revenue has set the 2013 State Real Property Tax Rate at 12.2 cents per \$100 of assessed value. Kentucky Revised Statute 132.020 requires the Department of Revenue to set the real property rate no later than July 1 of each year.

This rate is based on the revenue generated from the increase in taxable real property assessments from 2012 to 2013. If the assessment increase is more than four percent after the exclusion of new property added to the tax roll during 2013, then the prior year rate must be reduced. Because the assessment increase for 2013 is estimated at 1.32 percent, the state rate will remain the same as the 2012 rate, 12.2 cents per \$100 of assessed value.

All of the revenue generated from the state property tax rate will go into the state's General Fund.

UNIVERSITY OF KENTUCKY 47TH ANNUAL 2013 INCOME TAX SEMINARS

Program:

Income Tax Seminars for individuals and professionals designed to update and increase their tax preparation skills, located in convenient locations around the state of Kentucky. CPE credits will be awarded for attending the seminar.

Focus:

Individual taxpayer and small business issues, the latest updates on new rulings and tax law changes, updates on IRS changes and much more.

Conducted by:

University of Kentucky
Agricultural Economics Department
Cooperative Extension Service

In cooperation with:

U.S. Internal Revenue Service
Kentucky Department of Revenue

Registration Information:

(Preregistration is two weeks before seminar.)

Intermediate Seminar:

Preregistration is \$289.
Late registration is \$319.

Payment must accompany registration. Make checks payable to: UK Income Tax Seminar. Visa/MasterCard are also accepted.

Cancellation & Transfers: Cancellation requires a three-day notice before the start of the seminar to qualify for a refund. A \$50 administrative fee will be retained for prior cancellation. Transfers are discouraged, but if necessary, permitted on a space-available basis, and require a \$35 administrative fee.

Intermediate Seminar Schedule: 8:00 a.m. – 5:00 p.m.

- Program Level: Intermediate (for professional tax preparers with at least one year of tax preparation experience.)

The UK Income Tax Seminar Program is approved by the IRS for 15 hours of CE (10 hours of federal tax, 3 hours of federal tax law updates, and 2 hours of ethics. All CE credit for RTRPs must be taken within the calendar year. January 2013 seminars are not eligible for 2012 CE credit for RTRPs.

Registration begins at 7:45 a.m. Seminars begin at 8:00 a.m. Meals are not provided. Refreshments will be served at all seminar breaks. All seminars will be smoke-free. The use of cell phones and voice recorders is prohibited.

For further information on any of these seminars, please write, call, or fax:

Kathy Roe
UK Income Tax Seminar Office
301 C.E. Barnhart Building
Lexington, KY 40546-0276
Phone: 888-808-3303 or 859-252-3769
FAX: 859-225-9043
EMAIL: Kathy.roe@uky.edu

2013 UK Income Tax Seminar Locations**Paintsville**

Nov. 5 - 6
Ramada Conference Center
624 James Trimble Blvd.
Paintsville, KY 41240
606-789-4242

Louisville/East

Nov. 13 - 14
Ramada Plaza
9700 Bluegrass Plaza
Louisville, KY 40299
502-491-4830

Maysville

Nov. 19 - 20
Maysville Conference Ctr.
24 East Second Street
Maysville, KY 41056
606-563-2597

Lexington/Downtown

Dec. 2 - 3
Lexington Center
430 West Vine Street
Lexington, KY 40507
859-233-4567

Paducah

Dec. 5 -6
Julian Carroll Conv. Center
One Executive Blvd.
Paducah, KY 42001
270-408-1346

Burlington

Jan. 7 - 8
Boone Co. Ext. Office
6028 Camp Ernst Road
Burlington, KY 41005
859-586-6101

Frankfort

Nov. 7 - 8
Capital Plaza Hotel
405 Wilkinson Blvd.
Frankfort, KY 40601
502-227-5100

Lexington/North

Nov. 14 - 15
Marriott Griffin Gate Resort
1800 Newtown Pike
Lexington, KY 40511
859-231-5100

Bowling Green

Nov. 20 - 21
University Plaza & Conv. Ctr.
1021 Wilkinson Place
Bowling Green, KY 42103
270-745-0088

Hopkinsville

Dec. 3 - 4
Christian Co. Ext. Office
2850 Pembroke Road
Hopkinsville, KY 42240
270-886-6328

Owensboro

Dec. 10 - 11
River Park Center
101 Daviess Street
Owensboro, KY 42303
270-687-2770

Somerset

Nov. 12 - 13
Center for Rural Dev.
2292 South Hwy 27
Somerset, KY 42501
606-677-6000

Elizabethtown

Nov. 18 - 19
E-town Tourism & Conv. Bureau
1030 North Mulberry.
Elizabethtown, KY 42701
270-765-2175

Grayson

Nov. 21 - 22
Grayson Conference Center
371 CW Stevens Blvd.
Grayson, KY 41143
606-475-0565

Erlanger

Dec. 4 - 5
Receptions, Inc.
1379 Donaldson Road
Erlanger, KY 41018
859-746-2700

Louisville/Aiport

Dec. 17 - 18
Crowne Plaza Hotel
830 Phillips Lane
Louisville, KY 40209
502-367-2251

General Income Tax Seminars–2013
2013 UK Income Tax Seminars Program Registration Form

Name _____

Company _____

Address _____

City _____ State _____ ZIP _____

Phone () _____ Fax () _____

Last four digits of Social Security number _____

Payment must accompany registration! Please duplicate this form for multiple registrations.

Payment Method: Check Visa MasterCard Discover

Make Checks Payable To: UK Income Tax Seminar, 301 C.E. Barnhart Building, Lexington, KY 40546-0276
Phone 888-808-3303 or 859-252-3769 FAX 859-225-9043
(Faxed registrations without a credit card number will not be accepted!)

Card Account Number _____ Expiration Date ____/____

Amount _____ Cardholder Name _____

Signature _____

DO NOT supply credit card information via email for security purposes.

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Kentucky Tax Alert comments and suggestions should be addressed to the Office of Income Taxation/Training Branch, Finance Cabinet, Department of Revenue, Frankfort, Kentucky, (502) 564-0937.

STEVEN L. BESHEAR, Governor

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The Department of Revenue may be found at... www.revenue.ky.gov

