



KANSAS

Sales Tax and Compensating Use Tax

Welcome to the Kansas business community! This guide has been prepared by the Kansas Department of Revenue to assist you in understanding how Kansas sales and use tax applies to your business operation. Inside you will find information on what is taxable, what is exempt, and how to collect, report, and pay your sales and use tax. Sample completed returns, blank forms, and other information of general interest to businesses is also provided. Our goal is to make collecting and paying these taxes as easy as possible and to help you avoid costly sales or use tax deficiencies.

As a registered Kansas retailer or consumer, you will receive updates with your tax returns and in separate mailings when changes are made in the laws governing sales and use tax. Keep these notices with this booklet for future reference.

This publication is an introductory guide. It will not address every situation, and may not be cited as legal authority. If you have questions or need assistance in registering or reporting Kansas sales and use tax, please contact us.

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To obtain forms, publications and other information, please visit our web site:

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If there is a conflict between the law and the information found in this publication, the law remains the final authority. Under no circumstances should the contents of this publication be used to set or sustain a technical legal position.

A library of current policy information is also available on our web site: www.ksrevenue.org



Kansas is one of 45 states plus the District of Columbia* that levy a sales and the companion compensating use tax. The Kansas Retailers' Sales Tax was enacted in 1937 at the rate of 2%, increasing over the years to the current state rate of 5.3%.

- 2.00% - 1937
- 2.50% - 1958
- 3.00% - 1965
- 4.00% - 1986
- 4.25% - 1989
- 4.90% - 1992
- 5.30% - 2002

*Alaska, Delaware, Montana, New Hampshire, and Oregon do not have a general sales or use tax. Purchases made in these states by Kansas consumers are automatically subject to Kansas use tax. See "Kansas Use Taxes," page 31.

LOCAL SALES TAX

In addition to the 5.3% state sales tax, counties and cities in Kansas have had the option of imposing a local sales tax since 1978. Before imposing a local sales tax, the governing body of the city or county must receive the approval of a majority of its voters. Cities may levy a local sales tax in five-hundredth percent increments (0.05%). Counties may levy a local sales tax in one-fourth percent increments (0.25%, 0.50%, etc.). Cities are authorized to impose a maximum sales tax rate of 3% (2% general and 1% special). Counties are authorized to impose a maximum 1% general sales tax rate. Special legislative action is required for more than 1%.

Although these are local taxes, the law requires them to be administered by the Kansas Department of Revenue. **The local rate(s) are added to the state rate to arrive at the total sales tax percentage collected by Kansas retailers from their customers.** Local tax applies whenever a state tax is due if the tax situs for the sale is in a county or city with a local tax.

 The combined state and local sales tax rate in Garden City is 7.45%; the 5.3% state, a 1.15% Finney County, plus a 1% Garden City tax. The combined state and local sales tax rate for Finney County, but outside the city limits of Garden City, is 6.45%; the 5.3% state, plus a 1.15% Finney County tax.

 **IMPORTANT:** Effective July 1, 2003 the combined tax rate that is charged is based on the "destination" of the goods or service - i.e. the rate in effect where the customer takes delivery of the merchandise or makes first use of a taxable service. See "Destination Based Sourcing" on page 14.

Sales Tax Jurisdictions

To assist you in collecting and reporting the correct rate of sales tax, the department has developed Publication KS-1700, Sales Tax Jurisdiction Code Booklet. This booklet is an alphabetical listing of all Kansas county and city sales tax rates, their jurisdiction codes for tax reporting, and the effective dates of the tax. The code booklet is reprinted and distributed annually. However, throughout the year you will receive notice of any tax rate changes, as well as additional cities imposing a city sales tax. Be sure to incorporate these changes into your booklet until you receive an updated one. The code booklet and its quarterly updates are available from our office, forms request line, or web site. Excel and CSV versions are available for download from our web site, as well as a database using 5-digit zip codes. A sales tax rate locator is available at our web site. Tax rates can be obtained by entering an address, zip code, latitude & longitude or by well head number. See page 17.

DISTRIBUTION OF REVENUE

All state, county, and city sales tax collections are remitted to the Kansas Department of Revenue. The department deposits the state sales tax revenues into the state general fund, with a portion designated for the state highway fund. The department distributes local sales tax revenues to the counties and cities in which they were collected on a periodic basis using the information provided by retailers on their returns.

SALES TAX AND YOUR BUSINESS

Sales tax is paid by the final consumer of taxable goods or services to you, the retailer. A Kansas retailer is responsible for collecting sales tax from its customers on taxable transactions. In collecting sales tax, you are acting as an agent or partner with the Department of Revenue. A retailer holds the tax in trust for the state, and then sends it to the Kansas Department of Revenue on a regular basis using forms provided by the department.

Paying sales tax is the duty of your customers — it is unlawful for a customer to refuse to pay the sales tax due on a taxable transaction. When added to the purchase price of taxable goods or services, the sales tax is a debt from the consumer to the retailer, and as such, is recoverable by the retailer from the customer in the same manner as any other debt.



WHAT SALES ARE TAXABLE?

Kansas sales tax generally applies to three types of transactions.

- 1) The **retail sale, rental, or lease of tangible personal property**, including the sale or furnishing of utilities;
- 2) Charges for **labor services** to install, apply, repair, service, alter, or maintain tangible personal property; and
- 3) The sale of **admissions** to places providing amusement, entertainment or recreation services, including admissions to state, county, district, and local fairs.

If you are engaged in any of these activities, you must collect sales tax from your customers. What follows is a detailed discussion of each of these general categories with examples. The law (K.S.A.) or regulation (K.A.R.) on which it is based is also included.

RETAIL SALE, RENTAL or LEASE of TANGIBLE PERSONAL PROPERTY

To be taxable, the sale must first be a retail sale as defined below.

Retail sale — an exchange of tangible personal property (goods, wares, merchandise, products and commodities) for money or other consideration to the final user or consumer occurring within the legal boundaries of the state of Kansas.

Sales for resale (purchase of inventory), and sales to wholesalers and others who are not the final consumer are not taxed. However, these sales must be accompanied by an exemption certificate — see “Exemption Certificates” on page 13. Kansas sales tax also does not apply to goods shipped to another state. See “Out-of-State Sales” on page 19.

Tangible personal property — any item to which you can readily attach a monetary value (food, clothing, furniture, vehicles, computers, equipment, books, tapes, etc.).

Tangible personal property has a physical presence, it can be owned or leased and can be moved. Tangible personal property is different from intangible personal property (stocks and bonds) or real property (land or buildings).

Other types of taxable sales of tangible personal property listed in Kansas sales tax law follow. Exceptions are also noted.

Construction Materials. Materials and supplies sold to contractors, subcontractors, or repairmen for use by them in construction projects are subject to sales tax.



Exception: Materials purchased by a contractor using a special project exemption number issued by the Kansas Department of Revenue or its authorized agent are exempt.



Coin-Operated Devices. Sales made from any coin-operated device, dispensing or providing goods, amusement, or services are taxable. Examples include any type of vending machine, coin-operated telephones and car washes, and video or arcade game machines.

Exception: Coin-operated laundry services (washers or dryers) are exempt from sales tax. Laundry detergent, bleach, etc. purchased from a vending machine are taxable.

Coins, Bullion, Stamps, Antiques and Collectibles. These and similar items sold at retail are subject to sales tax. Any retailer, including banks, pawn shops, collectors, dealers, etc. must collect sales tax on the total gross receipts received (K.A.R. 92-19-56). The exchange of currency or coins at face value or at the current exchange rate is not taxable.

Computer Software. Sales of computer software and the services of modifying, altering, updating, or maintaining computer software are subject to sales tax. Computer equipment and hardware are also taxable. Effective January 1, 2005 any sales and/or services relating to “customized” software will be exempt. See Revenue Ruling 19-2004-03.



Meals and Drinks. Meals or drinks sold to the public at any restaurant, private club, drinking establishment, catered event, café, diner, dining car, hotel, etc. are taxable. Drinks containing alcoholic liquor are subject to the Liquor Drink Tax (see page 46) rather than sales tax. Cereal Malt Beverage license holders (3.2% beer) do not collect the Liquor Drink Tax. Instead, they collect Kansas Retailers’ Sales Tax on their drink sales. For more information on the sale of meals and drinks consult Publication KS-1540, Kansas Business Taxes For Hotels, Motels and Restaurants.

Exception: Free meals furnished to employees of public eating places are not taxed if the employee’s work is related to the furnishing or sale of such meals. Reduced cost employee meals are subject to tax based on the reduced price.



Prepaid Telephone Cards. Sales of prepaid telephone calling cards or authorization numbers and the recharge of the card or number are taxable.

Motor Vehicles and Trailers. The sale or exchange of motor vehicles is a taxable transaction. When you buy a car, truck, or other vehicle from a registered dealer, you must pay the sales tax to the dealer. When you buy a motor vehicle or trailer from an individual, you must pay the sales tax to the county treasurer when you register it. The rate of tax is determined using the sourcing rules for motor vehicles outlined on page 16. For more information on the sale of motor vehicles consult Publication KS-1526, Sales and Use Tax For Motor Vehicle Transactions.



Exceptions: These transactions are not taxed:

- 1) Motor Vehicles, semi trailers, pole trailers or aircraft sold to a bonafide resident of another state, *provided* the vehicle is not registered in Kansas and is removed from Kansas within 10 days of the purchase;
- 2) Motor vehicles or trailers transferred by a person to a corporation solely in exchange for stock or securities in that corporation (the original sale is taxable — the transfer to the corporation is not);
- 3) Motor vehicles or trailers transferred by one corporation to another when all of the assets of such corporation are transferred to the other corporation;
- 4) Rolling stock used by a common carrier in interstate commerce;
- 5) Motor vehicles or trailers sold by an immediate family member to another immediate family member. Immediate family members are lineal ascendants or descendants and their spouses.

Buyers claiming a sales tax exemption on a vehicle transaction will be required to complete and sign Form ST-8E, Sales Tax Exemption Certificate, at the time of registration.



Utilities. Included in the definition of tangible personal property are utilities. The following are subject to the state and local sales tax (exceptions noted):

Cable, community antennae, and other subscriber radio and television services;

Digital Satellite TV Subscriptions; (The subscription fee is subject to the state sales tax only – local taxes do not apply.)

Electricity, gas, propane and heat; (Agricultural and residential use of these utilities are exempt from the *state* sales tax, but are subject to any applicable *local* sales taxes in effect at the customer’s location.)

Telephone and Telegraph Services; *Intrastate* services (within Kansas), no matter where the customer is billed and *Interstate* services (between states) that are billed to a Kansas customer are taxed.

Exceptions: 1) Interstate telephone and telegraph services for WATS lines, dedicated service, and computer access service; 2) Calls debited to a prepaid telephone calling card or authorization number (tax is paid when the card is purchased).

Telephone Answering Services, mobile phone services, beeper services, cellular phone services, and other similar services.

Rental or Lease of Property

Tangible personal property is taxable not only when it is sold at retail, but also when it is rented or leased. The sales tax is added to each rental or lease payment made, including “lease with option to buy” contracts and “rent to purchase” contracts.



A Pittsburg, Kansas office equipment company leases copiers for \$150 per month. Added to each monthly invoice will be the state sales tax plus the applicable local sales tax in effect where the leased copier is located.

Other examples of items commonly leased or rented that are taxable include:

- | | |
|------------|------------------------|
| appliances | hotel and motel rooms* |
| boats | motor vehicles** |
| computers | movie videos/DVDs |
| equipment | tools |
| furniture | trailers |

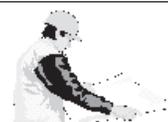
*Rooms rented for 28 consecutive days or less may also be subject to a transient guest tax — see page 47.

**Vehicles rented for 28 consecutive days or less are also subject to a vehicle rental excise tax — see page 47.

Exceptions:

- 1) Movies, films, and tapes rented to movie theaters are exempt since the sales tax is collected on the admission charge.
- 2) Tangible personal property used as a dwelling (such as a mobile home) is exempt from sales tax when leased or rented for more than 28 consecutive days.

NOTE: Tangible personal property purchased for the purpose of leasing or renting, such as the purchase of cars (rental fleet) by a car rental agency, is exempt from sales and use taxes. This is considered to be a purchase of inventory for resale, and the rental agency would provide the seller with a completed Resale Exemption Certificate, Form ST-28A (page 49).

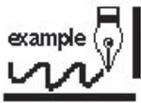


TAXABLE SERVICES

A service is work done for others as an occupation or business. Kansas sales tax applies to the services of installing, applying, altering, repairing, servicing, or maintaining tangible personal property.

Installing

Installation services include installing plumbing, wiring, cabinets, light bulbs and other fixtures in an office building, planting trees, shrubs or grass, or installing tires or parts on a vehicle.



A Colby, Kansas automotive repair shop installs a muffler on a New York resident's automobile in Colby. The total bill (muffler and labor) is subject to the state and local sales tax in effect in Colby, Kansas.

Applying

This category of taxable services includes painting, wallpapering, applying fertilizer or weed killer, waxing floors, and resurfacing parking lots. All of these services involve the application of tangible personal property — the paint, wallpaper, fertilizer, weed killer, wax, or asphalt/gravel.

Altering

Services such as furniture refinishing, upholstery work, modifying or updating computer software, sewing, and alteration services change or alter the furniture, software, or clothing, and are taxable.

Repairing, Servicing, and Maintaining

Repair, service, and maintenance of tangible personal property includes these types of services:

- appliance repair or service
- car repair or service
- dry cleaning, pressing, dyeing and laundry services*
- maintenance agreements
- pet grooming
- tool sharpening (saws, knives, etc.)
- warranties (all types, including extended and optional)
- washing, waxing, or detailing vehicles

*Dry cleaning and laundry services are also subject to the Dry Cleaning Environmental Surcharge - see page 46.

Following is a representative list of services that are NOT TAXABLE because they do not involve the installation, application, service, maintenance, or repair of tangible personal property:

accounting	cleaning	mowing
architectural	engineering	snow removal
broadcasting	excavating	towing/moving
child care	hair styling	trash hauling
chimney sweeping	legal services	

Exception for Residential & Original Construction

Taxable services are exempt when performed in conjunction with the:

- 1) original construction of a building or facility;
- 2) restoration, reconstruction, remodeling, or renovation of a **residence*** (since 7/1/98);

- 3) addition of an entire room or floor to an existing building or facility;
- 4) completion of any unfinished portion of an existing building or facility for the first owner;
- 5) restoration, reconstruction or replacement of a building or facility damaged or destroyed by fire, flood, tornado, lightning, explosion or earthquake; or
- 6) construction, reconstruction, restoration, replacement, or repair of a bridge or highway.

*A **residence** includes all types of dwellings where individuals customarily live — homes, apartments, nursing homes, etc.



CAUTION: Many service professionals provide both taxable and nontaxable services. There are also other special rules that apply to contractors and the labor services industry not discussed here. Consult the Policy Information Library on our web site for additional information about specific service situations.

The department has issued the following new sales tax guidelines, which will take effect on July 1, 2005. These guidelines are available from our website: www.ksrevenue.org.

- Sales Tax Guidelines for Contractors and Contractor-Retailers
- Sales Tax Guidelines for Fabricators
- Sales Tax Guidelines for Contractor-Fabricators and Contractor-Manufacturers
- Sales Tax Guidelines for Businesses that Sell and Service Appliances and Electronic Products

ADMISSIONS



An admission or fee charged to any place providing amusement, entertainment, or recreation services is taxable. Taxable admissions include:

Tickets to a concert, sporting event, movie, circus, rodeo, or any other event where a ticket is required;

Admissions to a fair, amusement park, zoo, antique or craft show, club, or other facility charging an admission fee or cover charge;

Dues or Memberships that entitle you to use a facility for recreation or entertainment, such as a health club, country club, or the Knights of Columbus;

Fees and charges for participation in sports, games, and other recreational activities.

Exceptions: The following admissions and fees have been granted a sales tax exemption.

- 1) Admission to any cultural and historical event that occurs once every three years;
- 2) Sales of tangible personal property (such as a button) which will admit the buyer to an annual event sponsored by a 501(c)(3) nonprofit organization;
- 3) Fees and charges by Kansas political subdivisions for participation in sports, games and other recreational activities. This includes city baseball

and softball leagues, or green fees or swimming pool fees at city or county owned facilities;

- 4) Fees and charges by a 501(c)(3) youth recreation organization, exclusively providing services to persons 18 years of age or younger, for participation in sports. Examples include: youth basketball, baseball, football, softball, or soccer leagues.
- 5) Entry fees and charges for participation in a special event or tournament sanctioned by a national sporting association to which spectators are charged an admission. Examples of entry fees that are exempt under this provision include:
 - American Bowling Conference (ABC) tournament,
 - Professional Golfers Association (PGA) tournament,
 - National Hot Rod Association (NHRA) race,
 - Professional Rodeo Cowboys Association (PRCA) rodeo.
- 6) Fees charged by nonprofit humanitarian service providers exempt from property tax for participation in sports, games, and other recreational activities. Qualifying nonprofit service providers include: the American Red Cross, Big Brothers & Big Sisters, Boy Scouts, Girl Scouts, YMCA, YWCA, community health centers, and local community organizations;
- 7) Membership dues to military veterans organizations and their auxiliaries, such as the Veterans of Foreign Wars and the American Legion;
- 8) Membership dues charged by a nonprofit 501(c)(3) organization whose sole purpose is to support a nonprofit zoo.

SALES TAX EXEMPTIONS

Included with the taxable transactions in the previous section were some of the exceptions, or exempt sales. Other lawful sales tax exemptions fall into three general categories. These are:

- **buyers** who are exempt,
- specific **items** that are exempt, and
- **uses** of an item which makes it exempt.

EXEMPT BUYERS

Direct purchases of goods or services by the following entities are exempt from sales tax (for a complete list see Publication KS-1520, Kansas Exemption Certificates):

- The U.S. Government, its agencies and instrumentalities
- The state of Kansas and its political subdivisions, including school districts, counties, cities, port authorities, and groundwater management districts

- Elementary and secondary schools
- Noncommercial educational radio and TV stations
- Nonprofit blood, tissue, and organ banks
- Nonprofit educational institutions
- Nonprofit 501(c)(3)* historical societies
- Nonprofit hospitals
- Nonprofit 501(c)(3)* museums
- Nonprofit 501(c)(3)* primary care clinics/health centers
- Nonprofit 501(c)(3)* religious organizations
- Nonprofit 501(c)(3)* zoos

*The 501(c)(3) designation refers to an Internal Revenue Code section exempting certain organizations from income tax.

Exception: When the state of Kansas or nonprofit hospital operates a taxable business (such as a public cafeteria or gift shop), or when a political subdivision sells or furnishes the utilities of electricity, gas, heat or water (except certain water retailers - see page 8), non-inventory items purchased for use in these taxable businesses are taxable to the otherwise exempt group.

To claim its exemption, the exempt buyer must complete and furnish the appropriate exemption certificate to the seller (see page 13). The sale must also be a direct purchase — billed directly to the exempt buyer and paid for by a check or voucher from the exempt buyer. Purchases made by agents or employees of an exempt buyer with their personal funds are taxable. **Exception:** Effective 7/1/2002, purchases of hotel rooms by U.S. government employees on official business are exempt, regardless of the method of payment.

Exempt Entity Identification Numbers. To help retailers identify the exempt buyers discussed in this section, effective January 1, 2005, the department will assign an Exempt Entity Identification Number and issue a Tax-Exempt Entity Exemption Certificate to qualified exempt buyers. On or after that date, Kansas exempt entities claiming a sales or use tax exemption must provide this completed exemption certificate (which includes their Tax Exempt Number) to the retailer. See Kansas Exemption Certificates, Publication KS-1520.

Other Exempt Buyers

Sales tax exemptions are also granted to the following entities. Where applicable, the exemption certificate designed for that particular exemption is noted.

Certain Nonprofit Medical Educational Organizations — The following 501(c)(3) organizations are exempt from paying sales tax when buying items for the listed uses, and also exempt from collecting sales tax when these items are sold *by or on behalf of* the exempt organization for the stated purposes. This exemption is for goods and merchandise only. These organizations must still pay or collect sales tax on taxable services and admissions.

- **American Diabetes Association, Kansas Affiliate, Inc.** (Effective 7/1/97)
- **American Heart Association, Kansas Affiliate, Inc.** (Effective 7/1/97)
- **American Lung Association of Kansas, Inc.** (Effective 7/1/97)
- **Kansas Alliance for the Mentally Ill, Inc. and Kansas Mental Illness Awareness Council** (Effective 7/1/97)
- **Kansas Chapters of the Alzheimer's Disease and Related Disorders Association, Inc.** (Effective 7/1/2001)
- **Kansas Chapters of the Parkinson's Disease Association.** (Effective 7/1/2001)
- **National Kidney Foundation of Kansas and Western Missouri.** (Effective 7/1/2001)
- **HeartStrings Community Foundation**
- **Cystic Fibrosis Foundation, Heart of America Chapter**
- **Spina Bifida Association of Kansas**



These organizations have been added to this exemption effective July 1, 2006.

- **CHWC, Inc.**
- **Cross-Lines Cooperative Council**
- **Dreams Work, Inc.**
- **KSDS, Inc.**
- **Lyme Association of Greater Kansas City, Inc.**

Certain Water Retailers — Effective January 1, 2002, public water suppliers who pay the Clean Drinking Water Fee are exempt on all purchases of property or services for that utility. See NOTICE 04-08.

Diplomatic Tax Exemption — Certain foreign missions and officials are entitled to a tax exemption based on reciprocal treaty agreements. Those entitled to tax exemption must present a Tax Exemption Card issued by the Office of Foreign Missions (OFM) of the U. S. Department of State. Details are in Notice 04-09.

Domestic Violence Shelters — Effective January 1, 2005, property and services purchased *by or on behalf of* the domestic violence shelters that are member agencies of the Kansas coalition against sexual and domestic violence (KCSDV) will be exempt.

Habitat For Humanity — Effective July 1, 1997, this organization may buy the materials that will be incorporated into its housing projects without sales tax. The exemption applies only to housing materials. Habitat for Humanity must still pay sales tax on all of its other purchases of goods or taxable services.

Korean War Memorial — Property and services purchased *by or on behalf of* a 501(c)3 nonprofit corporation organized to construct a Korean War Memorial are exempt from sales tax effective July 1, 1996. The department has issued Project Exemption Certificates (PECs) to the qualifying entities.

Parent-Teacher Associations — Since July 1, 1998, a PTA or PTO is exempt from paying sales tax when buying

goods and services. It is also exempt from collecting sales tax on its sales of tangible personal property, but must collect tax when selling taxable services or admissions.

Religious Organizations — Since July 1, 1998, all sales of tangible personal property and services purchased by a 501(c)3 religious organization, and used exclusively for religious purposes, are exempt. Religious organizations also qualify to request a Project Exemption Certificate so that materials purchased or furnished by a contractor to construct or remodel facilities for the religious organization are also exempt.

Rural Volunteer Fire-Fighters — Property or services purchased *by or on behalf of* rural volunteer fire-fighters and used exclusively by them in the performance of their duties and functions are exempt from sales tax, effective July 1, 1997.

Youth Development Programs — Sales of tangible personal property to a nonprofit organization for nonsectarian comprehensive multi-discipline youth development programs and activities, and all sales of tangible personal property *by or on behalf of* such organization are exempt from tax. Examples include: Boy Scout and Girl Scout Councils and Troops.

Exception: Sales of taxable services and sales of property customarily used for human habitation (such as beds, chairs, bedding, and lamps) are taxable to a nonprofit youth development organization.

BUYERS WHO ARE NOT EXEMPT

The previous list of exempt buyers contains a number of nonprofit organizations. A common misconception is that all nonprofit organizations are exempt from sales tax. A federal exemption issued under Section 501(c) of the Internal Revenue Code applies ONLY to federal and state INCOME tax, not to sales tax. Groups and organizations that are NOT EXEMPT from paying Kansas sales tax include:

- alumni associations
- charitable and benevolent organizations
- clubs and professional associations
- labor unions

ITEMS EXEMPT FROM SALES TAX

Items used by these industries and groups are exempt from sales tax.

Aircraft sales, parts, and repair services for carriers in interstate or foreign commerce, and on and after January 1, 2005 sales of aircraft repair, modification and replacement parts and sales of services employed in the remanufacture, modification and repair of aircraft. See also Notice 04-06 on our web site.

Broadcasting equipment purchased by over-the-air free access radio and television stations to generate their broadcast signals.

Drill bits and explosives used in the exploration of oil and gas.

Drugs and pharmaceuticals sold to veterinarians

Farm machinery & equipment - For more information consult Publication KS-1550, Kansas Sales and Use Tax for the Agricultural Industry

 Effective July 1, 2006, "Work-site utility vehicles" equipped with a bed or cargo box may be purchased exempt from sales tax when used exclusively in farming and ranching. See NOTICE 06-02.

Food sold to groups providing meals to the elderly and homebound, and food sold by a nonprofit 501(c)(3) organization under a food distribution program that sells the food below cost in exchange for community service and, on and after January 1, 2005, all sales of food products by or on behalf of any such contractor or organization for any such purpose

Integrated production machinery & equipment

Materials purchased by a community action group to repair or weatherize low-income housing

Medical supplies and durable medical equipment purchased by a nonprofit skilled nursing home

Public health educational materials purchased by a nonprofit corporation for free distribution to the public

Railroad parts, materials, and services for railroad rolling stock used in interstate or foreign commerce

Rolling stock (trucks, buses, tractor-trailers, etc.), repair or replacement parts, and motor fuels purchased by ICC carriers

Warehouse machinery & equipment, racking systems

An exemption certificate (see page 13) must be completed for these sales to be exempt. A detailed description of purchases qualifying for exemption is a part of each exemption certificate.

OTHER ITEMS NOT TAXED IN KANSAS

- Food stamp purchases
- Child Nutrition Act (WIC program) purchases
- Lottery tickets
- Prescription drugs and insulin
- Prosthetic and orthopedic appliances (see below)

Prosthetic Devices & Mobility Enhancing Equipment

A prosthetic device or mobility enhancing equipment purchased by an individual for whom it was prescribed in writing by a licensed physician, chiropractor, optometrist, dentist, or podiatrist is not taxed (K.S.A. 79-3606(r)). Exempt devices and mobility enhancing

equipment include canes, crutches, eyeglasses, orthodontic braces, prosthetic limbs and braces, wheelchairs, and accessories attached to motor vehicles, such as wheelchair lifts or specialized hand or foot controls. Repair and replacement parts for the exempt equipment are also exempt if you have the original prescription order on file.

NOTE: The **Prosthetic Devices & Mobility Enhancing Equipment** exemption does not apply to hot tubs, whirlpools, motor vehicles, or personal property which when installed becomes a fixture to real property.

On and after January 1, 2005, any repair and replacement parts for hearing aids, including the batteries, when sold by a person licensed in the practice of dispensing and fitting hearing aids pursuant to K.S.A. 74-5808 will be exempt. See Notice 04-05.

On and after April 14, 2005, the labor services of repairing hearing aids when repaired by a person licensed in the practice of dispensing and fitting hearing aids pursuant to the provisions of K.S.A. 74-5808, are also exempt from Kansas sales tax.

USES THAT ARE EXEMPT

Other items are exempt from sales tax because of how they are used.

Agricultural Animals

Sales of agricultural animals and fowl (cattle, chickens, hogs, ostriches, sheep, etc.) and aquatic animals and plants are exempt when used in:

- agriculture or aquaculture;
- the production of food for human consumption;
- the production of animal, dairy, poultry, or aquatic plant and animal products, fiber, or fur;
- the production of offspring for the above purposes.

Animals that are not used for agricultural purposes (i.e., pets, show horses, etc.) are taxable.

Agricultural Soil Erosion Prevention

Seeds, tree seedlings, chemicals, and services purchased and used for the purpose of producing plants to prevent soil erosion on land devoted to agricultural use are exempt from sales tax.

Propane for Agricultural Use

Propane used for an agricultural purpose is exempt from sales tax. Examples include propane to power farm implements or to provide heat for brooder or farrowing houses. Propane used for a recreational purpose, such as RVs and barbecue grills, is taxable.

Consumed in Production

Items that are *essential* and are *depleted or dissipated within one year* may be purchased without tax when they are consumed in the:

- production, manufacture, processing, mining, drilling, refining or compounding of tangible personal property,
- treatment of by-products or wastes of any the above processes,
- providing of taxable services,
- irrigation of crops,
- storage or processing of grain.

Examples include utilities to power manufacturing machinery, or fertilizers and insecticides used in the production of food.

Ingredient or Component Part

Items that become a part of a finished product to be sold to the final consumer are exempt as an ingredient or component part. Examples include but are not limited to:

- oil paints, watercolors, and canvas used to produce a piece of artwork for resale;
- paper and ink for publishing newspapers and magazines;
- containers, labels, shipping cases, twine, and wrapping paper which are not returned to the manufacturer;
- paper bags, drinking straws, and paper plates used in food sales; and
- feed for commercial livestock.

As a general rule, if the item leaves with the product and is not returned for reuse by the manufacturer or retailer, it is an ingredient part.

The “ingredient and component part” and “consumed in production” exemptions apply to many business types. More information on these exemptions is in Publication KS-1520, Kansas Exemption Certificates. This publication is available on our web site.

NOTE: Contractors are considered to be the final consumers of their materials and therefore may not use the consumed in production or ingredient or part exemption to purchase job materials.

OTHER SPECIAL SITUATIONS

Exempt Construction Projects

Materials and labor services sold to a buyer holding a special **Project Exemption Certificate** issued by the Department of Revenue or its authorized agent are exempt from tax. Most of the exempt buyers listed on page 7 qualify to obtain a project exemption for most projects. A project exemption may also be issued to a business that qualifies for economic development incentives.

Fuels

Gasoline, diesel fuels, gasohol, alcohol fuels and other similar combustible fuels are generally subject to the Kansas Motor Fuel tax (see page 47). However, these fuels are subject to sales tax when the motor fuel tax does not apply, such as dyed diesel fuel for non-highway purposes. Other fuels such as aviation fuel, jet fuel, kerosene, and propane are subject to sales or use tax unless their use or purpose qualifies for an exemption. For example, propane for agricultural use is exempt, but propane for an RV is taxed.

Isolated or Occasional Sales

Sales tax is NOT collected when tangible personal property or taxable services are sold at an “isolated or occasional” sale. To qualify as an isolated sale, the seller:

- must not hold more than one sale in a 12-month period, **AND**
- must not have acquired the property with the intent of reselling it.

Sales that usually meet this criteria are estate sales, farm sales, garage sales, and some auctions. Other sales exempted in the law as isolated or occasional sales are:

- 1) An annual sale by a religious organization of property purchased or acquired for resale (such as the Mennonite Central Committee Relief Sale);
- 2) Sales by a financial institution of property repossessed by that financial institution;
- 3) Sales of business assets by one business to another.

Also exempt are sales by an agent or auctioneer on behalf of not more than two principals or households, provided the principal(s) are not engaged in a retail business, and only one sale is held a year.



example A Kansas resident has an estate sale before moving into a retirement home. The agent will not charge tax at the estate sale, since it is an isolated sale of property owned by one household.



example An auctioneer conducts an auction of the inventory and fixtures of a clothing store. Sale of the inventory is subject to sales tax, because the owner was engaged in the retail clothing business. The sale of the fixtures is not subject to tax as an isolated sale of property on which tax has already been paid.

Exception: The isolated or occasional sale of a motor vehicle or trailer is taxable — see page 5.

Mobile or Manufactured Homes

When a new mobile or manufactured home is sold, only 60% of the total selling price is subject to sales tax (K.S.A. 79-3606(ff)). In this particular situation, trade-

in allowances (described on page 19) are not allowed in determining the sales tax base. The rate of tax charged on these home sales is determined by the retailer's location - see page 16.

The sale of a used mobile or manufactured home (a sale other than the original retail sale) is exempt under K.S.A. 79-3606(bb).



WHO MUST REGISTER

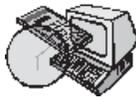
If you sell goods, admissions, or provide taxable services you must be registered with the Kansas Department of Revenue to collect sales tax from your customers on behalf of the state and, where applicable, the city and/or county. This requirement applies whether your business is a sole proprietorship, partnership, corporation, or any other organizational type, including nonprofit, religious, governmental or educational groups.

There is no minimum amount of sales required before you must register. If you are making retail sales or providing taxable services in Kansas, you must register and collect the tax. Out-of-state retailers that maintain a physical presence in Kansas must register. Retailers from other states selling goods in Kansas at temporary locations such as craft shows, trade shows or fairs, or nonresident contractors performing labor services in Kansas, must also obtain a permanent registration number.

HOW TO REGISTER

To apply for a tax number, obtain Publication KS-1216, Kansas Business Tax Application Booklet, and complete the Business Tax Application, Form CR-16. This application and publication are available from our office, forms request line, or web site. You may complete the application process on-line, by mail, by fax, or in person. Our Tax Assistance Center will help you with the registration process.

On-line Registration. Visit the "Your Business" section of our web site at www.ksrevenue.org. If you select "Business Registration On-line," you will be linked to the KS Business Center to complete the application, receive your account number and print your registration certificate before leaving the site.



By Mail/Fax: Mail or fax your completed business tax application to our office 3-4 weeks prior to making retail sales. This will ensure that your tax account number,



registration certificate, and tax returns are issued before your first tax payment is due.



In Person: This option provides same-day registration service so that you may file a return or purchase inventory. An owner, partner, or a principal officer (president, vice-president, or secretary-treasurer) may bring the completed application to our assistance center. We will process your application, assign a registration number, and issue a Certificate of Registration if you have no outstanding tax liability. The Certificate of Registration may be given only to the owner, a partner, or one of the principal officers.

SALES TAX ACCOUNT NUMBERS

Once your application is processed, your business is assigned a sales tax account number. Your sales tax account number has three distinct parts:

① ② ③
↓ ↓ ↓
004-481880059F-01

① Tax Type. Each tax type administered by the department has been assigned a number. The "004" is the number assigned to Retailers' Sales tax. The tax type number appears on your registration certificate and on the sales tax return.

② Account Number = EIN (Employer Identification Number). The account number is your federal EIN, followed by "F." The nine-digit EIN is issued by the Internal Revenue Service to identify employers and businesses; it may also be referred to as a "FEIN" – Federal Employer Identification Number.

If you are not required to have an EIN, the department will create an account number for you. These account numbers begin with a "K" followed by eight numbers and the "F." For example:

004-K12345678F-01

③ Numerical Suffix. The two-digit code at the end of the number is for the department's use. For most taxpayers it is "01." This code could either denote the number of locations or the number of registrations under this EIN or "K" number.

Using Your Sales Tax Number

A common misconception is that your sales tax number is also a "tax-exempt" number. You must complete an exemption certificate when buying your inventory or claiming another exemption. Although your sales tax number is required on exemption certificates used to purchase inventory and other exempt items, its primary purpose is to identify your business for collecting and reporting the sales tax. Help the department to serve you better by writing your tax account number on all returns, payments and correspondence sent to us.

YOUR REGISTRATION CERTIFICATE

After a tax account number has been assigned, a sales tax registration certificate is issued to you. When you receive your certificate, check it for accuracy and report any changes or corrections to the department immediately (see page 40). A sample sales tax registration certificate with explanation appears below.

KANSAS DEPARTMENT OF REVENUE
Division of Taxation

RETAILERS' SALES TAX REGISTRATION CERTIFICATE

1
NAME OF BUSINESS
123 SW MARKET STREET
ANYTOWN, KS 66661-1584

2
Tax Account Number: 004-481880059F-01
Inception Date: 01/02/2002
3
4
Filing Frequency: Monthly

This Registration Certificate is valid until canceled and is not transferable.

1 BUSINESS NAME AND ADDRESS: Name and physical location for this registration number. If you do not have a fixed business location, your mailing address is used.

2 STATE TAX ACCOUNT NUMBER: The tax-type and your EIN or "K" number assigned by the Department of Revenue to record your account information.

3 STARTING DATE: Date retail sales began at this location or anticipated starting date as indicated on your business tax application.

4 FILING FREQUENCY: How often you are required to file your Kansas sales tax returns. Your filing frequency is determined by the amount of sales tax collected in a year using the chart on page 20.

How to Display and Use Your Certificate

Your registration certificate must be displayed in a "conspicuous location" in your business to let your customers know you are duly registered to collect and remit the taxes you are charging them. Many businesses place it in a display case or frame near their cash register. If you are registered for more than one tax, display them together. You must have a registration certificate at all times. If it is lost or destroyed, request a duplicate from our office.

If you do not have a permanent fixed business location, carry your registration certificate with you. Many retailers traveling from site to site laminate their certificate to protect it during travel. Your certificate should be available at each temporary sales location to present should a local or state official request proof of registration.

You may copy the certificate. Many suppliers will request a copy of your registration to verify your sales tax number on an exemption certificate.



THE CARDINAL RULE

Kansas retailers are responsible for collecting the full amount of sales tax due on each sale to the final user or consumer. All Kansas retailers should follow this cardinal rule:

All retail sales of goods and enumerated services are considered taxable unless specifically exempt.

Therefore, for every sale of merchandise or taxable services in Kansas, the sales receipt, invoice, or bill **MUST**:

- show that the total amount of sales tax due was collected, **or**
- be accompanied by a completed exemption certificate.

Follow this rule to avoid the expense of having to pay sales tax on items you sold without charging the tax or obtaining a completed exemption certificate.

COLLECTING TAX FROM YOUR CUSTOMERS

There are two acceptable ways to collect sales tax from your customers. The sales tax must either be:

- separately stated as a line item on an invoice, **or**
- included in the price of the item.

The most common method is to **separately state** the tax due on the invoice, bill, receipt, or other evidence of the transaction as shown in the examples that follow. If the tax is a line item, it must be clearly stated to the public as sales tax, and there must be a separate line on the invoice or receipt for the sales tax.

If the tax is **included in the price**, it must be clearly stated to the public that the price includes "all applicable sales taxes." This method is often used by contractors or when it is not practical to add the tax at the point of sale, such as vending machine sales, and sales of concessions where a large volume of sales need to be made as quickly as possible.



CAUTION: When sales tax is included in the price, you **MUST** compute the total sales without tax before reporting "Gross Sales" on the sales tax return. See page 20, "Line 1 – Gross Sales/Receipts."



IMPORTANT: It is illegal for a retailer to advertise to the public or any consumer, directly or indirectly, that:

- the sales/use tax or any part of the tax will be paid or absorbed by the retailer,

- that sales/use tax is not a part of the price to the consumer, or
- when sales/use tax is added to the price that all or part of it will be refunded.

NOTE: Amounts collected as “sales tax” must be remitted to the state. If too much tax is collected, it must either be refunded to the customer or remitted to the state.

SALES TAX RECORDS



It is most important to keep neat, thorough, and adequate records of all aspects of your business operation. Keeping good records will enable you to:

- accurately complete your sales and use tax returns,
- accurately complete your business and personal income tax returns,
- determine the overall profitability of your business, and
- spend more time on your business and less time on government reports and forms.

There is no prescribed *format* for sales tax records. They may be maintained by a sophisticated computer system or kept in a loose-leaf notebook. However, the *content* of your sales tax records is prescribed by law. Retailers must “keep records and books of all such sales, together with invoices, bills of lading, sales records, copies of bills of sale and other pertinent papers and documents ...” (K.S.A. 79-3609).

Whether maintained electronically or on paper, your sales tax records must contain the following documents and information (K.A.R. 92-19-4b):

- 1) **Gross receipts** from the sale, rental, or lease of tangible personal property in the state of Kansas, including any services that are a part of the sale or lease, *regardless* of whether the receipts are considered to be taxable or non-taxable;
- 2) all **deductions** allowed by law and claimed in filing returns (See “Part II — Deductions” on page 21);
- 3) the **purchase price of all tangible personal property** purchased for sale, consumption, or lease in the state of Kansas (the cost of your inventory, equipment, and fixtures);
- 4) all **exemption certificates**; and
- 5) a **true and complete inventory** taken at least once a year.

You must keep the above records for your current year of business and **at least three** prior years. Some records, such as the purchase price of equipment and fixtures, must be kept longer for federal income tax purposes.

Your sales tax records must also be available for, and are subject to, inspection by the Director of Taxation or authorized representative (auditor) at all times during normal business hours.

EXEMPTION CERTIFICATES



An exemption certificate is a document that shows why sales tax was not charged on an otherwise taxable sale of goods or services. It allows you to purchase your inventory, ingredient parts, and certain consumables without tax, and authorizes you to sell taxable items to exempt customers without collecting tax. Most of the exemptions discussed on pages 7 through 10 require an exemption certificate.

For a sale to be exempt, an exemption certificate must be furnished or completed by the buyer, and kept by the seller with other sales tax records. Do not send exemption certificates to the Department of Revenue; they are an integral part of your sales tax records subject to inspection by the department. When the seller obtains an accurately completed exemption certificate from the buyer and keeps it on file as part of the sales tax records, the seller is relieved from collecting the sales tax due on that sale.

You should obtain an exemption certificate before billing the customer or delivering the property. As the retailer, you are responsible for obtaining a completed exemption certificate even though the purchaser may strike the tax from the bill or claim to be exempt only after receiving the merchandise.



IMPORTANT: If you are not able to get a completed exemption certificate from a customer, the sale is considered taxable and you will be liable for the tax. In an audit situation, you have 60 days from date of notice from the Director of Taxation to secure a completed exemption certificate from a customer. (K.S.A. 79-3609).

Additional information about completing exemption certificates is on page 48, followed by the two certificates most often used – the Resale Exemption Certificate and the Multi-Jurisdiction Exemption Certificate. All retailers should also have a copy of Publication KS-1520, Kansas Exemption Certificates. This booklet contains detailed information on how to properly use exemption certificates as a buyer and as a seller, as well as all the exemption certificates currently in use.



DO NOT accept a copy of a customer’s sales tax registration certificate instead of an exemption certificate. The registration certificate shows the buyer is a retailer — it does not certify the purchase is exempt from tax.



LOCAL SALES TAX APPLICATION DESTINATION-BASED SOURCING

Kansas is participating with 38 other states and the District of Columbia in the “Streamlined Sales Tax Project” (SSTP). It is the goal of the SSTP that multistate retailers will, in the future, be able to remit sales tax for all of the states on one uniform electronic sales tax return. It is also the goal of SSTP that uniformity among the states in several areas of sales tax administration will cause the US Congress to require out-of-state retailers to collect the Compensating Use Tax due on items that they ship outside of their home state. Kansas, like many other states, is currently losing out on millions of dollars of Kansas Compensating Use tax (see page 31) that is due on purchases of items shipped into Kansas but are not being collected by out-of-state retailers. One of the areas of uniformity among the states is in the area of “sourcing” – that is, which local sales tax rate is due?

Since the inception of Kansas Retailers’ Sales and Compensating Use tax in 1937, Kansas has been an “origin-based” state for all but two types of sales. In essence, whether the customer took delivery of the purchased item(s) at the retailer’s store or whether the item(s) were shipped or delivered to the customer within Kansas, the Kansas retailer collected the combined state and local sales tax rate in effect at his place of business. (The sale of electricity, gas, water, and heat and labor service contracts over \$10,000 were the two exceptions.)

General Destination-Based Sourcing Rules

Since JULY 1, 2003, Kansas has been a “destination-based” sourcing state. During its 2004 session, the Kansas legislature made it clear that Kansas retailers would have to comply by passing Senate Bill 147, Section 40 which states that: “On and after January 1, 2005, all retailers must be in full compliance with the destination-based sourcing provisions....”

Under the destination based sourcing rules, the rate of sales tax due on in-state sales will be the combined state and local sales tax rate in effect where the customer takes delivery/possession of the purchased item(s). Under this new rule, the seller will continue to collect the sales tax rate in effect at the seller’s “place of business” for over-the-counter transactions.

If the item(s) is shipped or delivered to the purchaser, the seller will collect the combined sales tax rate in effect at the location where the purchaser received the item(s). This will be the location where the seller delivers the item(s) to the purchaser, or if the seller ships the item(s), it will be the customer’s shipping address.

If the “shipping address” is not known to the seller, then it is the sales tax rate in effect at the “purchaser’s address” as maintained by the seller in the normal course of business. If the seller’s business records do not contain an address for the buyer, then the seller should source the sale to the address of the buyer shown on the buyer’s payment instrument. If there is no address on the payment instrument for the buyer, then the sale would be sourced to the seller’s location.



A customer enters Joe’s Hardware in Pittsburg, KS, makes a purchase and takes possession of the item at the store. The combined rate of sales tax due is the rate in effect at Pittsburg, KS (where the customer took delivery) of 6.8% (state rate of 5.3%, plus the Crawford County rate of 1% and the Pittsburg City rate of .5%).



A customer enters Joe’s Hardware in Pittsburg, KS, buys an item and asks the retailer to deliver it to him in Columbus, KS. Joe’s Hardware will charge the combined state and local rate in effect at Columbus, KS (where the customer took delivery), which is 7.8% (state rate of 5.3%, plus the Cherokee County rate of 1.5% and the Columbus City rate of 1%).

Gifts/Delivery to Another Address or Location

When the product is not received by the purchaser at the seller’s location and the purchaser has given the seller instructions to ship or deliver the product to a donee of the purchaser, then the sale is sourced to the donee’s address furnished by the purchaser.



A Russell, KS resident buys a computer from a Wichita business as a gift for a student attending college in Hays, and requests that the business ship the computer to the student’s address in Hays. The student is the purchaser’s “donee,” so the local sales tax applicable at the donee’s address in Hays, applies.

Receipt by Shipping Company on Behalf of Buyer

Receipt by a shipping company on behalf of a purchaser is not considered “received” for purposes of the sourcing rules.



A Hutchinson, KS law firm orders office supplies from an office supply company in Overland Park and requests that the company deliver its order to Jones Shipping Co., which the law firm has retained to deliver the order to its Hutchinson office. In this situation, receipt by Jones Shipping Co. is not considered “receipt” by the purchaser for purposes of applying the sourcing rules. Since the buyer did not receive the order at the seller’s location and the seller did not ship or deliver the order to the buyer or to a third party, the sale should be sourced to the address of the buyer shown on the seller’s business records.

Sourcing of Services

Effective July 1, 2003, the “destination-based” sourcing rules will apply to all retail sales of taxable services, as well as all sales of tangible personal property. This means that the sale of a taxable service is sourced or taxed based on the location where the purchaser of the services makes **first use** of those services. This will often be the same location as where services are performed.



A rural Jefferson County resident brings his car to a mechanic in Topeka for repairs. The car repairs are performed at the mechanic's shop in Topeka, and the consumer picks the car up at the shop location. The mechanic will collect the state and local sales tax in effect in Topeka (currently 7.45%) on the repair charges. If the mechanic had performed the repairs at the consumer's residence, then he would collect the state and local sales tax in effect at the customer's rural Jefferson County address (currently 6.3%).



The air conditioning system goes out in a medical office in Mound City and a repairman is called to fix the system. The repair charges will be sourced based on where the repairs were performed – the medical office's location in Mound City (current sales tax rate is 6.3%).

Construction/Contractor Sourcing

Prior to July 1, 2003, when a contract for taxable labor services was \$10,000 or less, the contractor collected tax based on his location, while contracts over \$10,000 were sourced where the work was performed. The effect of the July 1, 2003 sourcing rules is to make the source or local tax situs for ALL service contracts to be where the work is performed, regardless of the size of the contract.



A Wichita roofing contractor does a commercial roofing job on a convenience store in Andover for \$7,000, and another commercial roofing job in Hutchinson for \$15,000. The contractor will charge the Andover sales tax rate on the Andover job and the Hutchinson rate on the Hutchinson job.

Leases or Rentals of Tangible Personal Property

For leases or rentals of tangible personal property (other than motor vehicles, trailers, semi-trailers, or aircraft that do not qualify as “transportation equipment” - see next column) in which periodic payments are made, the first lease payment is sourced under the general “destination-based” sourcing rules, as described above. The payments after the first payment are sourced to the primary property location. For leases with only one payment, the sale is sourced under the general destination-based rules.



A consumer enters an equipment rental business and rents a lawn mower for a day, picking up the mower at the business and paying for the mower at that time. The rental is sourced to the business premises, and the local sales tax in effect at that location applies.



A consumer rents a tent for an outdoor party in the consumer's back yard. The equipment rental business delivers the tent to the consumer. The rental is sourced to the consumer's location, and the local sales tax in effect at that location applies.



A Cottonwood Falls resident enters into a one-year lease as lessee of computer equipment with rental payments due monthly. The lessor's business location is in Hutchinson. The consumer picks up the computer equipment from the lessor's business in Hutchinson. The computer equipment will be located at the consumer's residence in Cottonwood Falls during the term of the lease. **Because the lessee first took possession of the computer equipment at the lessor's business premises**, the first lease payment is sourced to that location, and the local sales tax in effect at Hutchinson will apply to that payment (currently 7.05%). However, subsequent lease payments will be sourced to the consumer's location, and local sales tax in effect in Cottonwood Falls will apply to those lease payments (currently 7.3%).

NOTE: In this example, had the lessor shipped the computer equipment to the consumer's location, the first lease payment (as well as the subsequent lease payments) would have been sourced to the consumer's location in Cottonwood Falls.

Sourcing for Transportation Equipment

In general, “transportation equipment” means equipment used to carry persons or property in interstate commerce, such as aircraft (including containers attached thereto), buses, trucks, railcars and railroad locomotives. The general destination-based sourcing rules apply to the retail sale, lease or rental of “transportation equipment.”

Sourcing for Electricity, Gas, Water or Heat

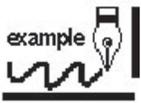
The utilities of electricity, gas, water and heat have always been taxed at the local (and state) rate in effect at the customer's location. Under the sourcing rules that went into effect July 1, 2003, this will not change - these utilities will continue to be taxed based on the customer's location. Residential and agricultural use of the utilities (except water) will continue to be subject only to local tax - the state sales tax of 5.3% does not apply to utilities used for a residential or agricultural purpose. Water for residential and agricultural use is exempt from both state and local sales tax.

Telecommunications Sourcing Rules

Telecommunications service has its own sourcing rules. These rules are consistent with the federal Mobile Telecommunications Sourcing Act, adopted in Kansas in 2002. This means that telecommunications sales are generally sourced to the customer's billing address.

Exceptions to the General "Destination-Based" Sourcing Rules

- 1) **SALES of watercraft, mobile homes, modular homes, manufactured homes, motor vehicles, trailers, semitrailers or aircraft** (NOT qualifying as "transportation equipment" as defined on page 15) are sourced to the retailer's business location:



A Bird City, KS resident buys a vehicle from an Atwood, KS dealer. The sales tax due is the rate of tax in effect at the retailer's business location – Atwood – currently 6.3%. Additionally, the Bird City resident will pay the difference between the Atwood rate and the Bird City rate (currently 7.3%), referred to as the "Local Compensating Use Tax," of 1% to the Cheyenne County Treasurer at the time of vehicle registration.

- 2) **LEASES or RENTALS of motor vehicles, trailers, semi-trailers, or aircraft** (not qualifying as "transportation equipment" as defined on page 15):

(a) when recurring periodic payments are involved, those payments are sourced to the primary property location, which is the address for the property provided by the lessee that is available to the lessor from the lessor's business records. This should be the registered address for the vehicle. Intermittent use of the property at different locations will not alter the primary property location.

(b) when recurring periodic payments are not involved, the lease or rental payment is sourced according to the general "destination-based" sourcing rules.



An Emporia resident, the lessee, leases a new car from a Wichita car dealer, the lessor, for a term of 3 years, with monthly lease payments due. The lease payments are sourced to the "primary property location," which is the address that the lessee furnishes to the lessor as the location of the vehicle. This should be same as the location where the vehicle is registered, the consumer's Emporia address. The local sales tax in effect at the "primary property location" of the leased vehicle, Emporia, applies to each of the lease payments. The lessor should collect and remit the state and local sales tax in effect at Emporia on the lease payments. If, during the term of the lease, the vehicle lessee moves to Newton and registers the vehicle there, the lease payments due after the move will be sourced to Newton. The lessor will collect and remit the state and local sales tax in effect in Newton on the lease payments.



A Council Grove resident rents a trailer from a rental business in Manhattan and takes possession of the trailer at the rental business location in Manhattan. The rental period is 45 days, for a lump sum rental payment of \$250. The rental business should collect the rate of sales tax in effect for Manhattan (the address of the business) on the rental proceeds of \$250 (currently the Manhattan rate is 7.3%). If the rental business delivered the trailer to the consumer's Council Grove address, the rental business would collect the combined sales tax rate in effect at Council Grove (currently 6.3%), instead of the local sales tax in effect in Manhattan.

UNIQUE SOURCING SITUATIONS

Special sourcing rules and procedures apply to the sale of a direct mailing and to the sale of computer software delivered electronically. This section explains these rules and the sourcing certificates used for these types of sales.

Direct Mailing Sourcing Rules

For a direct mailing to addresses in several locations, the purchaser of the mailing must provide the seller with information showing the multiple jurisdictions to which the mailing is to be delivered, or provide a "direct mail form," available from our web site.



A business located in Hays, Kansas purchases a direct mailing of advertising flyers from a printer located in Hutchinson, Kansas. The flyers are to be mailed from Hutchinson to the business's customers located at various addresses in Kansas and surrounding states.

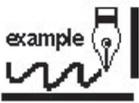
SITUATION #1: The purchaser provides the mailing addresses of its customers to the printer. The printer will bill the purchaser for state and local sales taxes applicable to the destination of the mailing, using the addresses to which the flyers were mailed. If 500 flyers were mailed to Great Bend, the local sales tax would be due on the price of those 500 flyers at the rate in effect at Great Bend. If 200 more flyers were mailed to Larned, the local sales tax would be due on the price of those 200 flyers at the rate in effect at Larned.

SITUATION #2: Same situation as above, except the purchasing business gives the printer a "direct mail form," indicating that the purchaser will assume the obligation to pay and remit the applicable tax on a direct pay basis. Having received a direct mail form from the purchaser, the printer is then relieved of the obligation to collect and remit sales tax on the direct mailing. The purchaser is then obligated to remit directly the state and local sales tax applicable to the mailing, based on the addresses to which the mailing was delivered.

SITUATION #3: Same situation as above, except the purchaser fails to provide to the printer a direct mail form, the information showing the jurisdictions to which the direct mail is delivered, or a direct pay permit. In this situation, the printer must bill the purchaser for state and local sales tax at the rate applicable to the location from which the flyers were shipped, Hutchinson, Kansas.

Multiple Points of Use Certificate

When a business is buying computer software that will be delivered electronically knows that the computer software will be concurrently available for use in more than one taxing jurisdiction, the buyer must give the seller a Multiple Points of Use (MPU) certificate disclosing this fact. The net effect of the MPU certificate is to shift the responsibility for collection and payment of the sales tax due by jurisdiction of use from the seller to the buyer. The MPU certificate is available from our web site.



An accounting firm with its headquarters in Lawrence, KS also has branch offices in Topeka and Olathe. The firm buys prewritten computer software from a Salina, KS software vendor for \$5,000; the prewritten computer software is delivered electronically to all three offices of the accounting firm. The books and records of the accounting firm reasonably support an apportionment of the local sales tax on the software purchase among the three locations where the software is being used as follows: ½ to Lawrence, ¼ to Olathe and ¼ to Topeka. The accounting firm gives the software vendor an MPU exemption certificate. By doing so, the accounting firm assumes the obligation to report and remit state and local sales tax on this transaction to the department as follows:

Lawrence	\$5,000 X ½ = \$2,500 X .073 = \$182.50
Topeka	\$5,000 X ¼ = \$1,250 X .0745 = \$93.13
Olathe	\$5,000 X ¼ = \$1,250 X .07525 = \$94.06

Business Resources for Sourcing Solutions

For a more detailed explanation of the new “destination-based” sourcing rules, consult **NOTICES 03-01, 03-02, 03-03, 03-04, 03-05, 03-08 and 03-10**, which are available through our web site at www.ksrevenue.org.

Kansas Sales & Use Tax Rate Locator

Sales and use tax rates and jurisdiction codes for any location in Kansas are easily available from the department’s Sales Tax Rate Locator on our web site at www.ksrevenue.org. Codes and rates may be obtained by entering an address, zip code plus 4, latitude and longitude coordinates, or well head number. Retailers may also email a customer address list to the department and we will provide the sales tax rates and jurisdiction codes for each address in a matter of minutes. Please visit our web site for more information on these and other electronic business solutions.

THE SALES TAX BASE

The sales amount to which sales tax is added is called the sales tax base. The law uses the term “gross receipts.”

Gross receipts - Total selling price or the amount received in money, credits, property or other consideration valued in money.

Selling price - Total cost to the consumer, excluding discounts allowed and credited, but including freight and transportation charges from retailer to consumer. Selling price includes the cost of the property, materials, labor, or service used or expended, losses, overhead, and profit.

Other aspects of a sale often affect the selling price or total cost to the consumer. The tax treatment of common elements of a retail sale follows.

NOTE: A variety of combined state (5.3%) and local sales tax rates are illustrated in the examples that follow.

SALES TAX TREATMENT OF SELECTED TYPES OF SALES AND INCENTIVES

Using the definition of sales tax base above, this section illustrates how to apply state and local sales tax to some of the more common types of sales and sales incentives.

Consignment Sales

If you receive property from another to sell on consignment, you are the retailer and are responsible for the tax collection rather than the owner of the consigned merchandise. This is true regardless of how you receive your fee or commission.

Coupons 

There are two distinct types of coupons used by consumers — **store coupons** and **manufacturer coupons**. The two types are treated differently for sales tax purposes.

Store Coupons

Retailers may offer discounts by issuing coupons that can only be redeemed in their business. When a customer uses a store coupon, sales tax is applied to the discounted price.



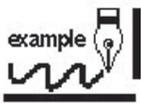
A restaurant issues a coupon for \$5.00 off any two meals. Sales tax is added after the coupon is deducted from the price of the two meals.

Cost of two meals	\$20.00
Restaurant coupon	- 5.00
Taxable receipt	\$15.00
5.3% sales tax	.80
Customer payment	\$15.80

Mandatory tips are a part of the sales tax base – see “Tips” on page 19.

Manufacturer Coupons

The value of a coupon or redemption certificate for which the retailer is later reimbursed for its value by a wholesaler, manufacturer, or others is taxable.

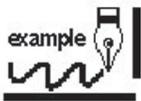


A grocery store accepts manufacturer’s coupons, and also “doubles” them. The value of the manufacturer’s coupon is taxable; the additional store discount is not.

Cost of item	\$ 1.89
Store doubling	- .30
Taxable price	\$ 1.59
5.9% tax	.09
Total	\$ 1.68
Mfr. coupon	- .30
Customer pays	\$ 1.38

Delivery, Freight, and Postage

Charges for handling, delivery, and shipping that are included in the amount the retailer charges a consumer for a product are taxable. The sales tax is due whether the charge is included in the sales price, stated separately, or billed separately.



A store sells a sofa to be delivered to the customer in another county. The sales ticket for the sofa would read as follows:

Cost of sofa	\$ 450.00
Delivery fee	45.00
Total	\$ 495.00
6.8% sales tax	33.66
Customer payment	\$ 528.66

NOTE: Freight and postage are taxable ONLY when included as part of a total sale between the retailer and the customer. In the example above, if the customer contracted directly with a freight company to pick up and deliver the sofa, the freight company’s fee is not taxable. In either case, the sale would be sourced to the customer’s home address.

Discounts

Common discounts are sale prices – “20% Off,” and “Buy One, Get One Free” offers. When a retailer discounts an item to the customer, sales tax is charged only on the amount actually paid by the customer.



A grocery store offers a “BUY ONE, GET ONE FREE” sale on an item costing \$2.59. Tax is charged on \$2.59 – the sale price paid for both items.

You may also offer your customers a discount for paying an invoice within a stated number of days. When a customer takes advantage of this type of discount, the sales tax is based on the *discounted* payment amount.



You offer a discount of “2/10, net 30” on an invoice of \$150 plus tax. A customer who pays the invoice within ten days will discount the price by 2%, or \$3. Sales tax is due on the reduced price of \$147.

Gift Certificates

Gift certificates are not subject to sales tax. The sales tax will be charged and collected when the gift certificate is later redeemed for store merchandise.

Gifts and Premiums

When you donate, give away, or otherwise personally use merchandise from your inventory, you become the final consumer and are required to pay sales tax on your cost for the item, not its retail price. The sample return starting on page 22 illustrates how to report and pay sales tax on “Merchandise Consumed” by you.

Installment Sales

Cash basis retailers will report and pay the sales tax due on credit, conditional or installment sales in the filing period the money is collected. Accrual basis retailers will report the sales tax on the full amount of the sale in the period in which the sale was made, regardless of when payment is received. (K.A.R. 92-19-3).

Internet Sales

Like catalog sales, the Internet is a method of attracting and transacting retail business. If the retailer and buyer are in Kansas, Kansas sales tax is due on a retail sale (including shipping and handling charges), whether that sale is made in person, by phone, by fax or over the Internet. The rate of sales tax charged on the sale will be the rate where the customer takes delivery, according to the destination sourcing rules.

When the retailer is in Kansas and the buyer is in another state, Kansas sales tax is not due, but a use tax may be due (See “Out-of-State Sales”, page 19). Any use tax due to the other state is usually the responsibility of the consumer in that state, unless the retailer has established a physical presence “nexus,” or voluntarily collects tax for the other state. (Kansas retailers with nexus in another state may be obligated to collect that state’s use tax - see pages 31, 32, and 35.)

An isolated or occasional sale (as defined on page 10) transacted over the Internet would not be subject to Kansas sales tax.

Other Kansas Taxes

Some sales are subject not only to the Kansas Retailers' Sales tax, but also to another Kansas tax or fee. For example, tire sales, dry cleaning and laundry services, and the rental of hotel rooms and vehicles are also subject to a Kansas excise tax. (See "Other Kansas Taxes" on page 46). **Each tax is figured as a percentage of the selling price**, and should be separately stated.



A Topeka hotel charges \$68 for a room. Since a 5% transient guest tax is in effect in Topeka, the bill for the room will show both taxes:

Cost of room	\$ 68.00
5% transient guest tax	3.40
7.45% sales tax	<u>5.07</u>
Total	\$ 76.47

Out-of-State Sales

Kansas sales tax law applies only within the boundaries of Kansas. When goods or merchandise are shipped or delivered outside of Kansas (and not returned to a point in Kansas), Kansas sales tax is not due. Out-of-state delivery may be made by the seller, a common carrier, or through the mail.

Since these sales are a deduction on your sales tax return, your books and records must show the merchandise was delivered outside Kansas. Acceptable proof of an out-of-state sale is a:

- Waybill or bill of lading showing delivery to another state,
- Post office, insurance, or registry receipt,
- Trip sheet signed by the seller's delivery agent, showing the address and signature of the person outside Kansas who received the merchandise.

When goods or merchandise are delivered to a buyer in Kansas, Kansas sales tax is due even though the buyer may later transport the property out of Kansas.

NOTE: If you deliver goods to another state or have a physical presence or "nexus" in another state, you may be required to register to collect that state's sales or use tax. See page 35, "What is Nexus?"

When the buyer, or his agent, takes possession of property outside Kansas, the sale is not subject to the Kansas sales tax, but may be subject to the other state's use tax.



A Kansas retailer receives a phone order for a shirt from a resident of another state, and mails it to the out-of-state customer. Kansas sales tax is not due on this sale. However, the *customer* may owe use tax on this purchase to his or her home state.

Sales to nonresidents are taxable if possession is taken in Kansas. **Exceptions:** (1) Motor vehicles sold to a bonafide resident of another state who will title and register the vehicle in the other state (see page 5); and (2) sales to nonresident exempt buyers discussed on pages 7 and 8.

Rebates

As a general rule manufacturer's coupons and manufacturer's rebates are taxable. Sales tax is charged on the price of the merchandise before a rebate is applied, whether applied to the invoice at the time of the purchase or sent to the customer after the sale.



A software company offers a \$25 rebate on the purchase of one of its products. The sales tax receipt is as follows:

Price of Product	\$100
Taxable sale	\$100
7.45% sales tax	<u>7.45</u>
Total	\$107.45
Mfr. rebate	- <u>25</u>
Customer payment	\$ 82.45

NEW! Effective July 1, 2006 and ending June 30, 2009, a manufacturer's rebate on the purchase or lease of a **NEW motor vehicle** paid directly to the motor vehicle dealer is not subject to Kansas sales/compensating tax. Motor vehicles include passenger vehicles, trucks, motorcycles and recreational vehicles that are self-propelled and licensed for highway use. Thus, trailers, ATVs motorized bikes and work-site utility vehicles DO NOT qualify. For more information see NOTICE 06-03.

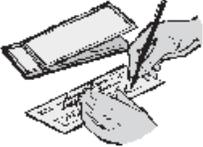
Tips

Tips are often a part of restaurant meals. When the tip is at the *customer's* discretion, it is not a part of the restaurant's charge for the meal and is not taxable. However, if the tip is mandatory, such as a statement on the menu, "A 15% gratuity will be added on parties of 6 or more," the tip is subject to sales tax.

Trade-ins

A trade-in involves accepting a used product in exchange for credit against the purchase of a new product. Sales tax is charged on the net price — the price after the trade-in allowance. Example:

New Car price	\$16,000.00
Trade-in allowance	- <u>6,300.00</u>
Trade difference	\$ 9,700.00
7.3% sales tax	<u>708.10</u>
Customer payment	\$10,408.10



REPORTING AND PAYING SALES TAX

How often you will file and pay your sales tax is determined by the volume of your retail business. The filing frequency for your first year of business is based on the estimated amount of tax liability on your business tax application. As the volume of your business changes, your filing frequency may also change. (See “Changing Your Filing Frequency,” page 41.)

The chart below shows the filing frequency and due dates of sales tax returns for each of the annual tax brackets established in the law (K.S.A. 79-3607). If any due date falls on a Saturday, Sunday, or legal holiday, substitute the next regular workday. A return postmarked on or before the due date is considered to be a timely filing.

Annual Tax Due	Filing Frequency	Return Due Date
\$ 0.00 — \$ 80.00	Annual	On or before January 25th of the following year.
\$ 80.01 — \$ 3,200.00	Quarterly	On or before the 25th of the month following the end of the calendar quarter—April 25, July 25, October 25, January 25.
\$ 3,200.01 — \$ 32,000.00	Monthly (Seasonal)*	On or before the 25th of the following month — a March return is due by April 25.
\$ 32,000.01 and above	Prepaid Monthly**	First 15 days liability is due on or before the 25th of that month.

*If your business is seasonal, you will file monthly returns during the period of business operation. For example, a Christmas tree business making retail sales only in November and December will file two monthly returns.

**The prepaid monthly filing status must report sales using Form ST-36 illustrated on page 29.

WHEN WILL I RECEIVE MY TAX RETURNS?

During the final week of each reporting period, the department will mail you a pre-printed sales tax return. If you have a single location, you will receive Form ST-16. If you collect more than one city or county local tax, or if your filing status is prepaid monthly, you will receive Form ST-36. Those taxpayers who are eligible to file their sales tax return using the paperless TeleFile system (see page 25) will receive that worksheet with instructions. Taxpayers using our On-Line filing option (discussed on page 24) will not receive a paper return.

A sales tax return is due in a timely manner even if you have not received a pre-printed return from the department. If you have not received your return by the 10th of the month following the end of your reporting period, notify the department and use a blank return to report your sales and tax collected. You may obtain a blank return from our office or from our voice mail forms order line: (785) 296-4937.

COMPLETING THE SALES TAX RETURN FORM ST-16

LINE 1 — GROSS SALES/RECEIPTS.

Enter on line 1 the total of all sales made during the period, both taxable and non-taxable. **DO NOT** include the sales tax collected in this figure. If you bill your customers “all applicable taxes included,” or if the tax is included in your total sales figure, divide the total sales, including tax, by “1” plus the tax rate. The result will be your gross sales without the sales tax.



You own 20 vending machines in a city where the combined state and local sales tax rate is 5.9%. Your total sales in June are \$4,600. Since the 5.9% sales tax is automatically included in the price paid for vended products, you must calculate the amount of your sales without the tax. To do this, divide \$4,600 by 1.059 = \$4,343.72. Your gross sales (without the tax) to report on line 1 of Form ST-16 is \$4,343.72.

LINE 2 — MERCHANDISE CONSUMED.

When you remove merchandise from your inventory to use personally or as a gift, you become the final consumer of the item(s) and must pay the sales tax due. However, the amount to enter on line 2 is your COST for the item, not its retail price. DO NOT report the cost of inventory you have purchased for resale on line 2.

PART II — DEDUCTIONS.

If line 1 includes sales that are not taxable or exempt sales, report these deductions in Part II on the back of Form ST-16. Enter the total deductions from Part II on line 3 on the front of Form ST-16. If your deductions are not itemized on the back of the return, the amount shown on line 3 will be disallowed.



CAUTION: When taking a deduction, be sure it is supported in your records by the required documents, such as a completed exemption certificate or out-of-state delivery slip. If you are unsure about an exemption, consult the exemption certificate guide, Publication KS-1520, or contact the Department of Revenue.

The allowable deductions on a sales tax return are:

(a) Sales to other retailers for resale: Enter sales made to other retailers for which you have obtained a properly completed Kansas Resale Exemption Certificate, Form ST-28A.

(b) Returned goods, discounts, allowances and trade-ins: Enter sales of merchandise sold and subsequently returned when the sale occurred in one reporting period and the return is in a subsequent reporting period.

(c) Sales to the U.S. Government, state of Kansas, and Kansas political subdivisions: Enter sales made to these exempt entities for which you have Tax-Exempt Entity Exemption Certificate, Form PR-78KS. Only direct purchases qualify for exemption; sales to agents or employees using their personal funds are taxable, except for purchase of hotel/motel rooms for U.S. Government purposes. Do not include sales of property or services that are for a political subdivision's utility department, since these sales are generally taxable.



(d) Sales of ingredient or component parts of tangible personal property produced: Enter sales of items that meet the definition of an ingredient or component part (page 10), for which you have a completed Ingredient or Component Part Exemption Certificate, Form ST-28D in your records.

(e) Sales of items consumed in the production of tangible personal property: Enter sales of items which meet the definition on page 9 of "property that is consumed" for which you have a completed Consumed in Production Exemption Certificate, Form ST-28C, in your records.

(f) Sales to nonprofit hospitals, or nonprofit blood, tissue or organ banks: Enter your sales of goods or services to public or nonprofit hospitals or to blood, organ or tissue banks for which you have a Tax-Exempt Entity Exemption Certificate, Form PR-78KS. *Non-inventory* purchases by a taxable business operated by the hospital, blood, organ or tissue bank (such as a public cafeteria or gift shop) are taxable.

(g) Sales to nonprofit educational institutions: Enter sales of goods or services to nonprofit educational institutions for which you have a Tax-Exempt Entity Exemption Certificate, Form PR-78ED. Purchases by agents or employees with their personal funds, and purchases of materials by a school to construct or repair a dormitory are subject to sales tax.

(h) Sales to qualifying sales tax exempt religious and nonprofit organizations: Enter sales of goods or services to religious and other nonprofit organizations who have been granted a sales tax exemption. These sales must also be supported in your sales tax records by a Tax-Exempt Entity Exemption Certificate, Form PR-78RO.

(i) Sales of farm machinery and equipment, replacement parts and service: Enter sales of farm machinery and equipment, repair and replacement parts, and labor services performed to repair or maintain farm machinery and equipment. Farm machinery and equipment does NOT include any passenger vehicle, ATV, truck, truck tractor, trailer, semitrailer or pole trailer other than a farm trailer. To verify the exemption, the buyer must either sign the invoice certifying the purchase will be used only in farming and ranching, or complete an Agricultural Exemption Certificate, Form ST-28F.



(j) Sales of integrated production machinery & equipment: Enter all sales of machinery & equipment used in an integrated production operation at a Kansas plant or facility that are an integral or essential part of its process to manufacture, process, fabricate, finish, or assemble items for wholesale or retail distribution. Include also sales of repair and replacement parts and the labor services to install, repair or service said machinery & equipment. Exempt sales must be documented with a completed Integrated Production Machinery & Equipment Exemption Certificate, Form ST-201.



(k) Sales of alcoholic beverages:

Restaurants and private clubs selling alcoholic beverages will enter their alcoholic drink sales (exclusive of the Liquor Drink Tax). This is the same amount that is entered on line 1 of the Liquor Drink tax return for the same filing period.

(l) Non-taxable labor services, original construction, and residential remodeling labor services: Contractors will use this line to report their deductions for:

- “original construction” labor services,
- residential labor services,
- subcontractor materials and labor,
- cost of project materials on which sales tax was paid, and
- non-taxable services performed (such as excavation).

(m) Deliveries outside of Kansas: Enter the total sales of merchandise shipped or delivered to customers in other states. Out-of-state delivery must be substantiated in your records with one of the documents listed on page 19.

(n) Other allowable deductions: Itemize any other deductions. Three common deductions are:

(1) Sales of vehicle fuel on which Kansas fuel tax has been paid: Gas stations, coops, and fuel retailers will enter fuel sales that are not subject to the sales tax because a motor fuel tax has been paid.



(2) Sales of prescription drugs, prosthetic devices or insulin: Enter sales of these exempt items for which you have a written prescription from a person licensed to practice the healing arts, dentistry, or optometry. The prescription order acts as the exemption certificate. Exempt prosthetic devices are defined on page 9.



(3) Bad Debts: You may take a deduction for bad debts that are written off as uncollectible during the filing period and are eligible to be deducted for federal income tax purposes.



CAUTION: “Other Allowable Deductions” does not include business expenses such as postage, mileage, utilities, booth rent, and other overhead items. You must keep records of these and similar expenses to determine your overall business profit/loss for income tax purposes, but they are not a

factor on your sales tax return. The sales tax return is used to report total sales made (taxable and not taxable) and the sales tax you have collected from your customers.

LINE 4 — NET SALES.

The net sales figure on a sales tax return (such as line 4 of Form ST-16) *cannot be less than zero*. Should your returned merchandise or bad debt deductions be more than your sales for the reporting period, use the deductions to reduce net sales to zero for that filing period. Use the remaining deductions on your next return.

FINAL STEPS

To help insure proper credit to your sales tax account, use the following check list before mailing your tax return and payment to the department.

- ✓ Enter the tax due in the “Amount of Payment” boxes.
- ✓ Sign the return on the back of the form.
- ✓ Make your check or money order for the tax due payable to “Retailers’ Sales Tax.” **DO NOT SEND CASH.**
- ✓ Write your Kansas sales tax account number and the filing period on your check or money order.
- ✓ **DO NOT** staple the return and payment together or send any other tax payment with your return.
- ✓ Use the sales tax return envelope provided. If you do not have this return envelope, mail the return and payment to:

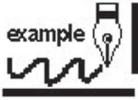
Sales & Excise Tax
Kansas Department of Revenue
915 SW Harrison St.
Topeka, KS 66625-5000

Other guides for paper returns are on page 24.

**SAMPLE COMPLETED SALES TAX RETURN
FORM ST-16**

The sample filled-in Form ST-16 on the following page illustrates how to correctly report:

- retail sales of tangible personal property,
- personal use of inventory, and
- common deductions and exempt sales.



John & Sandra Murray own Quick Time Convenience in Wichita, KS. Total receipts for July were \$14,588.93, including the 7.3% sales tax collected on taxable transactions. Sales to the U.S. Government were \$45.00, and sales to a school were \$150.00. They made a gift of six cases of Pepsi costing \$30.00 to a neighborhood block party and took grocery items costing \$20.00 from inventory for their own use. Their sales tax calculations and July return follows.

STEP 1 Figure the sales tax base for taxable sales. Add non-taxed sales: \$45 + \$150 = \$195. Subtract from total receipts:
 $\$14,588.93 - \$195 = \$14,393.93$

STEP 2 Figure total receipts for the month, exclusive of tax. The \$14,393.93 figure includes 7.3% sales tax. To compute the net, divide by 1+ the tax rate.
 $\frac{\$14,393.93}{1.073} = \$13,414.66$

STEP 3 Enter the total gross receipts on line 1:
 $\$13,414.66$ retail + $\$195$ non-taxed = $\$13,609.66$.

STEP 4 Enter the cost of the inventory used personally on line 2: $\$30 + \$20 = \$50$.

STEP 5 Enter the non-taxable and exempt sales deductions by category in Part II of the return. Transfer the total – $\$195$ – to line 3 of the front of the return.

STEP 6 Add lines 1 & 2. Subtract line 3 to arrive at Net Sales subject to sales tax (line 4).
 $\$13,609.66 + \$50 - \$195 = \$13,464.66$

STEP 7 Figure the tax. Multiply the amount on line 4 by the applicable tax rate (shown just to the right of line 5). $\$13,464.66 \times .073 = \982.92

STEP 8 Enter the amount of any Credit Memo received from the department (see page 42) on line 6 and subtract it from the Net Tax (line 5). Enter the total tax due – $\$982.92$ – on lines 7 and 10, and in the "Amount of Payment" boxes. To check this tax figure:

Retail sales: $\$13,414.66 \times .073 = \979.27
 Gifts: $\$50 \times .073 = \3.65
 Total tax due: $\$982.92$

ST-16 Kansas Retailers' Sales Tax Return				FOR OFFICE USE ONLY		Part I	
Tax Account Number 004-123456789F-01		EIN 123456789		1. Gross Sales/Receipts	13,609.66	Tax Rate 7.3%	
Beginning Date 07-01-06	Ending Date 07-31-06	Due Date 08-25-06	Jurisdiction Code SEDCO	2. Merchandise Consumed	50.00		
Business Name and Address JOHN & SANDRA MURRAY QUICK TIME CONVENIENCE PO BOX 102 WICHITA KS 67207				3. Deductions	195.00		
				4. Net Sales	13,464.66		
				5. Net Tax	982.92		
				6. Credit Memo	.		
				7. Subtotal	982.92		
				8. Penalty	.		
				9. Interest	.		
				10. Total Due	982.92		
Date Business Closed	Amended Return	Additional Return	Name or Address Change	Payment Amount	\$ 982.92		

Part II (Deductions)

A. Sales to other retailers for resale	.	A
B. Returned goods, discounts, allowances and trade-ins	.	B
C. Sales to U.S. government, state of Kansas and Kansas political subdivision	45.00	C
D. Sales of ingredient or component parts of tangible personal property produced	.	D
E. Sales of items consumed in the production of tangible personal property	.	E
F. Sales to nonprofit hospitals or nonprofit blood, tissue or organ banks	.	F
G. Sales to nonprofit educational institutions	150.00	G
H. Sales to qualifying sales tax exempt religious and nonprofit organizations	.	H
I. Sales of farm equipment and machinery	.	I
J. Sales of integrated production machinery and equipment	.	J
K. Sales of alcoholic beverages	.	K
L. Non-taxable labor services, original construction and residential remodeling	.	L
M. Deliveries outside of Kansas	.	M
N. Other allowable deductions (Enclose schedule)	.	N
O. Total Deductions (Enter amount here and on line 3, Part I)	195.00	O

ST-16 (Rev. 7/03)

I certify this return is correct.

SIGN HERE *John Murray*



AVOIDING COMMON MISTAKES ON PAPER RETURNS

Return errors can slow processing and create problems for taxpayers. Follow the guidelines below to avoid the errors most often found on paper returns.

✓ Use the proper return

Paper sales and use tax returns and vouchers are encoded to allow machine scanning of the returns and payments. Whenever possible, use the pre-printed return sent to you. **DO NOT** use a return for any other period, tax type, previous owner or other state.

If you do not have a pre-printed return, obtain a blank return from our office. **Use the original copy; DO NOT use a photocopy of a return.** In order for the scanning process to work effectively, it is **MOST IMPORTANT** that you use original forms with the colored boxes.

✓ Identify a blank return

If you must use a blank return, obtain an original blank return from the department, and print or type the following information in the spaces provided.

- 1) The *complete* name and address of your business,
- 2) your tax account number,
- 3) the correct jurisdiction code(s) for location (destination) of sales, and
- 4) the filing period and due dates.

✓ Legibility

Print or type all information on the return using **BLACK** ink. Keep your figures within the confines of each line, column or box; do not write so large that your figures cover more than one line, column or box. When writing the financial information, do not use dollar signs, lines, slashes, or other symbols. For example, to report \$17,360.00:

Do:

	1	7		3	6	0		00
--	---	---	--	---	---	---	--	----

Do Not:

\$	1	7		3	6	0		00
----	---	---	--	---	---	---	--	----

✓ Use the correct line

Make sure you enter the figures on the proper line of the return. If a line does not apply, leave it blank.

✓ Check your math

Once the return is complete, recheck all of your figures and calculations for accuracy. Transposed numbers and

math errors can cost you money either by overpaying the tax due or paying the late charges incurred on any shortages.

✓ Enclose the payment

Don't forget to enclose your check or money order for payment of the tax due with the return. Returns received without payment are subject to late charges (see page 42). Do not mail a tax payment without a return or voucher, and **DO NOT STAPLE** the payment to the return or voucher.

PAPERLESS FILING AND PAYMENT OPTIONS

TeleFile and WebFile

All retailers have a paperless filing option for *sales tax* returns. They may file the return by telephone - the **TeleFile** method, or use their personal computer to **WebFile**. Both methods are secure and offer a number of benefits over filing a paper return.

TeleFile allows you to file your return using the key pads on your touch-tone telephone to enter the financial information. TeleFile is for single jurisdiction filers (retailers selling only to customers on-site) whose filing status is not pre-paid monthly.

WebFile is available through our secure web site for any retailer who has a computer and Internet access. Visit our e-commerce web site at www.webtax.org for information on how to use WebFile. This on-line filing program is very similar to the paper ST-36 form, and can accommodate those filers collecting tax for more than one jurisdiction and also those with a pre-paid monthly filing status. Your return data is transmitted securely.

TeleFile and WebFile advantages include:

- Systems are available 24 hours a day, 7 days a week – file your return at any time prior to the due date;
- There is nothing to mail to the department if you use the EFT debit or credit card options for payment;
- Receipt of a confirmation number ensures that your return has been received; and,
- Warehousing your payment – the “file now, pay by the due date” option.

To use either method of filing you will need a PIN (Personal Identification Number) from the department. Businesses who have a PIN number for TeleFile filing may use the same PIN to access their account for WebFile. Please contact our e-commerce personnel

ST-16TEL Kansas Retailers' Sales TeleFile Worksheet

Enter your nine-digit Employer Identification Number (EIN)
(If you have a K or A number instead of an EIN, press "5" for letter "K" and "2" for letter "A")

Enter your seven-digit Personal ID Number (PIN)

Check the box that indicates the type of return you are filing:

Original Press Amended Press Additional Press

If your filing period is not pre-printed on this worksheet, you must enter the ending date of the current tax period (mm/dd/yy)

Example: Press for a December, 2006 return.

1. Gross sales or receipts (do not include the tax collected in this figure).

To enter your gross sales or receipts as a positive amount, press 1. To enter your gross sales or receipts as a negative amount, press 2. If you have no gross sales or receipts to report, press zero. Remember to enter dollars *and cents*.

2. Enter the amount of merchandise consumed by you purchased without tax. For example, if you took items out of your inventory for your personal use that were purchased without tax, enter the price you paid for these items, including shipping and handling. If none, enter zero

3. Schedule of Deductions -- Press if you have deductions to report; press if you **do not** have deductions. Enter the amount for each deduction as applicable in the table below. TeleFile will instruct you to enter the line number that corresponds with your deduction item(s).

(Note: Be sure to enter your deductions on the correct line. For a detailed explanation of these deductions, obtain Publication KS-1510 and Publication KS-1520 from the Department of Revenue web site at www.ksrevenue.org.)

1. Sales to other retailers for resale	
2. Returned goods, discounts, allowances and trade-ins	
3. Sales to U.S. Government, state of Kansas and political subdivisions	45.00
4. Sales of ingredient or component parts of tangible personal property produced	
5. Sales of items consumed in the production of tangible personal property	
6. Sales to nonprofit hospitals or nonprofit blood, tissue or organ banks	
7. Sales to nonprofit educational institutions	150.00
8. Sales to qualifying sales tax exempt religious and nonprofit organizations	
9. Sales of farm equipment and machinery	
10. Sales of integrated production machinery and equipment	
11. Sales of alcoholic beverages	
12. Nontaxable labor services, original construction and residential remodeling	
13. Deliveries outside of Kansas	
14. Other allowable deductions	

TeleFile will calculate your total deductions. Enter the amount in the shaded box

Press to hear the amount again or press to continue.

CONTINUE ON NEXT PAGE

4. TeleFile will calculate your **net sales**. Enter the amount in the shaded box
5. TeleFile will calculate your **net tax**. Enter the amount in the shaded box
Press to hear the amount again or press to continue.
6. If applicable, enter the amount of the **credit memo** received from the Department of Revenue. **If you are filing an amended return**, enter the total amount previously paid for the filing period you are reporting. If none, enter zero
7. TeleFile will calculate the **total due**. Enter the amount in the shaded box
Press to hear the amount again or press to continue.

BANKING INFORMATION

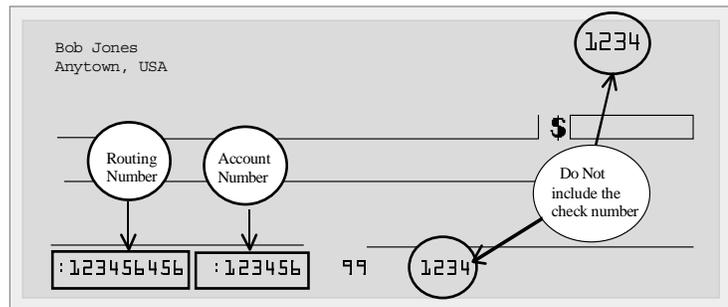
If you are a first time user for the ACH Debit Method of payment or need to change your banking information, complete this section and be prepared to enter the bank account and routing numbers. (Note: The information you provide here is the same information reflected on your check.) After you have provided your banking information to the Department of Revenue, it will be stored in our database and you will not need to enter it again.

Check the type of **bank account** you will be paying from: Checking Press Savings Press

Enter your **account number**

Enter your nine-digit **routing number**

The example to the right shows where you can obtain the account number and routing number from your check.



TeleFile will give you the amount that will be debited from your account and remitted to the Department of Revenue. Enter the amount in the shaded box

To acknowledge that payment will be deducted from your account on the 25th, press . If you prefer to use the next business day rule and have your payment deducted the day after you TeleFile, press .



DO NOT HANG UP UNTIL YOU RECEIVE YOUR CONFIRMATION NUMBER

TeleFile will give you a 12-digit **confirmation number**. Enter the number in the shaded boxes. (REMINDER: If you hang up before you receive your confirmation number, your return will not be filed and your payment will not be processed)

Press to hear your confirmation number again or press to continue.

Enter the date you TeleFiled your return

You are now ready to TeleFile. Dial 1-877-317-5639. This is a toll free call.

DO NOT MAIL YOUR TELEFILE WORKSHEET - KEEP IT FOR YOUR RECORDS

REPORTING SALES FOR MULTIPLE JURISDICTIONS ON FORM ST-36



All-American Furniture Company of Lawrence, Kansas is registered with the department to collect and remit its Kansas retailers' sales tax on a pre-paid monthly basis. The estimated tax amount paid for July with its June 2003 return was \$3,200.00. During July 2003, All-American Furniture Company has gross sales of \$100,000, consisting of:

- 1) \$25,000 of over-the-counter sales in which their customers took possession of the items in Lawrence, including a \$5,000 sale to a qualified religious organization.
- 2) \$30,000 of sales delivered to customers within the city limits of Lawrence.
- 3) \$15,000 of sales delivered to customers outside the city limits of Lawrence, but within Douglas County.
- 4) \$20,000 of sales delivered to customers within the city limits of Eudora.
- 5) \$10,000 of sales delivered to customers within the city limits of De Soto (Johnson County).

NOTE: In the steps that follow, instructions are given for the first jurisdiction, **Lawrence**. Since the furniture store must collect the state and local sales tax based on the "destination" of the furniture (where the customer takes delivery), it will repeat Steps 1-8 for each of the four sales tax jurisdictions during this filing period. The ST-36 return is also used to report sales for a business with multiple locations, following the same steps to report each jurisdiction where sales are made.

STEP 1 Complete Part III on the back of Form ST-36 (page 30). If not preprinted, enter the name of each city and county jurisdiction. For example: **Lawrence/Douglas**

STEP 2 Enter the 5-letter code for each jurisdiction in "Column 1 – Code," using Publication KS-1700, Sales Tax Jurisdiction Code Booklet. For example, the jurisdiction code for Lawrence is **LAWDG**.

STEP 3 Enter in "Column 2 – Gross Sales" the gross receipts (taxable and non-taxable) for the month in each local jurisdiction. For example, the total gross sales "sourced" to **Lawrence** is **\$25,000 + \$30,000 = \$55,000**.

STEP 4 Enter in "Column 3 – Merchandise Consumed By You" the cost of the goods consumed at each location upon which no sales tax has been paid, explained on page 18. There were no transactions of this type during July, so this column will be blank.

STEP 5 Enter in "Column 4 – Part II (Non-Utility) Deductions" the total deductions (non-taxable and exempt sales) for each jurisdiction. For example, the deduction for **Lawrence** is **\$5,000**, the exempt sale to the religious organization picked up in Lawrence.

STEP 6 Enter the amount of net sales in "Column 5 – Net Sales." To compute, **add** "Column 2 – Gross Sales" and "Column 3 – Merchandise Consumed by You," together. Then subtract "Column 4 – Part II Deductions." **Lawrence**, for example, would be: **\$55,000 + \$0 - \$5,000 = \$50,000**.

STEP 7 Enter the tax rate in "Column 6 – Combined Tax Rate %" for each jurisdiction using Publication KS-1700, Jurisdiction Code Booklet. For example, Lawrence's tax rate is **7.3% (.073)**.

STEP 8 Enter in "Column 7 – Net Tax" the amount of tax due. To compute, multiply the Net Sales in Column 5 by the tax rate in Column 6. Lawrence, for example is:

$$\$50,000 \times .073 = \$3,650.$$

STEP 9 Finish Part III by repeating Steps 1-8 for each jurisdiction, and then adding the net tax amounts from each jurisdiction in Column 7 together. Enter the total for all jurisdictions on line 10, Part III, **and** again on line 1, Part I on the front of the return.

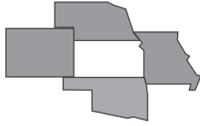
STEP 10 Complete Part II on the front of the return (page 26). Itemize by category the deductions for all sales for the periods on the applicable line. (Line O, of Part II should equal the total of Column 4 – Deductions in Part III.)

STEP 11 Complete Part I on the front of the return. For many retailers this just involves entering the tax due amount from Part III on lines 1, 3, 6 and 11 of Part I. However, this retailer is required to "pre-pay" the tax liability for the August 1-15, 2003 period with the July return. This is estimated at \$3,350 and entered on line 4. The estimated amount paid for July with the June return is \$3,200. To arrive at the tax due with this return, add lines 3 and 4 and subtract line 5.

$$(\$6,770 + \$3,350) - \$3,200 = \$6,920.00.$$

STEP 12 Complete Payment Voucher, Form ST-36V, entering the prepayment amounts (if required) and the total payment amount in the boxes. Make your check payable to "Retailers' Sales Tax," and write your tax account number and filing period on your check. Keep a photocopy for your records and mail the original return and payment to:

Sales & Excise Tax
Kansas Department of Revenue
915 SW Harrison St.
Topeka, KS 66625-5000



KANSAS USE TAXES

Since 1937, Kansas has imposed a use tax on goods purchased by Kansans (individuals and businesses) from outside Kansas and used, stored, or consumed in Kansas on which no sales tax was paid, or a sales tax less than the Kansas rate was paid. The purpose of compensating use tax is to protect Kansas businesses from unfair competition from out-of-state retailers who sell goods tax-free; use tax “compensates” for the lack of sales tax paid at the time of purchase. A use tax also helps to assure fairness to Kansans who purchase similar items in Kansas and pay Kansas sales tax on them.

All the states that have a general sales tax also have the companion use tax. Items purchased in or from Alaska, Delaware, Montana, New Hampshire, and Oregon are **automatically** subject to use tax since these five states do not have either a general sales or a use tax. (For example, Montana applies a sales tax to only a few selected transactions).

Use tax is due on out-of-state purchases whether the property is shipped into Kansas or picked up in another state and brought back to Kansas. It applies only to tangible personal property — labor services are not subject to use tax. Like sales tax, compensating use tax is based on the total cost of the goods purchased, including postage, shipping, handling, or transportation charges.

Although established in 1937, compensating use tax is probably the tax most often unpaid by Kansas individuals and businesses. There are two types of compensating use tax:

Consumers' Compensating Use tax — paid by Kansas consumers direct to the Kansas Department of Revenue.

Retailers' Compensating Use tax — collected by retailers in other states from their Kansas customers. (An explanation of this tax begins on page 35).

 **IMPORTANT:** Prior to July 1, 2003, the Kansas use tax rate was equal to the state sales tax rate - 5.3%; a local use tax was imposed only on vehicles and boats. **Effective July 1, 2003, local use tax now applies to any type of tangible personal property shipped from a retailer outside of Kansas to a Kansas resident for use, storage or consumption.** Like in-state sales tax transactions, the local use tax rate imposed is generally the rate where the customer takes delivery or possession, according to the same “sourcing” rules discussed beginning on page 14, “Local Sales Tax Application - Destination-Based Sourcing.”

The net effect of the changes in sales and use tax law effective July 1, 2003 is that the same rate of tax will now apply to a taxable item purchased by a Kansas consumer, whether it is purchased locally, delivered to the Kansas consumer by a Kansas retailer, or shipped to the Kansas consumer by an out-of-state retailer.

CONSUMERS' COMPENSATING USE TAX

The consumer's compensating use tax is due when Kansas residents buy goods or merchandise for their use or consumption in Kansas from vendors in other states on which a state and local sales tax rate equal to that of the Kansas buyer has not been paid. **How** the transaction is accomplished - phone, fax, catalog, Internet - is not a factor. When a taxable item is purchased in Kansas, state and local sales tax is due; when that taxable item is purchased outside Kansas for use in Kansas (not resale), state and local use tax is due.

Use Tax and Your Business

Many Kansas businesses are not aware of their consumers' use tax obligation until they are audited by the department — a costly oversight. As a business, you owe use tax as the final consumer of the equipment, fixtures, tools, and other taxable non-inventory items purchased from vendors located outside of Kansas.



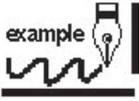
Before opening a clothing store in Salina (state and local tax rate of 7.05%), you order garment racks shipped from a firm in St. Louis. The St. Louis retailer cannot legally charge you Missouri sales tax because the racks are being shipped across the state line. If the retailer does not collect Kansas Retailers' Compensating Use Tax of 7.05% (see page 35), you must pay the Kansas Consumers' Compensating Use Tax of 7.05% on the total cost of the garment racks. Had you ordered the racks from a Kansas retailer shipped to you in Salina, the Kansas retailer would have charged you the 7.05% total Salina tax on them as well.

As your business progresses, use tax most often occurs when you are replacing worn-out items (such as the linens and mattresses purchased by a hotel or motel) or buying office supplies from vendors outside of Kansas.



A Dodge City CPA orders tax preparation software from Minneapolis, MN. The CPA will owe 7.45% Kansas compensating use tax (rate in effect in Dodge City) on the cost of the software, including shipping and handling, if the Minnesota retailer does not charge Kansas Retailers' Compensating Use tax on the order.

If the state and local sales tax paid in another state is less than the total tax rate at Kansas buyer's location, only the difference is due to Kansas.



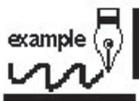
Linda needs to replace the dough mixer in her Wichita bakery. She orders one from Tulsa and can save an additional 10% on the price by picking the mixer up in Tulsa. She is charged the cost of the mixer, less her discount, plus Oklahoma sales tax of 5%. Upon her return to Kansas, she owes Kansas use tax of 2.3% (7.3% - 5% = 2.3%) on the total cost of the mixer.

Use Tax on Non-Business Purchases

Individual Kansas consumers buying goods in other states or through catalogs, mail-order companies, over the Internet, or from TV, magazine, and newspaper ads must pay Kansas consumers' use tax on these purchases if the seller does not charge the Kansas Retailers' Compensating Use tax percentage for the consumer's location. The following examples illustrate typical purchases on which Kansas residents owe Consumers' Compensating Use tax to the Kansas Department of Revenue. (See NOTE below).



Evelyn buys a place setting of her china through the manufacturer's web page. The china is shipped to her Goodland, Kansas address; sales tax is not charged on the order. Evelyn owes 7.55% Kansas state and local use tax in effect in Goodland on the total cost of the china (purchase price plus shipping and handling).



While on vacation in Colorado, Don buys a camera for \$300 plus 6% Colorado sales tax. Upon returning to his home in Topeka, Kansas, Don owes Kansas use tax of 1.45% or \$4.35 (7.45% - 6% = 1.45% X \$300 = \$4.35). Had he bought the camera in an area of Colorado where the sales tax is 7.5%, Kansas use tax would not be due since the state and local tax rate paid in the other state is equal to or greater than the state and local rate in Abilene, Kansas.



While visiting his sister in Pennsylvania, Fred buys a pair of pants, a shirt, and golf shoes. Although Pennsylvania has a state sales tax of 6%, most items of clothing are not subject to sales tax in Pennsylvania. As a Olathe, Kansas resident, Fred owes 7.525% state and local Kansas Consumers' Compensating Use Tax on these items since they would have been subject to sales tax had they been purchased in Kansas.

NOTE: Individuals may choose to pay their Consumers' Use Tax on the Kansas Individual Income Tax Return, Form K-40. To obtain forms contact our office (see front cover) or visit our web site at www.ksrevenue.org.

HOW TO REPORT and PAY CONSUMERS' USE TAX



One-Time Purchase

To report and pay use tax on a one-time out-of-state purchase similar to the previous business examples, you need only to complete a Consumers' Compensating Use Tax Return, Form CT-10U. Complete the use tax return and pay the tax due within 30 days of the purchase. You may request a blank return from our office, or by calling the department at (785) 368-8222.

Enter your name and address information on the return. Write "One-Time Purchase" to the right of your name and address in the box. Since you are reporting tax on a single purchase, and are not registered with the department to report Consumer's Compensating Use Tax, please enter your Social Security number in the "Tax account number" box. Follow the example on the next page to complete the financial information.

Periodic Purchases – Permanent Registration

Businesses who make several purchases during the year of merchandise, supplies, tools, and equipment from out-of-state retailers should register with the Kansas Department of Revenue to periodically report and pay this tax. To obtain a Consumers' Compensating Use tax reporting number, simply complete the Business Tax Application, Form CR-16. This is the same form used to apply for a Kansas sales tax number and is available from our office, our forms request line, or our web site. If you are already registered for sales tax, check the "Registration of Additional Tax Types" in Part 1 of the application.

Once your application is processed, the department will assign the use tax reporting number. A consumer's use tax reporting number follows the same general format as a sales tax number (discussed on page 11), except that the tax-type prefix for Consumer's Compensating Use tax is "006." Example:

006-482345678F-01 or 006-K12345678F-01.

Like sales tax, how often you will report and pay your use tax (monthly, quarterly, or annually) depends on an estimate of the annual amount of use tax due entered on the application, according to the chart on page 20. Paperless filing and payment options are also available through our e-commerce web site: www.webtax.org. If you elect to file paper returns, you will periodically receive your use tax returns (Form CT-10U) by mail.

SAMPLE COMPLETED CONSUMERS' COMPENSATING USE TAX RETURN, FORM CT-10U



John Diamond owns a jewelry store in Liberal, Kansas. In July he ordered display cases from Tulsa shipped to his Liberal address; no sales tax was charged on the invoice amount of \$1,575 plus \$80 shipping. On a buying trip to Colorado in September, he purchased a new computer printer for \$450 plus 6% Colorado state and local sales tax. **NOTE:** Had Mr. Diamond made similar purchases for other store locations in Garden City and Ulysses, he would report them according to each of those jurisdictions.

STEP 1 Complete Part II on the back of Form CT-10U (shown below). Using the jurisdiction code book, Publication KS-1700, enter the jurisdiction name in the taxing jurisdiction column, its 5-letter code in column 1, and its combined rate in column 3. For example: **Liberal/Seward, LIBSW**. The combined rate for Liberal in column 3 is **7.95%**.

STEP 2 Enter in column 2 the total cost of out-of-state purchases subject to Kansas use tax (non-inventory items on which the tax paid is less than the rate for your area).

Display cases from Tulsa	\$1,655
Printer from Denver	<u>\$450</u>
Total purchases	\$2,105

STEP 3 Multiply the amount in column 2 by the Liberal, use tax rate of 7.3% (.073) already entered in column 3. Enter the result in column 4.

\$2,105 X .0795 = \$167.35

STEP 4 Enter in column 5 the amount of state and local sales tax paid to another state on purchases entered in column 2. On the printer purchased in Colorado for \$450, Mr. Diamond paid a Colorado state and local sales tax of 6%.

\$450 X .06 = \$27.00

STEP 5 Subtract column 5 from column 4 and enter the result on column 6.

\$167.35 - \$27.00 = \$140.35

Complete Steps 1-5 for other jurisdictions (no others in this example). Enter the total tax on 9 of Part II.

STEP 6 Complete Part I (page 34). Enter the total tax due from line 9 of Part II on line 1. If the return is timely, enter this amount again on lines 4, 6 and 9, and sign the return. If your filing frequency is "prepaid monthly," complete lines 2 and 3 and prepayment boxes on the voucher (CT-10UV).

STEP 7 Complete the voucher, Form CT-10UV, entering the amount from line 9 again in the "Amount of Payment" boxes. Make your check payable to "Kansas Consumers' Compensating Use Tax." Write your tax account number (or Social Security number if you do not have a permanent reporting number) and filing period on your check. Keep a photocopy for your records and mail the original return and payment to:

Sales & Excise Tax
Kansas Department of Revenue
915 SW Harrison St.
Topeka, KS 66625-5000

CT-10U
(Rev. 7/05)

Part II

**Kansas Consumers'
Compensating Use
Tax Return**

432103

Business Name JOHN DIAMOND				<table border="1" style="font-size: small;"> <tr> <td>MM</td> <td>DD</td> <td>YY</td> </tr> <tr> <td>07</td> <td>01</td> <td>06</td> </tr> <tr> <td>09</td> <td>30</td> <td>06</td> </tr> </table>			MM	DD	YY	07	01	06	09	30	06
MM	DD	YY													
07	01	06													
09	30	06													
Tax Account Number 006-123456789F01		EIN 123456789		Period Beginning Date											
Taxing Jurisdiction City/County				(1) Code	(2) Total Taxable	(3) Combined Tax Rate %	(4) Net Tax	(5) Tax Paid in Another State	(6) Tax Due						
Liberal/Seward				LIBSW	2,105.00	7.95%	167.35	27.00	140.35						
7. Total Tax Due (Part II).								140.35							
Total Number of supplemental pages included with this return.					8. Sum of additional Part II supplemental pages.										
9. Total Tax (Add lines 7 and 8. Enter result here and on line 1, Part I).								140.35							

RETAILERS' COMPENSATING USE TAX

The Kansas retailers' compensating use tax is collected by retailers in other states that sell tangible personal property to Kansas consumers. **Out-of-state retailers are required to register and collect the Retailers' Compensating Use tax from their Kansas customers if they have established a physical presence or "nexus" in Kansas.**

What is Nexus?

Nexus is defined as a "means of connection" or a "link." What constitutes nexus varies from situation to situation. However some of the areas the department looks for are:

- Business location in Kansas, including an office.
- The presence in Kansas of sales or service representatives.
- Operation of mobile stores in Kansas (example: trucks with a driver salesperson).
- Stocking inventory in a Kansas warehouse or on consignment.
- Providing tangible personal property for lease or rental in Kansas.
- Delivering merchandise to Kansas customers using company vehicles or contract carriers, other than interstate common carriers.
- Providing or contracting for installation, construction, repair, or other services in Kansas (such as maintenance contracts – a Retailers' Sales tax registration is required).

If you are a retailer in another state, and any of the above describes your business activity in Kansas or the activities of your agents, you are required to register and collect the appropriate state and local Retailers' Sales or Compensating Use tax from your Kansas customers.



A Wichita, KS resident orders a personal computer from a Wisconsin retailer; the computer is shipped to him from the retailer's warehouse in St. Louis. The Wisconsin retailer also maintains a retail outlet in Kansas. This out-of-state retailer is **required** to register with the Kansas Department of Revenue to collect the state and local Kansas Retailers' Compensating Use Tax in effect in Wichita.



A Hays, KS resident orders furniture from a Nebraska retailer. The retailer delivers the furniture to her home in Kansas using its own delivery truck. This Nebraska retailer is **required** to register with the Kansas Department of Revenue to collect the state and local Kansas Retailers' Compensating Use tax in effect for the city of Hays, since the delivery of the furniture into Kansas with a company vehicle has established nexus.

Application of Local Use Tax

Local use tax applies to all sales of tangible personal property that are subject to the retailers' compensating use tax, according to the same "sourcing rules" used for retailers' sales and consumers' compensating use taxes that are discussed on page 14. The local tax that will apply is based on the destination of the goods, most generally identified by the delivery address of the customer, as illustrated by the two previous examples.

Establishing Nexus in Another State

If you are a Kansas retailer, and any of the "nexus" activities in the opposite column describe your business in another state, contact that state to register to collect the sales or use tax from your customers in those states. (For more information on registering in another state, see "Midwest Border States Compact" on page 39.)

If you do not have a physical presence (nexus) in Kansas, you are not required to collect and remit the Kansas Retailers' Compensating Use tax. Your Kansas customers will owe the state and local Consumers' Compensating Use tax direct to the department on purchases from your company. However, as a convenience to your Kansas customers, it is beneficial to register voluntarily.



A Kansas resident orders food products from a California retailer's web site. Delivery is by **common carrier** (U.S. Post Office, FedEx, UPS, or freight line). Although the California food products retailer may register with the Kansas Department of Revenue to collect Kansas Retailers' Compensating Use tax as a convenience to its Kansas customers, the California retailer is not legally required to do so because it does not have a physical presence in Kansas.

Registration and Filing Frequency

The registration procedure for Retailers' Compensating Use Tax is the same as for sales tax. Obtain our Publication KS-1216, Kansas Business Tax Application, and complete Form CR-16. Once your application is processed, you are assigned a Retailers' Compensating Use tax account number following same format as the sales and consumers' use tax numbers previously discussed; the tax type prefix for Retailers Compensating Use tax is "005."

005-331234567F-01 or 005-K12345678F-09

Your filing frequency for Retailers' Compensating Use Tax is based on the annual amount of Kansas tax collections according to the chart on page 20. Electronic filing and payment options are available for this tax as well; visit our web site www.webtax.org for details.

RECIPROCAL DISCOUNTS

In order to effectively administer and enforce use tax law and collect the use tax due, Kansas law allows the Secretary of Revenue to enter into reciprocal agreements with the tax departments of other states. The Kansas Department of Revenue currently has reciprocal agreements with its four bordering states — Colorado, Missouri, Nebraska, and Oklahoma.

The reciprocal agreement provides discounts to offset the cost of collecting and reporting another state's tax.

Retailers in these states that collect the Kansas Retailers' Compensating Use tax are eligible to receive a discount on the tax collected. Likewise, Kansas retailers who are registered in these states are allowed the same discount for collecting that state's use tax. Discounts are only allowed on timely filed returns. If the return is late, the discount is not allowed, and late charges are added to the full amount of the tax due.

The Kansas discounts currently in effect are:

Colorado3.33% discount
Missouri3% discount
Nebraska 3% discount
Oklahoma 2.25% (total discount limited to \$3,300)

SAMPLE COMPLETED RETAILERS' COMPENSATING USE TAX RETURN, FORM CT-9U

A Retailers' Compensating Use tax return is completed using many of the same steps as the Retailers' Sales Tax Return, Form ST-36; the major difference is the application of reciprocal discounts. This example illustrates completion of the return for an out-of-state retailer that qualifies for a reciprocal discount because of its location in Colorado.



ZZ Catalog Company in Denver, Colorado has a retail store in Overland Park. In addition to its Retailers' Sales tax registration in Overland Park, the company is registered to collect the state and local Kansas Retailers' Compensating Use tax on catalog sales to its Kansas customers. A breakdown of its Kansas catalog sales in August 2006 by Kansas tax jurisdiction is shown below:

	KANSAS GROSS SALES	DEDUCTIONS (Sales for Resale)
Wichita	\$2,000.00	\$200.00
Andover	\$1,000.00	\$150.00
Dodge City	\$1,000.00	\$100.00
Kiowa	\$1,000.00	\$100.00
De Soto - JO Co.	\$1,000.00	\$150.00
De Soto - LV Co.	\$1,000.00	\$150.00
Barton Co.	\$2,000.00	\$400.00
Sedgwick Co.	\$3,254.75	\$500.00
Butler Co.	\$1,000.00	\$412.00

STEP 1 Complete Part III (page 37). Complete Columns 1-8 for each jurisdiction. For example, Wichita:

Taxing Jurisdiction:	Wichita/Sedgwick
Code (column 1)	WICSG
Kansas Gross Sales (column 2)	\$ 2,000.00
Less Deductions (column 3)	<u>200.00</u>
Net Sales	1,800.00
Combined Tax Rate (column 4)	<u>X .073</u>
Tax before discount (column 5)	131.40
State Code for discount (column 6)	CO
Less 3.33% CO discount (column 7)	<u>(4.38)</u>
Net Tax due (column 8)	\$ 127.02

STEP 2 Repeat the calculations in Step 1 for each of the jurisdictions to which deliveries were made for the filing period. Enter the total tax due for all jurisdictions, 772.23, on line 11 of Part III.

STEP 3 Complete Part I (page 38). For most retailers this just involves entering the tax due amount from line 9 of Part III, **\$772.23**, on lines 1, 4, 6 and 9 of Part I. (Pre-paid monthly filers must complete lines 2 and 3 - see Step 11 on page 28).

STEP 4 Complete Part II. Record the deductions for non-taxed sales for the period by category of deduction. The total deductions, Line L of Part II, should equal the total deductions reported in "Column 3 Deductions" in Part III of the return.

In this example, all the deductions, totaling **\$2,162.00**, were sales to other retailers for resale, entered on Line A and again on Line L.

STEP 5 Complete Payment Voucher, Form CT-9UV. Enter the tax due amount in the payment amount boxes, and make your check payable to "Kansas Retailers' Use Tax." Write your account number and filing period on your check. Keep a photocopy for your records and mail the original return and payment to:

Sales & Excise Tax
Kansas Department of Revenue
915 SW Harrison St.
Topeka, KS 66625-5000

Business Name ZZ CATALOG	
Tax Account Number 005123456789F01	EN 123456789

	MM	DD	YY
Period Beginning Date	08	01	06
Period Ending Date	08	31	06

States, State Codes and Discount Rates. (State codes must be entered in Column 6 to receive the discount.)

Colorado (CO) = 3.33% Missouri (MO) = 3.00%
 Nebraska (NE) = 3.00% Oklahoma (OK) = 2.25% (total discount limited to \$3,300)

Taxing Jurisdiction City/County	(1) Code	(2) Kansas Gross Sales	(3) Deductions	(4) Tax Rate%	(5) Net Tax Before Discount	(6) State Code	(7) Discount Amount	(8) Net Tax
Wichita/ Sedgwick	WICSG	2,000.00	200.00	7.3%	131.40	CO	4.38	127.02
Andover/ Butler	ANDBU	1,000.00	150.00	7.05%	59.93	CO	2.00	57.93
Lodge City/ Ford	DODFO	1,000.00	100.00	7.45%	67.05	CO	2.23	64.82
Kiowa/Barber	KIOBA	1,000.00	100.00	7.3%	65.70	CO	2.19	63.51
DeSoto/ Johnson	DESJO	1,000.00	150.00	8.15%	69.28	CO	2.31	66.97
DeSoto/ Leavenworth	DESLV	1,000.00	150.00	8.05%	68.43	CO	2.28	66.15
Barton Co.	BATCO	2,000.00	400.00	6.55%	104.80	CO	3.49	101.31
Sedgwick Co.	SEDCO	3,254.75	500.00	7.3%	201.10	CO	6.70	194.40
Butler Co.	BUTCO	1,000.00	412.00	5.3%	31.16	CO	1.04	30.12
	

Total Number of supplemental pages included with this return.

9. Total Net Tax (Part III).

772.23

10. Sum of additional Part III supplemental pages.

.

11. Total Tax (Add lines 9 and 10. Enter result here and on line 1, Part I).

772.23

CT-9U

(Rev. 7/05)

Kansas Retailers' Compensating Use Tax Return

FOR OFFICE USE ONLY

<input type="checkbox"/>							
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430103

Business Name ZZ CATALOG		
Mailing Address PO BOX 399		
City DENVER	State CO	Zip Code 81071

Tax Account Number	005123456789F01
EIN	123456789
Due Date	09-25-06

Tax Period	MM	DD	YY
Period Beginning Date	08	01	06
Period Ending Date	08	31	06

Date Business Closed

Amended Return

Additional Return

Name or Address Change

Part I

1. Total Tax Due From Part III	772.23	1
2. Estimated Tax Due for Next Month (See instructions)	.	2
3. Estimated Tax Paid Last Month (See instructions)	.	3
4. Total Tax (Add lines 1 and 2, and subtract line 3)	772.23	4
5. Credit Memo (See instructions)	.	5
6. Subtotal (Subtract line 5 from line 4)	772.23	6
7. Penalty	.	7
8. Interest	.	8
9. Total Amount Due (Add lines 6, 7 and 8)	772.23	9

Part II Deductions

A. Sales to other retailers for resale	2162.00	A
B. Returned goods, discounts, allowances and trade-ins	.	B
C. Sales to U.S. government, state of Kansas, and Kansas political subdivisions	.	C
D. Sales of ingredient or component parts of tangible personal property produced	.	D
E. Sales of items consumed in the production of tangible personal property	.	E
F. Sales to nonprofit hospitals or nonprofit blood, tissue or organ banks	.	F
G. Sales to nonprofit education institutions	.	G
H. Sales to qualifying sales tax exempt religious and nonprofit organizations	.	H
I. Sales of farm equipment and machinery	.	I
J. Sales of manufacturing machinery and equipment	.	J
K. Other allowable deductions	.	K
L. Total deductions	2162.00	L

I certify this return is correct.
Signature Andrew Colley

Do Not Detach This Voucher

CT-9UV

(Rev. 7/05)

Kansas Retailers' Compensating Use Tax Voucher

FOR OFFICE USE ONLY

<input type="checkbox"/>							
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Business Name ZZ CATALOG	
Mailing Address PO BOX 399	
City DENVER	State, Zip Code CO 81071

Tax Account Number	005123456789F01
EIN	123456789
Due Date	09-25-06

Tax Period	MM	DD	YY
Period Beginning Date	08	01	06
Period Ending Date	08	31	06
Amount from line 2	0.00		
Subtract line 2 from line 9 and enter here	772.23		

Payment Amount \$ 772.23

MIDWEST BORDER STATES COMPACT

The Midwest Border States Compact is composed of these eight states:

Illinois	Missouri
Iowa	Nebraska
Kansas	North Dakota
Minnesota	South Dakota

These states have been working together to eliminate unfair competition and increase compliance by informing consumers about their use tax duties, and seeking voluntary registration from out-of-state businesses. State governments are becoming more aggressive in searching out taxpayers that may owe outstanding tax liabilities. These states exchange information and cooperate in enforcement efforts.

In recent years, the number of companies engaging in multistate commerce has multiplied, yet many of these companies are not registered and are not paying taxes to states in which they do business. Millions of dollars in state tax revenues are lost when goods are purchased from out-of-state merchants not collecting and remitting use tax.

In order to protect you and your customers, the Midwest Border States suggests that you voluntarily register to collect sales or use tax.

WHY SHOULD I REGISTER IN ANOTHER STATE?

If you have a business presence or “nexus” (see page 35) for tax purposes in another state, or are performing taxable services, installation, construction or repairs in another state, you may be required by law to register in that state.

Even if you do not have nexus, your registration will prevent the inconvenience of having your customers contacted directly by state tax authorities seeking to collect use tax. Consumers are responsible for remitting use tax on purchases bought from unregistered out-of-state vendors. The states have authority to bill consumers for the unpaid use tax plus penalty and interest.

If you have no sales in a state, you do not need to register in that state. However, once you begin making sales to customers in another state you need to apply for a license if you have established nexus within that state.

REGISTERING IN ANOTHER STATE

Contact these state agencies for forms and assistance in complying with their sales and use tax registration and filing requirements.

Iowa Department of Revenue and Finance

Taxpayer Services Section
P. O. Box 10457
Des Moines, IA 50306-0457
(515) 281-3114
www.state.ia.us/tax

Illinois Department of Revenue

Central Registration Division
P. O. Box 19030
Springfield, IL 62794-9030
(217) 785-3707
www.revenue.state.il.us

Minnesota Department of Revenue

Sales Tax Division – Policy Service
St. Paul, MN 55146-6330
(651) 282-5225
www.taxes.state.mn.us

Missouri Department of Revenue

Taxpayer Services Bureau
P. O. Box 3300
Jefferson City, MO 65105-3300
(573) 751-5860
www.dor.state.mo.us

Nebraska Department of Revenue

Taxpayer Assistance Bureau
P. O. Box 94818
Lincoln, NE 68509-4818
(402) 471-5729
www.revenue.state.ne.us

North Dakota Office of the State Commissioner

State Capitol
600 E. Boulevard Ave.
Bismarck, ND 58505-0599
(701) 328-3470
www.NDtaxdepartment.com

South Dakota Department of Revenue

445 E. Capitol
Pierre, SD 57501-3100
(605) 773-5141 or (800) 829-9188
www.state.SD.us/drr



Will registration automatically subject me to other taxes?

No. However, if you should have been paying other taxes, you will still be expected to pay those taxes.



Will registration automatically subject me to past use taxes?

No. Registration alone does not subject you to liability for failure to collect past sales or use taxes. Liability depends on whether or not you had nexus with the state in question prior to registration and the laws and policies of each state.



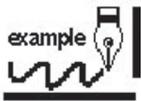
ADDITIONAL INFORMATION

THE INFORMATION IN THIS CHAPTER APPLIES TO BOTH SALES AND USE TAX ACCOUNTS.

IMPORTANT REMINDERS

No Tax Returns

You must file a return for *each* reporting period (prepaid monthly, monthly, quarterly, or annually) **even if no sales or taxable purchases were made during the period.** If you have received a return from the department, you must return it. Failure to file a return will result in a notice from the department (see page 44), causing you additional time and effort.



James has a woodworking hobby and reports his sales tax quarterly. Due to an illness, he did not make any retail sales during the 2nd quarter. He must still file a 2nd quarter return. James will just enter "0" on the Gross Sales and Tax Due lines of his return.

"Zero-Base" TeleFile & Web File: As an added convenience for businesses, the department offers "zero-base" TeleFile and Web File for sales, use, and withholding taxes. It's the quickest way to file the required return when you do not have sales, purchases, or withholding to report for the filing period. Call 1-800-525-3901 for additional information.

Payments to the Department

The Kansas Department of Revenue administers over 20 different tax types, and each month receives approximately 250,000 pieces of business tax mail. To ensure proper credit to your account, be sure that all your tax payments are clearly identified with your business name, your tax account number and the filing period. All tax payments should also be accompanied by either a tax return, payment voucher, or billing document.

Corresponding with the Department

Please include the following on all letters to the Kansas Department of Revenue:

- Your business name and address,
- Your sales or use tax account number,
- The owner's name or contact person, and
- A telephone number where the owner/contact may be reached during normal business hours.

Please allow four to six weeks for a reply and/or resolution of a problem.



REPORTING BUSINESS CHANGES

When changes occur in your business, promptly notify the Kansas Department of Revenue. You may use the sales or use tax return itself, or contact our office by phone or fax. For faster service, please have your tax account number available when calling our office.

Change of Business Name and/or Mailing Address

Below the name and address information on all returns is a box to indicate a change of business name or address. Please mark an "X" in the box and make the changes beside the printed information. You may also report changes to us by phone or fax.

Adding a Business Location

When you are expanding your business by adding location(s), it is not necessary to complete a new business tax application, Form CR-16. Instead, complete Schedule CR-17, Registration Schedule for Additional Business Locations, to register each additional location to update your current customer profile. This form is available from our web site or office. You will report all sales for the new or additional location(s) under your current sales tax account number using Form ST-36.

Change of Business Location

When you move your business from one local taxing jurisdiction to another, the department must adjust its records so that the appropriate county and/or city is credited the sales tax. Please provide the following information about your new business location when calling to report the change:

- Exact physical address and zip code
- City and county
- If the new location is inside the city limits of an incorporated city
- Effective date of relocation

Change of Partners

If less than 50% of the ownership (measured by interests in capital and profits) of a partnership changes, complete Form CR-18, Ownership and Signature Form, available from our web site or office. As an alternative, you may also mail or fax a new list of partners to our office. Include the full name, address, telephone and Social Security number of each partner, the tax account numbers and the effective date of the change.

A partnership must apply for a new registration when 50% or more of the ownership changes hands within a 12-month period, or the partnership is dissolved and a new one is started. Follow the “Change of Business Ownership” instructions below.

Change of Business Ownership

When the ownership of the business changes, a new registration is usually required. Examples of ownership changes that require a new registration are:

- an individual ownership to a partnership or corporation,
- partnership to a corporation or sole proprietorship,
- one corporation to another corporation, or
- any change in corporate structure that requires a new charter, certificate of authority, or new federal EIN.

If you must apply for a new registration number, you will also need to cancel your old registration, following the procedure below.

Canceling Your Registration

You must cancel your Kansas sales and/or compensating use tax registration if you:

- sell or close the business
- change the ownership structure of the business
- providing taxable services

Cancel your registration by completing the “Discontinuation of Business” section at the bottom of your Certificate of Registration and sending it to us by mail or fax. On your final tax return, enter the last date your business was in operation in the “Business Discontinued Effective” boxes. A business closing on July 6, 2004 would be entered as:

0	7	0	6	0	4
---	---	---	---	---	---

Change of Corporate Officers or Directors

When there is a change in your corporate officers or directors, complete and return Form CR-18, “Ownership and Signature Form,” and also provide the name(s) and title(s) of the resigning officer(s) or director(s). If you prefer you may mail or fax us a letter on your corporate letterhead listing the name, title, home address and Social Security number of each new corporate officer or director, the name and title of each officer or director resigning, and the effective date of the change. A copy of the corporate minutes is also helpful, but is not required.

Changing Your Filing Frequency

Once a filing frequency has been established for a calendar year, do not increase or decrease the filing frequency of your sales or compensating use tax returns. Returns are furnished only for the filing frequency established, and filing less frequently will cause non-filer bills to be printed.

The Kansas Department of Revenue periodically reviews the reporting history of each Kansas retailer to insure the retailer’s filing frequency is in accordance with the statutory guidelines illustrated by the chart on page 20. This is done late in the calendar year so that any change necessary will take effect January 1 of the upcoming year. A notice of filing status change is mailed to the affected retailers in November.

However, we realize errors can occur in assigning a filing frequency to new businesses, or a business can change extensively over a calendar year, causing the returns to be due either too often or not often enough. If you believe your filing frequency is out of line with the chart on page 20, call us to request that it be changed.

CORRECTING A RETURN

If you discover you have made an error on a return, you can correct the mistake by filing an amended or corrected return. Generally, you have three years from the date you filed the original return to file an amended return for that period. Some common errors to correct by filing an amended return are:

- ó tax was included in the gross sales figure used to calculate your tax liability;
- ó mistakes in math or accounting caused an error in reporting the gross sales or taxable purchases for a period;
- ó tax was charged on items in error, or deductions for non-taxable and exempt items were not taken.

To correct errors on previously-filed returns, file an amended return for each affected period using the six steps that follow.

- 1) Obtain an original blank tax return(s) from the department for each period to be amended.
- 2) Complete all the information that is normally preprinted on the return — name, address, tax account number and filing period.
- 3) Mark “X” in the “Amended Return” box located below the name/address area of the return.

- 4) Complete the return as it should have been.
- 5) Sign the return(s).
- 6) Write a short letter of explanation for the amendment(s). Include your tax number and daytime telephone number in the letter.



While preparing her April sales tax return, Sally discovered that she failed to include her deduction for “Resale Sales” on the March return. She filed an amended return for March, showing an overpayment of \$132. In June she received a credit memorandum from the department for \$132. She use this credit on the June return filed in July, and enclosed a copy of the credit memo with the return.

Amending Electronically

Retailers who file their sales tax returns on line may also amend their returns using the On-Line program. The same is also true for those using the TeleFile system. To amend a previously-filed return you must first select the “amended” (or “additional”) return option, rather than the “original” return option. When you are filing an “amended” return, you will be asked to enter the total amount previously paid for the filing period as a credit (i.e. line 6 of the TeleFile worksheet.)

Amended vs. Additional Returns

In addition to amending returns, retailers have the option to file an “additional” return (an addition to an originally filed return) for any filing period. An “additional” return adds to what has already been reported on the “original” return. For example, if a retailer files an “original” return reporting \$100 and then files an “additional” return for the same reporting period for \$50, the department will understand the total tax for the period to be \$150.

An “amended” return erases everything that was reported on the “original” return and substitutes the new information contained on the “amended” return. For example, if a retailer files an “amended” return reporting \$150 when the “original” return reported \$100, the department will understand the total tax for the period to be \$150.

Once you have completed the corrected returns, you will have either an overpayment (credit) or an underpayment (additional tax is due).

Overpayments and Credit Memos

The amount of overpayment or credit shown on your amended return(s) may NOT be used on your return until the credit has been verified and accepted by the Department of Revenue. When accepted, a credit memorandum is issued. (If the credit cannot be used in a reasonable length of time, the credit will be refunded to you by check).

Once you have received a credit memo, use the credit on your next tax return by entering the credit amount on the line provided for it on your return. A copy of the credit memo must also accompany any return on which a credit is used.

Underpayments

Payment of any additional tax shown on an amended return must be made when the return is filed. Late charges are added to any underpayment after the original due date, according to the penalty and interest rules outlined on page 43.

OBTAINING A SALES TAX REFUND



If, as the final consumer, you discover that you have paid tax on an item or service that qualifies for an exemption, you may request a refund of the sales tax paid. You should first request a sales tax refund or credit from your vendor in writing, providing the information necessary to validate your request for refund, such as a completed exemption certificate. The seller is allowed 60 days to respond. (K.S.A. 79-3650(b)).

However, when a vendor refuses to refund the tax, or is no longer in business, you may apply directly to the Kansas Department of Revenue for your refund. Use Form ST-21, available from our office, forms request line, or web site. You must include proof that you paid both the invoice and the sales tax, the completed exemption certificate, and evidence that a refund was NOT received from the vendor. Please allow four to six weeks for a reply and/or refund.



WHEN RETURNS ARE LATE

Sales and Retailers’ Compensating Use tax are often referred to as “trust fund” taxes. As a registered retailer you collect the tax from your customers and then hold it in “trust” until it is remitted to the Department of Revenue. These consumer-paid taxes are not an expense of your business.

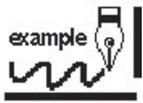
However, when the returns are late, the penalty and interest (late charges) are a business debt that decreases your profit margin. Penalty and interest are figured as a percentage of the tax due. Returns filed on time without payment of the tax due have the same penalties as returns filed late.

If you are filing a return after the due date, use the rates that follow to calculate the penalty and interest to include on the return. The TeleFile and On-line filing systems automatically calculate any late charges due.

PENALTY

The method used to calculate the penalty due on a late payment of sales or use tax changed effective January 1, 2002.

For tax periods ending *after December 31, 2001*, the penalty on a late sales or use tax payment is 1% for each month or portion thereof that the payment is late, up to a maximum of 24%.



A January 2004 sales tax return (due February 25, 2004) upon which \$400 tax is due, is not paid until July 28, 2004. The penalty is six percent (6%) of the unpaid tax or \$24 (6 months X 1% X \$400 = \$24). The interest calculation for this example appears below.

For tax periods ending before December 31, 2001, the penalty is 10% of the tax due when the tax is paid late but within six (6) months of the due date, and twenty-five percent (25%) of the tax due when the tax is paid over six (6) months after the due date.



A 50% penalty may be assessed when, with fraudulent intent, a taxpayer fails to pay any tax, or make, render or sign any return, or to supply any information within the time required by law.

INTEREST

In addition to the late penalty, interest is charged for each month, or fraction thereof, the return is not filed or paid. Since 1998 the annual percentage rate (APR) for interest has been tied to a federal underpayment rate, and is therefore subject to change each calendar year. The rates for past years are listed here.

Tax Year	Monthly Rate	APR
2007	0.75%	9%
2006	0.583%	7%
2005	0.417%	5%
2004	0.5%	6%
2003	0.583%	7%
2002	0.667%	8%
2001	0.833%	10%
2000	0.75%	9%
1999	0.75%	9%
1998	0.833%	10%

The rate for future years will be available from the department's office and web site.



The interest on the January 2004 sales tax return of \$400 not paid until July 28, 2004 (penalty example, opposite) is calculated as follows. Six months X 2004 interest rate of 0.5% (.005) X \$400 tax due = the interest due of \$12.00.

RETURNED CHECK FEE

A fee of \$30 (plus postage costs for a registered letter) is charged on all returned checks. This fee is in addition to any other penalty or interest.

WAIVER OF PENALTY

If your return is late due to an event beyond your control, you may request a waiver of the penalty. Simply write a letter giving the specific circumstance(s) that caused the delinquency and request that the penalty be abated. Be sure to include in your letter your tax account number, the filing period, and a telephone number where you may be reached during normal business hours. Send your request with the billing that you received for the late charges.



IMPORTANT: The interest due must be paid before a request for waiver of penalty may be considered or approved. Interest is not subject to waiver.



PERSONAL LIABILITY FOR UNPAID TAXES

Every retailer is liable to the state of Kansas for payment of the sales or compensating use tax collected from its customers. You are personally liable for any unpaid sales or use tax balance regardless of your business structure (sole proprietorship, partnership, corporation, or limited liability company). Corporate officers and directors of a corporation, like sole proprietors and partners, are personally liable for the sales and use tax due during the period they hold office.

Should a business fail to pay its taxes, *any individual* who is responsible for collection or payment of sales or compensating tax, or who is responsible for control, receipt, custody, or disposal of sales and use tax funds due the state of Kansas may be held personally liable for any unpaid tax, penalty, and/or interest.

Buying a Business — The Bulk Sales Law

If you are buying an existing business, make sure you receive documentation from the current owner that all applicable taxes have been reported and paid through the date of transfer. When you buy the total assets of a business, you are also buying its liabilities. Therefore, if the previous owner has not paid all applicable taxes, you, as the new owner, become responsible for payment of these debts.

ABOUT OUR BILLING PROCESS

The majority of the billing functions of the Kansas Department of Revenue are computerized. A bill is automatically generated when our system detects a deficiency or change in status on your account. A deficiency may be a balance due or a missing return; a change in status is generally resolution of a previously disputed amount.

You will, therefore, receive a bill even when your account balance is zero. This is because a review of your account indicates we have not received a sales or use tax return for one or more reporting periods. The account summary that accompanies the bill shows all deficient periods. If a return is missing, a "Y" appears in the column marked "Returns to be Filed" for that period.

It is imperative that you respond immediately to any bill or correspondence from the department. Follow the instructions on the mailing. Return the cover letter or the tear-off remittance document with your return(s) and payment of the balance due in the return envelope provided. If you have already paid the balance or filed the missing periods, send this information to us so we may correct our records.

If you have questions about the billing, call the telephone number at the top of the bill. For prompt account inquiries, please have your tax account number and bill handy. The customer representatives in our office may also assist you in understanding and responding to a bill or other departmental correspondence.



BOND REQUIREMENTS

There is no fee for a sales tax or use tax number. However, the department may require you to post a bond to guarantee payment of the Retailers' Sales or Retailers' Compensating Use taxes that you collect. Bonds are not requested for Consumers' Compensating Use tax accounts. Bonds are also required for liquor tax registrations – see page 46.

When required, the amount of the bond is set by the Director of Taxation. As a general rule the bond is equal to six months' estimated tax liability.

Exception: Nonresident contractors must post a bond if the contract is over \$10,000. The bond is 8% of the total contract price or \$1,000, whichever is greater. If working under a Project Exemption, the required bond amount is 4% of the total contract price or \$1,000, whichever is greater.

You may post a bond in one of the three ways.

Cash bond. The full amount of the bond is deposited in certified funds with the department. It is held by the department until released or the business closes. Interest is not paid on the deposit.

Escrow bond. You may deposit the full amount of the bond with a financial institution (usually as a Certificate of Deposit) pledged to the department. The CD may be released only with the department's approval, however your deposit will earn interest.

Surety bond. A surety bond is purchased from an insurance company. This is an insurance policy in the amount of the bond, payable to the department should sales tax not be paid. A surety bond is kept in force by a fee, usually paid annually.

AUDITS



Kansas law requires the department to examine all sales and use tax returns. Sales and use tax audits are conducted to:

- educate taxpayers on the proper application of the law to their particular business type,
- promote voluntary compliance with tax laws,
- determine if the correct amount of sales and deductions are being reported.

The department currently conducts three types of audits — field audits, managed audits, and self-audits. A field, or traditional, audit is a detailed examination of your books and records by one of our auditors. A managed audit is done by the business itself under the management and direction of a state auditor. A self or voluntary audit is also done by the business itself without any direct intervention by a state auditor.

An audit generally covers the tax returns for the last three years. This period may be extended by written agreement between you and the department.

Prior to an audit, you will be contacted by the auditor to schedule the examination. During the first meeting, our auditor will discuss the nature of your business, the accounting system used and other related matters. We make every effort to make our audits as least disruptive as possible of your daily business activities.

You are encouraged to work with the auditor to resolve any questions (other than legal ones) about particular transactions. Our auditors will also help you to understand industry-specific laws and regulations so future tax reporting is less of a burden.

WHEN IN DOUBT...



Kansas Laws and Regulations

The rules that govern sales and use tax and define the responsibilities of each business owner, taxpayer, and the Department of Revenue are contained in two sets of documents: the **Kansas Statutes Annotated** and the **Kansas Administrative Regulations**.

The **Kansas Statutes Annotated** (K.S.A.) is a collection of all the statutes of the state of Kansas. Statutes are bills that have been passed by both houses of the state Legislature, and signed into law by the Governor, or that become law within 10 days of passage without the Governor's signature. "Annotated" means that the law contains commentaries and explanatory notes. Kansas Statutes are organized by Chapter and Article. Kansas Retailers' Sales and Use tax statutes are in Chapter 79.

Kansas Administrative Regulations (K.A.R.) are based on the law and have the same impact as a law, even though they are not enacted through the legislative process. Instead, each state agency submits proposed regulations to the Secretary of Administration and the Attorney General for approval, and a public hearing is held. The regulations (with approved revisions) are then adopted, published in the Kansas Register, and become effective 45 days later.

The purpose of most permanent regulations is to provide administrative solutions to common problems and situations, and to more clearly define how a statute applies to specific circumstances. Regulations are organized by state agency. Kansas Department of Revenue Regulations are in Chapter 92.



IMPORTANT: Each regulation is based on or receives its authority from a statute, and does not conflict with the statute when adopted. However, regulations are not changed at the same time statutes are changed. When a change in the statute causes a regulation to be in conflict with the statute, the statute overrides the regulation.

Complete sets of the Kansas Statutes Annotated and the Kansas Administrative Regulations are available to the general public in libraries throughout the state. The tax laws and regulations are a part of our Policy Information Library (see page 46) on our web site.

Key Statutes and Regulations

K.S.A. 12-187 *et seq.* — Local Sales Tax
K.S.A. 79-3601 *et seq.* — Sales Tax
K.S.A. 79-3701 *et seq.* — Compensating Tax

K.A.R. 92-19-4a — Record Keeping
K.A.R. 92-19-25b — Exemption Certificates
K.A.R. 92-19-53 — Consumed in Production
K.A.R. 92-19-54 — Ingredient or Component Part
K.A.R. 92-19-66b — Labor Services
K.A.R. 92-20-1 *et seq.* — Compensating Tax
K.A.R. 92-21-1 *et seq.* — Local Retailers' Sales Tax

Revenue Notices and Private Letter Rulings

Despite the length and detail of the statutes and regulations, questions and situations frequently arise that require interpretation of the law. DO NOT rely upon a verbal opinion from the department on issues of taxability not specifically addressed in the law.

To assist you in understanding how the law applies to your business, the department issues three types of written advice: revenue notices, revenue rulings, and private letter rulings. These written rulings are binding on the department and may be relied upon as long as the statute or regulation on which they are based is not altered by the Legislature, changed by a court decision, or the ruling itself is modified or rescinded by the department.

Revenue notices and rulings are issued to the general public usually in response to a change in the law, recent court decisions, or areas of sales tax application affecting a large number of taxpayers. These are periodically mailed to you either with your sales and use tax returns, or as a separate mailing from the department. Keep them with this publication for future reference.

A **private letter ruling**, issued at the request of an individual taxpayer, interprets the law based on the circumstances of that taxpayer. Requests for private letter rulings must be in writing, and state specifically the circumstances and facts surrounding the issue. To request a private letter ruling, address your letter to:

Office of Policy and Research
Kansas Department of Revenue
915 SW Harrison St.
Topeka, KS 66612
Fax: (785) 296-7928

The ruling will be issued within 30 days after your request (and any additional information necessary for the ruling) is received. A private letter ruling applies **ONLY** to the taxpayer for whom it is issued. It cannot be cited or relied upon by any other taxpayer.

Policy Information Library

As a service to taxpayers, a library of policy information for all taxes administered by the department is available from our web site. This policy library contains the Kansas Statutes and Regulations, Revenue Notices, Revenue Rulings and other written advice issued by the department.

Private letter rulings are also included. However, these letters have been “scrubbed” to protect the privacy of the taxpayer—any information that would identify the taxpayer, such as name, address, product, etc., is blanked out.

OTHER KANSAS TAXES

Many businesses must also collect or remit other Kansas taxes. An alphabetical listing of other business-related taxes follows. Use the Business Tax Application, Form CR-16, to register for most of these taxes. Additional requirements are also noted.

Bingo Enforcement. Bingo cards, paper and pull-tabs sold by bingo licensees are not subject to sales tax (since June 1, 2002), but are subject instead to bingo enforcement tax. There is a **3%** bingo enforcement tax on the gross receipts received by licensees from charges for hard cards used in call bingo games, a tax of **\$.002** per face on all disposable paper used for call bingo games, and a tax of **1%** of the retail sales price of all instant bingo tickets (pull-tabs). To register, contact the department’s Bingo Administrator. Phone: 785-296-6127; Fax: 785-296-7185, or by e-mail: bingo@kdor.state.ks.us.



Cigarette Licenses. Cigarette sales are subject to sales tax. However, before you may sell cigarettes in Kansas, you must have a cigarette license.

If you sell cigarettes over the counter, the license fee is \$25.00, and is renewed every two years. If you own cigarette vending machines, you must obtain a cigarette vending machine operator’s master license (no fee required), and also a permit (\$25.00) for each machine. Enclose a list of machine brand name(s) and serial number(s) with the business tax application. The master license and vending machine permits must be renewed every two years.



Clean Drinking Water Fee. This fee is imposed at the rate of \$.03 per 1,000 gallons of water sold at retail. The fee is the liability of Public Water Supply Systems, owed to the department. Public Water Supply Systems include municipal and county water districts, rural water districts, and all other public water utilities that supply water to consumers through mains, lines or pipes. Public Water Supply Systems do not include private water utilities. Public water suppliers that are paying the Clean Drinking Water Fee do not pay sales or compensating use tax on their purchases for the water utility.

Corporate Income Tax. This tax is imposed on the taxable income of every corporation doing business within or deriving income from sources within Kansas (The income of some S corporations is not taxed at the corporate level, but rather is taxed on the shareholder’s individual income tax return). The current “normal” tax rate is **4%** of the Kansas taxable income of a corporation with a “surtax” of **3.35%** on Kansas taxable income over \$50,000.



Dry Cleaning Environmental Surcharge. This tax is collected on laundry and dry cleaning services in addition to the sales tax. Since July 1, 1999 the tax rate has been **2.5%**. Along with this tax is a dry cleaning solvent fee paid by solvent distributors on each gallon of perchloroethylene, other chlorinated solvents, and petroleum-based solvents. Imposed since July 1, 1995, this tax provides funding for clean up of soil and groundwater pollution from dry cleaning facilities.

Estimated Income Tax. Individuals with taxable income not subject to withholding (such as business income) and corporations are required to pre-pay their income tax liability by making estimated tax payments. To make estimated tax payments, use the estimated packet that contains the four vouchers, instructions, and a worksheet to help you calculate the amount of the installments. For individuals it is Form K-40ES; for corporations it is a K-120ES and for privilege taxpayers it is Form K-130ES. Taxpayers may also file and pay estimates electronically; details are on our web site at www.webtax.org.



Liquor Drink Tax. This tax is collected on the retail sale of drinks containing alcoholic liquor. The tax rate is **10%**. Clubs, caterers, and drinking establishments, (including farm wineries and micro-breweries selling to customers for on-premises consumption), must also have a liquor license issued by the department’s Division of Alcoholic Beverage Control, and post a minimum bond of \$1,000.

Liquor Enforcement Tax. This tax is collected on the sale of alcoholic liquor and cereal malt beverages by a retail liquor store, microbrewery, or farm winery to Kansas consumers, or by a liquor distributor to clubs, caterers, or drinking establishments. The tax rate is **8%**. A separate license issued by the department’s Division of Alcoholic Beverage Control is required.



Motor Fuel Tax. This tax is imposed on the use, sale or delivery of any or all “motor vehicle fuels” (gasoline & gasohol) or “special fuels” (diesel & alcohol) in this state. Tax revenues are used to defray the cost of constructing Kansas public highways.

The motor fuel tax is remitted to the department by the distributor of the fuel, however, the tax is included in the price of every gallon of gasoline or diesel that consumers purchase at the pump; There is no motor fuel tax on dyed diesel fuel used only for non-highway purposes; this fuel is therefore subject to sales tax. Effective July 1, 2003, the tax rate on "motor vehicle fuels" (gasoline/gasohol) is 24 cents per gallon; on "special fuels" (diesel) it is 26 cents per gallon, and on LP gases it is 23 cents per gallon.

Privilege Tax. This tax is imposed on national banking associations, banks, trust companies, federally chartered savings banks, and savings and loan associations for the privilege of doing business in Kansas. It is imposed on the net income for the next preceding taxable year (prior tax year).

The tax is instead of an ad valorem (property) tax that might have been imposed on the intangibles (deposits) held by financial institutions. The current tax rate is 2.25% of net income, plus a surtax on net income in excess of \$25,000 of 2.125% for banks, and 2.25% for savings and loans and trust companies.



Tire Excise Tax. This tax is collected on the sale of new vehicle tires, including the new tires sold on a new vehicle for the first time. All tire retailers, as well as all new car, truck, farm implement and equipment dealers must collect this tax. The tire excise tax is in addition to and is separate from the sales tax. The tax rate is **25 cents** per tire since July 1, 2001. Used, recapped, and retreaded tires are not taxed.

Imposed since July, 1990, the revenue generated by this tax is used to clean up waste tire sites and to provide for the continued environmentally safe disposal and use of waste tires. For additional information on this tax, obtain Publication KS-1530, Kansas Tire Excise Tax, from our web site.

Transient Guest Tax. This tax is collected when rooms, lodgings, or other sleeping accommodations are rented to guests. Hotels, motels, bed and breakfast establishments, and tourist courts must register for the transient guest tax if they have more than **two** bedrooms furnished to accommodate guests.



Transient guest tax is collected in addition to the sales tax due on the room rental, and applies only when the room is rented for 28 consecutive days or less. However, like a local sales tax, transient guest tax is a local option and is not imposed in all areas of Kansas. Tax rates currently range from **2% to 7%**.

Hotels and others providing sleeping accommodations should also obtain a copy of our Publication KS-1540, Kansas Business Taxes for Hotels, Motels and Restaurants, from our web site.

Vehicle Rental Excise Tax. When a vehicle is leased or rented for 28 consecutive days or less, a vehicle rental excise tax of **3.5%** is charged. This tax is in addition to the sales tax due on these transactions. Car rental agencies, vehicle dealers, repair shops, and others who rent cars must register to collect this tax.



Water Protection Fee. This fee, at the rate of \$.03 per 1,000 gallons of water, is collected on the retail sales of water delivered through mains, lines or pipes by public water suppliers and on water appropriated for industrial and stockwatering uses. An additional fee for the inspection and regulation of public water supplies of \$.002 per 1,000 gallons of water sold at retail is remitted with the Water Protection Fee. Public water suppliers need to register with the Kansas Department of Revenue and the Kansas Department of Health and Environment.

Withholding Tax. This tax is deducted by employers from the wages paid to employees to pre-pay the employee's income tax liability. Employers must also register with the Kansas Department of Human Resources and the Internal Revenue Service. Kansas withholding tax is also required on certain taxable non-wage payments by payors, on management and consulting fees paid to nonresidents, and on the Kansas taxable income of the nonresident owners of partnerships, S corporations and limited liability companies. Additional information, the tables to compute Kansas income tax withholding, and sample completed returns are in our Publication KW-100, Kansas Withholding Tax Guide. This publication is available from our office or web site.



USING EXEMPTION CERTIFICATES

Exemption certificates are an important part of sales and use tax record keeping, but are often found lacking by our auditors. Use the information in this section to help you properly complete and accept exemption certificates. We recommend that retailers also obtain a copy of our Publication KS-1520, Kansas Exemption Certificates. This booklet contains all the exemption certificates currently in use and detailed information about each exemption. It is available from our web site or office. Kansas exemption certificates are also individually available from our web site.

BEFORE ACCEPTING ANY CERTIFICATE, carefully read the exemption statement and the accompanying explanation and instructions. Most certificates contain a restatement of the Kansas law (K.S.A. — Kansas Statutes Annotated), or regulation (K.A.R. — Kansas Administrative Regulations) authorizing the exemption. If your customer or the purchase does not fit the definition in the certificate or the exempt examples given, the sale is probably not exempt.

The new Kansas Exempt Entity Identification Number and Certificate (see page 7) are designed to help retailers and exempt customers alike complete the exemption certificate process, not to replace it. Additional information is available in NOTICE 04-10.

Completing an Exemption Certificate

Follow these three rules when completing any exemption certificate.

1) Print or type all information, except for the authorized signature.

The information on the certificate must be legible both to you and to our auditors. Do not print a signature on paper forms, although it is often helpful to print or type the name below the signature. (A signature is not required on an electronic exemption certificate.)

2) Fill in all the blanks.

A certificate is complete only when all the information is provided. If there is a blank on the form, it must be filled in. Addresses must include the street or PO Box, city, state, and zip code.

When the certificate requires a tax registration number, be sure your customer provides it. An exemption certificate is not complete unless the customer supplies the proper registration number(s). A seller may lawfully

require a copy of the buyer's sales tax certificate of registration as a condition of honoring the Resale Exemption Certificate, Form ST-28A. (K.A.R. 92-19-25b).

3) Give specific descriptions.

Be as precise as possible when describing the property or services purchased. You may use an itemized list, refer to an itemized invoice number, or at the very least provide a general description of the items. When describing a business activity, include the principal product(s) sold or manufactured.

Blanket Exemption Certificates

If you make recurring exempt sales of the same type to the same purchaser, it is not necessary to have an exemption certificate for each transaction. You may instead accept a blanket exemption certificate to cover future sales. Most of the certificates in this booklet may be used as a blanket certificate.



IMPORTANT: When you use a blanket exemption certificate for your regular exempt customers, ask them to verify or renew this document every year. This will help guarantee that the exempt customer's information (i.e., exact business name and location, tax account number, etc.) remains accurate and up-to-date.



CAUTION: When you use blanket exemption certificates, you should segregate any taxable purchases from that vendor and pay for them separately. Each buyer signs the exemption certificate acknowledging responsibility for payment of the tax if:

“... the tangible personal property or service is used other than as stated ... or for any other purpose that is not exempt from sales or compensating tax ...”

Record Keeping

Keep all sales tax records, including exemption certificates and copies of tax exemption cards (Kansas or diplomatic (see page 8), for your current year of business and at least three prior years. **DO NOT send exemption certificates to the Department of Revenue with your sales tax return.**

Penalties for Misuse

A buyer who issues an exemption certificate in order to unlawfully avoid payment of the tax for business or personal gain is guilty of a misdemeanor, and upon conviction may be fined up to \$1,000 or imprisoned for up to a year, or both. When a buyer is found to have used a Resale Exemption Certificate, Form ST-28A, to avoid payment of the tax, the director may also increase any penalty due on the tax by \$250 or 10 times the tax due, whichever is greater, for each transaction where the misuse of a Resale Exemption Certificate occurred.

KANSAS DEPARTMENT OF REVENUE

RESALE EXEMPTION CERTIFICATE

The undersigned **Kansas retailer** certifies that the tangible personal property or repair service purchased from:

Seller: _____
Business Name

Address: _____
Street, RR or P. O. Box City State Zip + 4

will be **resold** by me in the form of tangible personal property or repair service. I hereby certify that I hold valid Kansas sales tax registration number

_____, and I am in the business of selling _____
(May attach a copy of registration certificate)

(Description of product(s) sold - food, clothing, furniture, etc.)

Description of tangible personal property or repair service purchased:

I understand and agree that if the items purchased with this certificate are used for any purpose other than retention, demonstration, or display while being held for sale in the regular course of business, I am required to report and pay the sales tax, based upon the purchase price of the items.

Purchaser: _____
Name of Kansas Retailer

Address: _____
Street, RR or P.O. Box City State Zip + 4

Signature: _____ Date: _____

THIS CERTIFICATE MUST BE COMPLETED IN ITS ENTIRETY.

WHO MAY USE THIS CERTIFICATE?

Only those businesses, groups and organizations that are registered to collect Kansas sales tax and provide their Kansas sales tax number on this form may use this certificate to purchase inventory without tax. The seller may require a copy of the buyer's Kansas sales tax registration certificate as a condition for honoring this certificate. See also "Resale Exemption Certificate Requirements" in Publication KS-1520, "Kansas Exemption Certificates."

Nonprofit groups or organizations exempt by law from collecting tax on their retail sales of tangible personal property (such as a PTA or a nonprofit youth development organization) should use the exemption certificate specifically designed for their exemption when buying items for resale.

Wholesalers and buyers from other states not registered in Kansas should use the Multi-Jurisdiction Exemption Certificate, Form ST-28M, to purchase their inventory. HOWEVER, if the inventory item purchased by an out-of-state buyer is drop shipped to a Kansas location, the out-of-state buyer must provide a Kansas sales tax number, either on this certificate or the Multi-Jurisdiction Exemption Certificate, for the sale to be exempt.

Contractors, subcontractors, or repairmen may not use this certificate to purchase their materials, parts, or tools. Retailer/Contractors should use a Retailer/Contractor Exemption Certificate, Form ST-28W, to purchase their resale inventory.

WHAT PURCHASES ARE EXEMPT?

Only goods or merchandise intended for resale (inventory) are exempt. Tools, equipment, fixtures, supplies, and other items purchased for business or personal use are TAXABLE since the buyer is the final consumer of the property.

The items purchased with this certificate must correspond to the type of business buying them. For example, a retail clothing store may only reasonably purchase items of wearing apparel and accessories with this certificate. All other kinds of items are not usually sold by a clothing store to their customers and, therefore, cannot be purchased with this certificate.

LABOR SERVICES

This certificate applies ONLY to items of tangible personal property. A contractor may not use an exemption certificate to purchase the labor services of another contractor or subcontractor. Taxable labor services performed by a contractor can ONLY be purchased without tax with a Project Exemption Certificate issued by the department or its authorized agent.

ABOUT THE MULTI-JURISDICTION EXEMPTION CERTIFICATE

PURPOSE

The Multi-Jurisdiction Exemption Certificate is used whenever an exempt transaction crosses state lines. In Kansas, it takes the place of a Kansas resale or ingredient or component part exemption certificate when:

- 1) an out-of-state business, taking delivery of inventory or ingredient parts in Kansas, is not registered in Kansas, OR
- 2) a wholesaler is buying inventory.

A Kansas business buying inventory or ingredient parts in another state may also furnish this certificate to the seller in the other state, subject to the laws of that state.

WHO MAY USE THIS CERTIFICATE?

Businesses and wholesalers from other states that do not have a Kansas sales tax number to furnish for a Kansas ingredient or component part exemption certificate or a Kansas resale exemption certificate must use this certificate to certify that they qualify for these two Kansas exemptions when making purchases in Kansas.

A Kansas wholesaler will use this certificate when buying inventory from either another Kansas business or a business in another state. Wholesalers are not required to obtain a Kansas sales tax number. A Kansas retailer may also use this certificate when purchasing inventory or ingredient or component parts from a retailer or wholesaler in another state.

WHAT PURCHASES ARE EXEMPT?

Only goods and merchandise (tangible personal property) are exempt. To be exempt, the tangible personal property must be for:

- ◆ wholesale sale,
- ◆ retail sale (resale), rental, or lease, or become
- ◆ an ingredient or component part of a new product to be resold, leased, or rented.

In accepting this certificate, the seller should exercise reasonable care and judgment. The property purchased must be of the type normally sold wholesale or retail, leased or rented, or used as an ingredient or component part of a product manufactured in the customer's usual course of business.

Equipment and fixtures for a business are not exempt. When purchased in Kansas, these items are taxable. When a Kansas business buys equipment or supplies from another state, the Kansas business will owe Consumers' Compensating Use tax on these purchases unless a sales or use tax of at least 5.3% was charged.



State of Kansas
Department of Revenue
915 SW Harrison
Topeka, KS 66612-1588

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OTHER PUBLICATIONS

The following publications are available free from the Kansas Department of Revenue. Obtain your copy by visiting our office in Topeka, our web site at www.ksrevenue.org, or by calling our voice mail Forms Request Line at 785-296-4937. NOTE: Due to limited state funding, the Department of Revenue has discontinued printing some of these publications; however all are available from our web site.

- Pub. KS-1216, Kansas Business Tax Application
- Pub. KS-1520, Kansas Exemption Certificates
- Pub. KS-1525, Kansas Sales and Use Tax for Contractors, Subcontractors and Repairmen
- Pub. KS-1526, Kansas Sales and Use Tax for Motor Vehicle Transactions
- Pub. KS-1527, Sales and Use Tax for Kansas Political Subdivisions
- Pub. KS-1530, Kansas Tire Excise Tax
- Pub. KS-1540, Kansas Business Taxes for Hotels, Motels & Restaurants
- Pub. KS-1550, Sales and Use Tax for the Agricultural Industry
- Pub. KS-1560, Tax Guide for Schools and Educational Institutions
- Pub. KS-1700, Sales Tax Jurisdiction Code Booklet
- KW-100, Kansas Withholding Tax Guide



Your suggestions and comments on this publication are important to us. Please address them to: Customer Education, Kansas Department of Revenue, 915 SW Harrison St., Topeka, KS

66625-1588 or call (785) 296-2481.



A library of policy information, forms, press releases, and other informational publications are available from the Kansas Department of Revenue's web site:

www.ksrevenue.org