

KENTUCKY SALES TAX FACTS

A REVENUE PUBLICATION FOR THE BUSINESS OWNER

DECEMBER 2005

Filing Tips for Paper Returns

- Enter total receipts, including tax, on line 1.
- Make sure numerals are complete, legible and entered in the appropriate boxes. Failure to input legible numbers may result in the issuance of a tax notice.
- Double check for transposition errors when bringing your figures down to the return from the worksheet.
- Itemize deductions on lines 2 through 19 (codes 020 through 190). Total deductions on line 20 may not exceed total receipts on line 1. Did you include all of your deductions on the return filed? Don't forget an explanation of lines 18 and 19.
- Compute taxable receipts on line 22 by dividing line 21 by 1.06. In a rush, many taxpayers sometimes forget this step, and a tax bill results.
- Credits on line 28 can only be used if preapproved by the Department of Revenue (DOR).
- Report total purchases subject to use tax on line 23(a).
- When submitting payment by check, please do not send stub with the check.
- To file a no activity return, write zero (0) on lines 1, 20 and 23(a) and sign the signature block.
- To make a change to account information, such as a cancellation or change of address, complete and return the account maintenance form (Form 51A205) enclosed with the return.
- To amend a paper return write *amended* on a copy of the return already filed. Adjust the figures, explain the reason for amending the return and mail to the Department of Revenue, P.O. Box 181, Frankfort, KY 40602-0181.



Filing Tips for Online Returns

- Due date is the 20th of the month.
- At the present time, amended returns cannot be filed online. To amend a return filed online, print a copy of the return already filed, write the correct figures and briefly explain the reason for amending the return. Fax the copy to the DOR at (502) 564-2041.
- Remember passwords are case sensitive. Password must be 9–12 characters, containing upper and lower case letters, at least one number, and at least one special character such as #, @, \$, etc.
- Taxpayers will receive an e-mail confirmation with a **Payment Locator Number** and a **Check Authorization Number** if the payment transaction is scheduled to be processed the same day the payment is initiated.
- Taxpayers will receive an e-mail confirmation when a payment is initiated and the payment is scheduled to be processed on a date different from the date of transaction. The e-mail will inform the taxpayer that the *payment is captured to be processed*. This means that DOR has received the transaction and the payment will be processed on the due date.



If you are interested in filing your sales and use tax return electronically, please go to KY *E-Tax* at www.revenue.ky.gov. You may also e-mail KRCWEBResponseSalesTax@ky.gov if further assistance is required with KY *E-Tax*.

Telecommunications Tax

Effective Jan. 1, 2006, an excise tax of 3 percent will be imposed on multi-channel video programming services, i.e., cable services and direct broadcast satellite services. Also, there will be a gross revenues tax levied on telephone providers at 1.3 percent of gross revenue and on multi-channel video programming providers at 2.4 percent of gross revenue.

In addition, any local franchise fee imposed on these providers is repealed effective Jan. 1, 2006. The new taxes imposed will be collected on one tax return to simplify and streamline the reporting process for affected providers. A portion of these taxes will be transferred by the DOR to political subdivisions, school districts, sheriff departments and special districts throughout Kentucky in accordance to the distribution provisions created in KRS Chapter 136.

To meet the tax obligations under this legislation, multi-channel video programming service and communication service providers should first register to use the DOR's online filing and payment system KY

E-Tax. The online registration system will be available to facilitate registration prior to the Jan. 1, 2006, effective date and the first filing deadline of Feb. 20, 2006. Service providers will file tax returns showing the total amount of tax and the county allocation of gross revenues tax by the 20th of each month for the prior month's collection. All cable television, direct broadcast satellite, telecommunications and other communications providers that provide service in Kentucky will receive registration instructions.

A dedicated Web page (<http://revenue.ky.gov/TaxModernization/telecomtm.htm>) on the DOR's Web site has been set up to provide information to service providers and local districts as well as links for filing tax returns and paying the tax.



Updated Forms

The Farm Exemption Certificate (Form 51A158) and the On-Farm Facilities Certificate of Exemption for Materials, Machinery and Equipment (Form 51A159) were updated effective Jan. 1, 2005. The line for the farmer's Social Security number was replaced by the Driver's License Number. In addition, other farm exemption certificates, including Forms 51A153, 51A155, 51A156, and 51A157, were updated in 2005 to remove the Social Security number from the form. Farmers who wish for suppliers to replace their existing certificates with the revised certificates may do so by completing and submitting the revised certificate to the supplier and requesting that the previous certificate be replaced. To protect vendors who must retain updated certificates to substantiate deductions on their sales tax returns, a statement should be included on the new certificate when an old certificate is replaced. The purchaser's statement should state that the updated certificate is intended to cover all transactions from the date of the previous exemption certificate forward. For audit purposes, the DOR recommends that vendors update their certificates at least once every four years. The revised sales and use tax forms may be downloaded from the DOR's Web site at www.revenue.ky.gov by contacting the Division of Sales and Use Tax at (502) 564-5170.

Non-Exempt Food

Noncooked take out food may be subject to sales tax. In accordance with KRS 139.485(3)(g)(2), any retailer mixing or combining two or more food ingredients for sale as a single item shall charge sales tax on said item. This includes the sale of noncooked pizzas and prepared entrees for cooking at home.

KRS 139.485(3)(g) defines taxable prepared food as:

1. **Food sold in a heated state or heated by the retailer;**
2. **Two (2) or more food ingredients mixed or combined by the retailer for sale as a single item except food that is only cut, repackaged, or pasteurized by the retailer; eggs, fish, meat, poultry, and foods containing these raw animal foods requiring cooking by the consumer as recommended by the Food and Drug Administration in Chapter 3, Part 401.11 of the FDA Food Code so as to prevent food-borne illnesses; or**
3. **Food sold with eating utensils provided by the retailer, including plates, knives, forks, spoons, glasses, cups, napkins, or straws;**

In addition, KRS 139.485(4) provides that products sold through vending machines, nonmechanical self-service vending systems or by street vendors are taxable.

Enterprise Zone Update

Effective Dec. 31, 2005, enterprise zones in Lexington and Owensboro will expire. The DOR is revising the enterprise zone exemption certificates (Forms 51A151 and 51A152) to remind both purchasers and vendors of these changes. Qualified businesses in the Lexington and Owensboro enterprise zones will no longer be able to buy machinery and equipment exempt from sales and use tax effective Jan. 1, 2006. Likewise, building material purchases for improvements to property located in the former Lexington or Owensboro enterprise zones will be taxable as of Jan. 1, 2006. For a sale to qualify as exempt for use in the Lexington or Owensboro zone, there must be either the transfer of title or possession of the property to the customer on or before Dec. 31, 2005. In addition, the appropriate exemption form must be provided to the supplier. **As a reminder, the Louisville and Hickman (Fulton County) enterprise zones expired effective Dec. 31, 2003, and the Covington and Ashland enterprise zones expired effective Dec 31, 2004.**

Transient Room Tax

Effective June 1, 2005, a new section of KRS Chapter 142 created a statewide transient room tax at the rate of 1 percent of rental receipts of hotel and other accommodations providers. This tax is a gross receipts tax or license fee imposed directly on the accommodations provider. If the provider chooses to pass this cost on to the customer as an itemized charge, this portion of the hotel bill payment is still part of gross receipts subject to sales tax based upon the definition of gross receipts in KRS 139.050(2)(a). This same calculation applies to sales tax due on receipts that include any local transient room tax charges to the customer as well. However, the calculation of the state or local transient room tax does not include the 6 percent sales tax or any other room tax. The state transient room tax is administered by the DOR and then transferred to the Commerce Cabinet for distribution. These funds are dedicated for use in supporting tourism development throughout the commonwealth. For registration and filing information regarding the state transient room tax, call (502) 564-6823.

Drop Shipment

Drop shipment, otherwise known as a *third party sale*, is a shipment of tangible personal property from a seller directly to the purchaser's customer, at the direction of the purchaser. Generally, a retailer accepts an order from its customer, places a request to fill an order with a third party, usually a manufacturer or wholesale distributor, and directs the third party to ship the goods directly to the end consumer. Drop shipments are treated as two transactions (1) the sale from the seller (manufacturer/wholesaler) to the purchaser (retailer), and (2) the sale from the purchaser (retailer) to the end customer.

When all parties are located in Kentucky, the retailer furnishes a resale certificate to the seller (manufacturer/wholesaler). The retailer collects sales tax on the final sale to the end consumer. In cases where the purchaser (retailer) is not located or registered with Kentucky, the nonresident retailer should issue a Kentucky resale certificate, but make a notation on the form that it is a nonresident purchaser not required to register in Kentucky. When a Kentucky customer purchases tangible personal property through a nonresident retailer that does not collect Kentucky tax, the customer is then subject to the use tax in accordance with KRS 139.310 and 139.330.

Sales Tax on Newspapers and Services as Provided in the Hotels and Motels

Receipts from the sale of newspapers to customers by hotels or motels are subject to sales tax if the transaction is separately stated on the invoice. However, if the retailer provides newspapers free of charge to its customers, then the retailer is the consumer and owes tax on its purchase price of the newspapers. Communication services provided by the hotels or motels are also subject to sales tax. Refer to KRS 139.050.

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

To submit additional questions or suggestions for future topics, please write to: Kentucky Sales Tax Facts, Sales and Use Tax, Station 53, P.O. Box 181, Frankfort, KY 40602-0181 or call (502) 564-5170, Fax (502) 564-2041, Web site www.revenue.ky.gov.

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Department of Revenue

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