



# KENTUCKY DEPARTMENT OF REVENUE

## Kentucky *Sales Tax Facts*

### Legislative Changes from House Bill 8

#### Gross Receipts Exemption for Taxable Services

Effective January 1, 2025, KRS 139.470(23) and (24) provide an exemption for the first \$12,000 in gross receipts from the sale of a service listed under KRS 139.200 (2)(g) to (ax) during a calendar year. The previous exemption threshold was \$6,000 per year. **Retailers that make sales solely of services that became taxable effective July 1, 2018, or January 1, 2023, which do not have gross receipts over \$12,000 during calendar year 2024 are not required to maintain an active sales tax permit for calendar year 2025 if sales are not expected to exceed the \$12,000 threshold during 2025.** However, for the first calendar year when gross receipts exceed \$12,000, all gross receipts over \$12,000 are taxable in that calendar year. Once a seller crosses the threshold, all gross receipts from sales by the retailer are subject to tax in subsequent calendar years. This exemption does not apply to retailers engaged in the business of selling tangible personal property, digital property, or services listed in subsection (2)(a) to (f) of KRS 139.200. Likewise, the exemption does not apply to retailers with gross receipts from sales in any combination of taxable services, tangible personal property or digital property.

#### Data Center Equipment

Effective July 15, 2024, there is a new exemption under KRS Chapter 139 for the sale, purchase, use, storage, consumption, installation, repair, and replacement of data center equipment. The term “data center equipment” includes a broad scope of items like servers, routers, connections, monitoring



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and security systems, fiber optic cabling and network equipment, computer software, and other tangible personal property essential for operating the data center that may be purchased exempt from sales and use tax following preliminary approval of the project. Excluded from the exemption are construction equipment and building and construction materials that are to be permanently incorporated as an improvement to real property, electricity used by the facility, and administrative office equipment.

To be eligible for the sales tax exemption, the data center must meet the requirements of and be approved by the Kentucky Economic Development Finance Authority (KEDFA) as described in KRS Chapter 154. DOR is developing a new certificate of exemption for purchases of data center equipment. Once the company receives approval or preliminary approval through KEDFA, the Department will issue the certificate of exemption to the approved company. The company may then issue the certificate to the vendor individually or execute it jointly with a contractor for the purchase of data center equipment.

This exemption is limited to sites within a consolidated local government having a population equal to or greater than five hundred thousand (500,000). Beginning September 1, 2025, and on or before every September 1st thereafter, a preliminarily approved company must report on a fiscal year basis to DOR an itemized schedule of data center equipment claimed and purchased tax free.

## Other Administrative Updates

### [Recent Presidential Disaster Declaration Activates Sales and Use Tax Refund Benefit \(May 22, 2024\)](#)

In response to Governor Beshear's request for assistance due to widespread damage across the state on April 2, 2024, President Biden issued a major disaster declaration for **Boyd, Carter, Fayette, Greenup, Henry, Jefferson, Jessamine, Mason, Oldham, Union, and Whitley counties**. To further assist these communities with rebuilding efforts, there is a provision within Kentucky's tax code that provides an opportunity for a refund of sales and use tax paid for building materials permanently installed in the repair or replacement of buildings damaged in counties covered under a federal disaster relief declaration (KRS 139.519).

Kentucky Administrative Regulation [103 KAR 31:170](#) provides guidelines on how to submit a refund request with the proper documentation required. Vendors should be aware that customers may request assistance from them to prepare materials to submit to DOR for verification of the refund claims.

- A property owner may be eligible to receive up to \$6,000 in sales and use tax paid for construction materials per building that requires repair or replacement.
- The property owner has three (3) years from the date the disaster area is declared to make the refund claim for taxes paid on materials used for the completed construction.
- Further guidance regarding documentation, forms, FAQs, and contact information is available at [Disaster Relief - Sales and Use Tax FAQs - 5-29-24.pdf \(ky.gov\)](#).



### Agriculture Exemption License Number Expiration Date

During the 2022 legislative session, a common expiration date for all agriculture exemption license numbers issued by the Department was set. All exemption license numbers will expire on December 31, 2026. According to provisions now in KRS 139.481, subsequent renewals will expire every four (4) years thereafter.

Prior to 2022, the statutory language required all exemption license numbers to be renewed every three (3) years from the date of authorization by the Department. For farmers that applied and received the authorization letter prior to this legislative change, the letter contained the three (3)-year expiration date. The Department has provided updated authorization letters to the individual farmers with the revised December 31, 2026, expiration date. If a retailer receives an exemption authorization letter from a farmer with an expiration date prior to December 31, 2026, and has questions regarding the validity of the exemption status, the company may use the agriculture exemption license search function on the Department of Revenue website at this link to verify the status: <https://supers.dor.ky.gov/>

For additional questions, please contact the Sales and Use Tax Division at 502 564-5170.



### Executive Employee Recruitment Services Minimum Compensation Adjustment for 2024

To supplement the new imposition of sales and use tax on executive employee recruitment services, the Department published guidance in the form of an FAQ on its [TaxAnswers](#) page for identifying an “executive employee.” Federal compensation thresholds and classification as an administrator or manager help determine the taxability of recruitment services in Kentucky. The IRS has guidelines for highly compensated employees (HCES) under IRC Section 414(q)(2). For tax year 2023, the IRS minimum compensation level for HCES was set at \$150,000. The IRS minimum compensation level for HCES adjusted to \$155,000 for tax year 2024.





### Labor and Installation Charges

With statutory changes effective, July 1, 2018, labor and installation charges related to the sale of tangible personal property, digital property, and services are included in the definition of “gross receipts” subject to Kentucky sales and use tax (KRS 139.010). This treatment applies regardless of whether the labor and installation charges are separately stated on the invoice. However, tax will apply only to charges for labor or services rendered in installing or applying taxable tangible personal property, digital property, or services sold at retail. Transactions for stand-alone labor and installation services are not subject to sales and use tax unless specifically listed in KRS 139.200. For example, extended warranty services became taxable as a stand-alone service for periods beginning July 1, 2018, forward. The definition of taxable extended warranty services was broadened further for periods effective January 1, 2023. Therefore, charges for extended warranty services are taxable regardless of the taxable nature of the tangible personal property, digital property, or real property being serviced.

In addition, charges not under an extended warranty contract for the installation of fixtures to real property or for labor to repair fixtures to real property are not part of gross receipts subject to sales tax. See Kentucky Regulation

[103 KAR 26:070](#) for more information on fixtures and building materials used in construction contracting. However, if the installation labor is billed as the provision of extended warranty services, then those labor charges are taxable. There is also a specific exemption provided in KRS 139.470 (23) for the charges for labor or services to apply, install, repair, or maintain tangible personal property directly used in the manufacturing or industrial processing process, if the charges for the labor are separately stated from the parts sold on the invoice, bill of sale, or similar document given to the purchaser. Therefore, even though the repair parts installed in the manufacturing machinery are subject to tax, the installation labor to perform those repairs is untaxed with this exemption.

### Accommodations Booked by Third Party Intermediaries

Third party intermediaries performing bookings for accommodations are responsible for collecting and remitting the 6% sales tax as well as the 1% statewide transient room tax. All charges collected by online travel companies or short-term rental facilitators for the accommodation’s reservation, including the transient tax charges, are subject to Kentucky sales tax. The third party collecting customer payments should only forward to the accommodation provider the net receipts exclusive of Kentucky sales tax it reports on its sales tax returns. The accommodations provider must include these net receipts on Line 1 of the sales tax return and then list that amount as a deduction on Line 17, 18, or 19 as an “other deduction” indicating receipts from “3rd party reservations”.

Any amounts the accommodations providers charge directly to a customer during the stay are reported and remitted by the providers. Any additional resort fees or provider-imposed fees must be reported on the accommodations provider’s tax return. If a provider serves as the merchant of record and charges the customer directly at checkout, then the third party is not responsible for any taxes on these amounts and the hotel should continue remitting the applicable Kentucky taxes.



### Credit Card Transaction Fees

Credit card transaction fees are not part of retail sales subject to sales tax in Kentucky. However, if a retailer passes this cost to the customer as a part of a retail sale, then this itemized charge is subject to sales and use tax. Even as a separate charge on the invoice, the fee is a part of gross receipts as defined in KRS 139.010(17)(a)2 subject to Kentucky sales and use tax. As an expense of the retailer, these costs are typically passed on to the customer in one form or another. Whether imbedded in the cost of the product or separately stated, fees received from the customer for using a credit card are part of gross receipts and therefore subject to tax if the product sold is a taxable item.



This newsletter is intended to provide practical information to assist persons in fulfilling their sales and use tax obligations to the Commonwealth.

This newsletter is archived on the Department of Revenue website at [revenue.ky.gov](http://revenue.ky.gov) and future editions may be accessed at the website.

To submit additional questions or suggestions for future topics, please contact us at:

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