2005 Legislative Changes

On March 18, 2005, Gov. Fletcher signed HB 272 to reform Kentucky’s outdated tax system. The legislation, passed by the Kentucky Senate and House on March 8, begins the first comprehensive overhaul in decades to a revenue system largely based on a 19th century economy.

In addition to HB 272, HB 267 also encompasses several changes to Kentucky’s tax structure that affect retailers. The following changes are effective June 1, 2005. Additional information regarding other legislative changes will be included in the upcoming issues of Kentucky Sales Tax Facts or in separate mailings directed at the specific taxpayer groups.

Excise Tax Changes

Legislation Affecting Cigarette Retailers (HB 272)

A new section of KRS Chapter 138.130 to 138.205 is created to require that every retailer or cigarette licensee with cigarette inventories shall take a physical inventory of all cigarette packages bearing Kentucky tax stamps, and all unaffixed cigarette tax stamps possessed by them or in their control at 11:59 p.m. on May 31, 2005, and pay a one-time inventory floor tax at the rate of 27 cents per pack of 20 cigarettes (proportionate rate for packs of 25). Vendors may establish the inventory of cigarettes in vending machines by (1) taking an actual physical inventory, (2) estimating the cigarettes in vending machines by reporting one-half of the normal fill capacity of the machines as reflected in individual inventory records maintained for vending machines, or (3) using a combination of these two methods.

Form 73A421, Cigarette Inventory Floor Tax, will be mailed in May. The return with payment must be filed with the Department of Revenue on or before June 10, 2005. (Taxpayers have the option to remit payment in three equal monthly installments beginning with the June 10 payment.) This legislation does not affect the sales and use tax return but applies to any retailer or cigarette licensee with cigarette inventories.

Legislation Affecting Hotels, Motels, and Other Lodging Businesses (HB 272)

A new section of KRS Chapter 142 creates a transient room tax (lodging tax), imposed at the rate of 1 percent of the rent, on every occupancy of any suite, room, rooms, or cabins charged by all persons, companies, corporations, groups, or organizations doing business as motor courts, motels, hotels, inns, tourist camps or like or similar accommodations businesses. Tax receipts from this tax will be deposited into the Tourism, Meeting and Convention Marketing Fund administered by the Commerce Cabinet.

Retailers operating as motor courts, motels, hotels, inns, tourist camps or similar accommodations businesses will be contacted separately in May with filing requirements and instructions. The transient room tax is in addition to the current 6 percent sales tax, and any locally assessed transient room tax, and will be reported separately each month on Form 73A850, Transient Room Tax Monthly Return. The 1 percent transient room tax will be reported for sales and use tax purposes just as the locally assessed transient room tax is currently reported.

If you have any questions regarding the cigarette inventory floor tax or the transient room tax (lodging tax), contact the Excise Tax Section, 200 Fair Oaks Lane, Frankfort, KY 40620, (502) 564-6823.
Sales and Use Tax Changes

Partial List of Legislation Affecting Sales and Use Tax

The following constitutes a partial list of the pending changes to sales and use tax statutes (KRS Chapter 139). A complete list of the sales and use tax changes as a result of HB 267 and HB 272 (Tax Modernization) will be provided in upcoming issues of the Kentucky Sales Tax Facts.

1. **HB 272**—Effective June 1, 2005, a new program to earmark sales tax paid on the breeding of horses in Kentucky will be implemented. Sales tax reported and paid by breeders on the fees for breeding a stallion to a mare in this state will be transferred to the Kentucky Horse Racing Authority to enhance the breeding industry in Kentucky of thoroughbreds, standardbreds and other horses. Taxpayers who report the sales tax on breeding fees will be contacted via special mailing to begin reporting their breeding receipts on a supplemental sales tax form.

2. **HB 267**—For transactions billed on or after June 1, 2005, sales tax will apply to charges for distribution, transmission or transportation services for natural gas that is for storage, use or other consumption in this state, excluding those services for residential use or resale (KRS 139.200). In addition, KRS 139.480(3), which addresses the sales and use tax partial exemption for energy used in the course of manufacturing, is amended so the natural gas distribution, transmission or transportation charges are included as energy in the 3 percent cost of production computation.

3. **HB 267**—Effective July 1, 2005, KRS 139.570 caps the amount paid to a vendor for the collection of sales tax at $1,500 for each reporting period beginning on or after July 2005. In addition, consolidated filers may not change their reporting status to increase their compensation threshold. This change will be reflected on the July 2005 returns that are due in August. Please adjust your records to account for this change.

Contact the Division of Sales and Use Tax at (502) 564-5170, or contact us via the Web site [www.revenue.ky.gov](http://www.revenue.ky.gov), if further assistance is required.

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**REMINDER:** If you are not yet taking advantage of online filing of your sales and use tax return, please consider doing so today. It’s fast, it’s available 24/7, it will correct math errors, it will save on your postage, and you no longer have to wait for the return to arrive in the mail. To register or to receive more information, you may access online filing at [www.revenue.ky.gov](http://www.revenue.ky.gov), or you may e-mail KRC.WebResponseETax@ky.gov, or call (502) 564-5170, extension 4594. Take advantage of this convenient and efficient method of reporting your sales and use tax.

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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](http://www.revenue.ky.gov).

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Commonwealth of Kentucky

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