

KENTUCKY SALES TAX FACTS

A REVENUE PUBLICATION FOR THE BUSINESS OWNER

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Frequently Asked Questions Concerning Sales Tax Changes Affecting Motor Vehicle Sales

KRS 139.470(21) was amended in House Bill 380 effective **Aug. 1, 2006** to provide an exemption from sales and use tax for:

Gross receipts from the sale of any motor vehicle as defined in KRS 138.450 which is:

- (a) **Sold to a Kentucky resident, registered for use on the public highways, and upon which any applicable tax levied by KRS 138.460 (motor vehicle usage tax) has been paid; or**
- (b) **Sold to a nonresident of Kentucky if the nonresident registers the motor vehicle in a state that:**
 1. **Allows residents of Kentucky to purchase motor vehicles without payment of that state's sales tax at the time of sale; or**
 2. **Allows residents of Kentucky to remove the vehicle from that state within a specific period for subsequent registration and use in Kentucky without payment of that state's sales tax.**

The questions and answers below apply only to sales of motor vehicles to certain nonresidents for subsequent registration and use out of state. In-state titling and registration of motor vehicles are unaffected by the law change.

1. **Do I need to file a supplementary schedule if I have not made any sales to residents of any of the eight states involved in the new law change?**

No, submit the supplemental form when you have a sale to residents of Arizona, California, Florida, Indiana, Massachusetts, Michigan, South Carolina or Washington that are purchasing a motor vehicle in Kentucky for registration and use in their home state.
2. **Will the supplementary schedule (Form 51A135) be sent with my sales and use tax return?**

No, make a copy of the schedule sent with the dealer notification letter or download a copy from the Department of Revenue's (DOR) Web site (www.revenue.ky.gov). When completed, the supplementary schedule must be mailed or faxed to the address on the form, separate from the sales tax return. An electronic version may be available in the near future. Follow normal filing and payment procedures for sales tax. Do not send payment with the supplemental schedule.
3. **Does the new law change apply to the sale of motorcycles eligible for licensed highway use?**

Yes, the 6 percent Kentucky sales tax will apply to sales of motorcycles if sold to a resident of one of the eight states involved. Include these receipts on the sales tax return and supplementary schedule.
4. **Is trade-in credit allowed against the sales price?**

Yes, charge 6 percent Kentucky sales tax on the difference of the sales price minus the like-kind, trade-in credit amount. (Like-kind examples: truck for truck, car for car, car for truck, etc. . . but not a motorcycle for car/truck.) The question relates to sales

tax on motor vehicles sold to certain nonresidents for out-of-state use. Trade-in credit is not available for motor vehicle usage tax paid on new vehicles sold for titling and registration in this state.

5. **Are leases of motor vehicles purchased by nonresidents and licensed for highway use in one of the eight states affected by this new law change?**

No, for leases of motor vehicles licensed for highway use out of state, the tax in the state of residence will apply.
6. **What should I give the customer to verify payment of sales tax?**

A sales receipt should be given to the customer that separately states the sales tax paid per KRS 139.210. (The DOR has developed a uniform certificate of sales tax paid, Form 51A270, to be completed by the retailer so that customers will have uniform documentation needed to claim tax credit in their state of residence.)
7. **Are document or processing fees taxable?**

Yes, documentation or processing fees will constitute a service that is part of the sale and are considered gross receipts pursuant to KRS 139.050.
8. **Are dealer rebates taxable?**

No, cash discounts provided by the dealer are exempt from sales tax. A cash discount that is a reduction in the sales price, for which the dealer is not reimbursed by the manufacturer, is not subject to sales tax. If a customer receives a "x" dollar rebate directly from the manufacturer and the dealer receives no compensation from the manufacturer on a specific transaction involving a rebate, then the dealer has not received additional receipts subject to Kentucky sales tax.
9. **Are manufacturer's coupons taxable?**

Yes, a dealer shall include within his gross receipts the exchange value of certificates taken from his customers if the retailer redeems such certificates from his manufacturer or other person.
10. **Are reward points or dealer incentives taxable?**

It depends upon the program and how the dealer is reimbursed. If a manufacturer offers cash or like-kind rewards to a dealer on a specific sale, then the dealer must include in his gross receipts subject to sales tax. If the dealer offers a reduction in the sales price due to reward points or incentives offered by the manufacturer that are not tied to a specific sale, the amount of reduction is not subject to sales tax.
11. **Are telephone and Internet sales of motor vehicles taxable?**

Yes, both are taxable if the sale occurs in Kentucky.



12. Are sales to military personnel who are residents of one of the eight states taxable?

Yes, there is no sales tax exemption that applies specifically to military personnel. However, Kentucky sales tax does not apply to motor vehicles covered under the motor vehicle usage tax exemption for nonresident military personnel under KRS 138.470(4). If the vehicle is registered in Kentucky, sales tax would not apply and the purchase remains tax exempt under the motor vehicle usage tax exemption for military personnel.

13. Do I need to send a sales tax payment with my supplementary schedule?

No, do not send payment with your supplementary schedule. Remit payment with your sales tax return as you normally do.

14. Do I need to send my supplementary schedule each time I make a sale to a resident of one of the eight states?

No, only send your supplementary schedule when your sales tax return is due. Send the schedule to the address listed on the schedule and not in the same envelope as your sales tax return.

Purchase Exemption Requirements

Institutions qualifying for exemption from income taxation under Section 501(c)(3) of the Internal Revenue Code (IRC) may apply for a purchase exemption authorization to be exempt from sales and use tax on their purchases used within their exempt function. The purchase exemption authorization issued to an exempt institution cannot be used by any auxiliary organizations such as booster clubs and parent groups, or by faculty, students or employees.

Form 51A125, Application for Purchase Exemption Sales and Use Tax, should only be filed by **charitable, educational or religious institutions; historical sites; cemeteries; and units of federal, state or local government**. The application should be accompanied by the following documentation as listed on the back of Form 51A125.

Historical Sites—A copy of the letter from the Kentucky Heritage Commission to confirm listing in the National Register.

Charitable, Educational and Religious Institutions—A copy of the Articles of Incorporation and a detailed schedule of receipts and disbursements; also include the letter from the Internal Revenue Service determining your organization is exempt from income taxation under Section 501(C)(3) of the IRC.

Units of Federal, State or Local Government—Local government units are defined in KRS 65.005; special districts must provide a copy of the registration filed with the county clerk as required in KRS 65.005; each separate division within a federal or state unit, city or county with a specific function making purchases under its own name, must file a separate application.

Cemeteries—A copy of the Articles of Incorporation and a detailed schedule of receipts and disbursements; a copy of the ruling that grants your organization an exemption from property tax.

Out-of-State Organizations—In addition to a detailed schedule of receipts and disbursements, submit a copy of the exemption letter or authorization to show proof of exemption from sales tax in your state.

Any change in the name, address or nature of the organization must be immediately communicated to the DOR. When corresponding with the DOR, refer to the purchase exemption number issued to your organization.

Kentucky No Tax Due

The Kentucky DOR is pleased to announce a more convenient way to file sales and use tax returns. If you qualify to file your return via telephone based on past reporting practices, the DOR may have

recently notified you about filing via the telephone. You may file your return by making a simple toll-free telephone call for any period during which:

- No sales were made for the reporting period, or
- All sales may be adjusted by one of the following deductions: sales for which resale certificates were received (code 020); sales in interstate commerce (code 070); service and installation charges (code 100); or sales of motor vehicles licensed for highway use (code 160); and
- No purchases were subject to use tax for reporting period.

Businesses that qualify for the Kentucky No Tax Due system will receive a letter from the DOR with applicable filing information. If you require further assistance with the Kentucky No Tax Due system, please call (502) 564-5170.

Bad Debts/Repossessions

For accrual filing method only, a seller may deduct bad debts if the tax was previously paid and the debt has been written off for income tax purposes. The deduction may not be claimed if the deduction amount or the total amount of all deductions exceeds the retailer's gross receipts for the period. A refund application must be submitted along with written documentation to substantiate all refund claims. See KRS 139.350 for further detail.

Restaurant Tax

KRS 91A.400 authorizes some local governments (fourth and fifth class cities) to impose a tax up to 3 percent on restaurants that is to be turned over to the tourist and convention committee established in that city. Any restaurant tax passed on to the consumer and collected by a restaurant constitutes gross receipts subject to sales tax as defined in KRS 139.050 and should be included in line 1 of the sales tax return that reports total receipts.

Sales Tax Information on the DOR Web site

Kentucky sales and use tax statutes and regulations, <http://revenue.ky.gov/>

Kentucky sales and use tax forms, <http://revenue.ky.gov/business/salesanduse.htm>

The sales and use tax paper return is not available on the Web site because it is a scanned document.

The DOR mails sales and use tax returns directly to account holders based upon filer frequency schedule. Please contact the DOR for duplicate returns as needed.

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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