

KENTUCKY SALES TAX FACTS

A REVENUE PUBLICATION FOR THE BUSINESS OWNER

DECEMBER 2006

Filing Tips for Paper Returns

- Only use the form mailed by the Department of Revenue (DOR) or a pre-approved form.
- 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 over 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? Don't forget an explanation of lines 18 and 19.
- Compute taxable receipts on line 22 by dividing line 21 by 1.06. Many rushed taxpayers sometimes forget this step resulting in a tax bill.
- Credits on line 28 may only be used if pre-approved by the DOR.
- Report total purchases subject to use tax on line 23(a), not inventory for resale.
- When submitting payment by check do not send the stub with the check. Also, do not include paper clips.
- Do not put slashes through 7s or 0s.
- 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.

Filing Tips for Online Returns

- Due date is the 20th of the month.
- At the present time, amended returns may not be filed online. To amend a return filed online, print a copy of the filed return, write the correct figures and briefly explain the reason for amending the return. Fax the copy to the DOR at (502) 564-2041.
- Passwords are case sensitive. Password must be 9–12 characters, contain 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 that 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 the 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*.

Amended Return

To file an amended sales tax return, please use a copy of the sales and use tax worksheet for the period you are amending. Write amended across the top of the worksheet, make the corrections out to the side or white-out the incorrect figures. If you are changing line 1 (total receipts), then written documentation is needed to explain the change. If a customer submits an exemption certificate after the original filing date, then you must send a copy of the certificate with the amendment. Amended returns should be mailed to Department of Revenue, Division of Sales and Use Tax, P.O. Box 181, Frankfort, KY 40602-0181. You may also fax an amended return to the attention of the Certification Section of the Division of Sales and Use Tax at (502) 564-2041.

Freight and Delivery Charges Taxable

Effective July 1, 2004, freight and delivery charges for taxable products for which the seller is responsible are taxable. As of July 1, 2004, freight and delivery charges are considered part of the selling price as defined in KRS 139.050. If the sale is taxable, the freight and delivery charges that are part of the sale are taxable. However, if



the product being delivered is exempt, the freight and delivery charge is exempt also. For example, if the sale is a sale for resale (line 2), interstate commerce (line 7), purchase exemption (line 4) or to a governmental unit (line 6), the associated freight and delivery charges are considered part of that sale and included on the appropriate deduction line. (Please refer to the April, June and December 2004 issues of **Kentucky Sales Tax Facts** for additional information.)

Anyone claiming a deduction for freight (code 130) on a return for periods after July 1, 2004, will have the deduction disallowed and a tax notice generated.

Use Tax

Pursuant to KRS 139.330 use tax is due if a person makes out-of-state purchases for storage, use or other consumption in Kentucky and does not pay 6 percent state sales and use tax at the time of purchase. Businesses registered for sales and use tax may report use tax on line 23(a). Entities registered for a consumer's use tax number must report their purchases on line 1. Individuals and other entities may report use tax on Form 51A113(O). In addition, individuals may also report use tax on line 23 of their Kentucky individual income tax return.

Interest Rate Change for 2007

The annual tax interest rate will be adjusted to 8 percent effective Jan. 1, 2007 through Dec. 31, 2007.

Alarms and Monitoring Systems

Per Regulation 103 KAR 26:070, the installation of alarm systems is treated as a contractor activity rather than retail. The alarm company is the consumer of materials used in fulfilling its contracts with customers. Tax is due on the company's cost of the systems and materials to be installed. Service or maintenance agreements entered into with a customer are treated in a similar fashion. In those situations, the provider is subject to tax on the cost of all tangible personal property consumed in the fulfillment of the maintenance contract.

Enterprise Zone Update

Effective Dec. 31, 2006, enterprise zones in Knox County, Campbell County and Paducah will expire.

Beginning Jan. 1, 2007, qualified businesses in the expired areas will no longer be able to buy machinery and equipment exempt from sales and use tax. Likewise, building materials purchased for installation in the expired enterprise zones will be taxable as of Jan. 1, 2007.

For a sale to qualify as exempt for use in the Knox County, Campbell County or Paducah zones, there must be either the transfer of title or possession of the property to the customer on or before Dec. 31, 2006. In addition, the appropriate exemption form must be provided to the supplier.

Effective Jan. 1, 2007, the Hopkinsville enterprise zone will be the only remaining active enterprise zone in Kentucky.

Updated Forms

Form 51A153, Certificate of Exemption for On-Farm Chicken or Livestock Raising Facilities; Form 51A155, Certificate of Exemption for Ratite Bird Production; and Form 51A156, Certificate of Exemption for On-Farm Llama/Alpaca Production are no longer available or applicable. Form 51A158, Farm Exemption Certificate, and Form 51A159, On-Farm Facilities Certificate of Exemption for Materials, Machinery and Equipment, have been updated to include the exemptions previously covered under Forms 51A153, 51A155 and 51A156.

Also, Form 51A260, Streamlined Sales Tax Agreement Certificate of Exemption, is now available for use. Sales and use tax forms are located on the DOR's Web site at <http://revenue.ky.gov/business/salesanduse.htm>.

Streamlined Sales Tax Update on Food

Please note that prepared food is subject to tax pursuant to the provisions of KRS 139.485(3)(g). In addition, the exclusion from prepared food per KRS 139.485(3)(h) applies only if eating utensils are not provided by the seller. Thus, sales of bread, pies, pastries, donuts and other bakery items when sold with eating utensils are subject to sales tax. An educational bulletin addressing the application of sales and use tax on prepared food will be available in the near future.

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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