KANSAS
DEPARTMENT OF REVENUE

Mark Parkinson, Governor
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www.ksrevenue.org

Notice 10-03

Instructions for Reporting Sales Receipts on Sales Tax Returns Filed for July 2010

June 15, 2010

I. State Sales Tax Rate Increase. The Kansas state sales and use tax rate will increase from 5.3% to 6.3% beginning July 1, 2010. A number of local sales and use tax rates also change on July 1, 2010. Unless the context indicates otherwise, the "July sales tax return" discussed here is the return for the July 2010 reporting period that is due on or before August 25, 2010. When this Notice states that the 5.3% or 6.3% state rate is imposed or was invoiced to a customer, it means the combined state and local sales tax rate that is imposed or invoiced equals the sum of the 5.3% or 6.3% state rate *plus all applicable local sales tax rates*.

II. Transitioning to the 6.3% State Sales Tax Rate. Notice 10-02, as revised on June 3, 2010, contains transition rules that explain how Kansas sales tax applies to customer invoices for sales and service transactions that started before, and are completed on and after July 1, 2010. Retailers that follow these rules and correctly program the state and local rate changes into their accounting software can rely on the gross sales and other amounts generated by their software when they fill out their July 2010 return. This assumes that the retailer's accounting software calculated the correct gross sales and other amounts, such as sales for resale and returned goods, for earlier returns. Once these amounts are entered on a return, most retailers can complete it in the same way they completed earlier returns without making any adjustments.

However, some businesses may need to claim additional deductions on their July sales tax return, and possibly on later returns, to avoid paying more sales tax to Kansas than they collected from customers. This Notice explains why these retailers need to claim the additional deductions and how the deductions are calculated and claimed on a return.

III. Additional Deductions that Some Businesses Can Claim. Businesses that can claim an additional deduction are ones that report sales receipts on one return from some sales correctly invoiced to customers at the 5.3% state rate and other sales correctly invoiced at the 6.3% state rate. These businesses can be retailers that use cash-basis accounting and providers of taxable services that invoice customers for taxable services that cover a billing period starting before and ending on or after July 1, 2010.

For charges invoiced for taxable services that will be provided in the future, such as a charge for a satellite radio subscription or a charge for future cell phone services, the 5.3% state rate applies to an invoice issued before July 1, 2010 for a future billing period that starts before July 1, 2010. The 6.3% state rate applies to an invoice for a future billing period that starts on or after July 1, 2010, regardless of when the invoice is issued.

The deduction also may be claimed by vendors that honor a Form PR-74c, *State Rate Increase Exemption Certificate,* and charge state sales tax at the 5.3% state rate on certain construction materials sold after the rate increase. The deduction also may be claimed by subcontractors that honor a Form PR-74c for their taxable labor service charges.

Senate Substitute For House Bill 2360, which increased the state sales tax rate from 5.3% to 6.3%, contains a transition provision for construction contracts entered into before May 1, 2010. This provision allows materials and services that are purchased under a qualifying construction contract to be taxed at the 5.3% state rate even though the purchases are made or services performed after the state rate increase on July 1, 2010. This provision and its application are discussed in Notice 10-02, as revised on June 3, 2010. To benefit from it, the general contractor must complete an electronic application found on the department's web site --- www.ksrevenue.org --- and submit the required documentation to the department *on or before July 10, 2010*. This transition provision only applies to binding written construction contracts that were signed by all contracting parties before May 1, 2010.

When an application is approved, the department will issue a Form PR-74c, *State Rate Increase Exemption Certificate,* to the general contractor which allows vendors to charge the lower 5.3% state rate on materials sold after the rate increase for the qualifying project. Copies of this form should be completed by the general contractor and subcontractors and given to vendors after the rate increase.

A vendor that honors a Form PR-74c Certificate should charge the buyer the combined state and local sales tax rate in place at the time of sale, but not including the 1% state rate increase. These sales are sourced in the same way as any other sales. Any local sales tax rate increase that takes effect on July 1, 2010 must be included in the combined state and local sales tax rate.

If a vendor refuses to honor a Form PR-74c Certificate, the contractor's remedy is to pay the tax to the vendor as invoiced at the 6.3% state rate and submit a refund claim to the department using department Form ST-21.

IV. Claiming the Deduction on a Return. Kansas sales tax returns do not allow two state rates to be reported on one return. Because of this, businesses that file one return reporting some sales invoiced to customers at the 5.3% state rate, and other sales invoiced at the 6.3% state rate, are required to keep a record of the sales invoiced during the reporting period at the 5.3% state rate. The gross sales receipts from these sales should be totaled and the sum multiplied by a Factor to arrive at a deduction the retailer can claim on the return. After the deduction is taken, the total tax being reported on the return should correctly match the total tax the retailer collected on the sales invoiced at 5.3% state rate and the sales invoiced at the 6.3% state rate.

These deductions and how they are calculated are discussed below in Sections V and VI. The Factors and how they are arrived at are discussed below in Sections VII and VIII.

V. Filing a July 2010 ST-16 Return. Businesses that report any sales invoiced to customers at the 5.3% state rate on an ST-16 filed for July 2010, or for a later reporting period, must keep track of the sales receipts they report on the return correctly invoiced at the 5.3% state rate.

When filling out the ST-16, a retailer should report its Gross Sales and other amounts, such as "Sales to other retailers for resale" and "Returned goods, discounts, allowances and trade-ins," in the same way the retailer entered them on ST-16's filed for periods before July 2010. Gross Sales include sales that were invoiced to customers at the 5.3% state rate as well as sales that were invoiced at the 6.3% state rate.

To calculate the deduction amount that can be claimed because of the rate increase, the retailer should total the sales receipts invoiced at the 5.3% state rate and multiple the sum by the correct Factor selected from the Factor Table below. The result of this multiplication should be entered in Part II of the ST-16 on Line N, "Other allowable deductions." The "Total Deductions" on Line O of Part II must be entered on Line 3 of Part I, "Total allowable deduction."

A Form ST-16 return reports Kansas state and local sales tax for one Kansas taxing jurisdiction. Each different taxing jurisdiction is assigned a unique Taxing Jurisdiction Code under which sales are reported. To find the appropriate Factor in the Factor Table below, a retailer must determine the combined sales tax rate in place for the Taxing Jurisdiction Code immediately before July 1, 2010 and the combined rate in place for the same Code on July 1, 2010. The decimal amount that follows the two combined rates listed in the Factor Table is the Factor that should be used to determine the deduction amount being claimed.

Retailers that claim this deduction must maintain, for a minimum of three years, copies of their worksheets, computer printouts, any Form PR-74c's they receive, their records of sales taxed at the 5.3% rate, and any other records that support claimed deductions.

VI. Filing a July 2010 ST-36 Return. Businesses reporting sales sourced to more than one taxing jurisdiction should use the ST-36. Businesses that report sales that were correctly invoiced to customers at the 5.3% state rate on an ST-36 filed for July 2010, or for a later reporting period, must keep track of the sales receipts being reported on the return that were correctly invoiced at the 5.3% state rate *for each Taxing Jurisdiction Code being reported.*

To complete the ST-36 return, the retailer should enter its Gross Sales in the same way that the retailer reported the amounts on ST-36's filed for periods before July 2010. Gross Sales include sales that were invoiced to customers at the 5.3% state rate as well as sales that were invoiced at the 6.3% state rate.

To determine the deduction allowed because of the rate increase, the retailer will total the sales receipts being reported that were invoiced at the 5.3% state rate for each Taxing Jurisdiction Code under which sales receipts are being reported. The sum of the 5.3% state rate sales for a taxing jurisdiction should be multiplied by the Factor that is appropriate for that taxing jurisdiction from the Factor Table, below. The result of this multiplication should be entered in Part III of the ST-36 on the Line in Column labeled "Part II Deductions *(Non-Utility)*" that corresponds to the Taxing Jurisdiction identified for that Line in the first Column labeled "Taxing Jurisdictions." The amount of the total deductions being reported in the Column "Part II Deductions *(Non-Utility)*" in Part III to adjust for the 5.3% state rate sales must also be entered on Part II on Line N, "Other allowable deductions."

To find the appropriate Factor for a given taxing jurisdiction in the Factor Table below, a retailer must determine the combined sales tax rate in place for the Taxing Jurisdiction Code immediately before July 1, 2010 and the combined sales tax rate in place for the same Code on July 1, 2010. *See Pub. KS-1700.* The decimal amount that follows the two combined rates in the Factor Table is the appropriate Factor for the Taxing Jurisdiction Code in question. This must be done for each Taxing Jurisdiction Code being reported.

Retailers that claim these deductions must maintain, for a minimum of three years, copies of their worksheets, computer printouts, any Form PR-74c's they receive, their records of sales taxed at the 5.3% state rate, and any other records that support the claimed deductions.

VII. Filing a July 2010 CT-9U Return. Out-of-state retailers that file CT-9U returns should follow the instructions in Section VI for completing an ST-36.

VIII. Factor Table. To use this Table, a retailer must determine the combined sales tax rate in place for a Local Taxing Jurisdiction Code immediately before July 1, 2010 and the combined sales tax rate in place on July 1, 2010. For example, a taxing jurisdiction whose total combined sales tax rate increased from 5.8% to 6.8% on July 1, 2010 (no local sales tax rate increase) is shown as "5.8/**6.8%** → 0.1471." The Factor for this rate increase is "0.1471." A taxing jurisdiction whose total combined sales tax rate went from 7.8% to 9.3% on July 1, 2010 (which includes a local sales tax rate increase of 0.5%) is shown as "7.8/**9.3%*** → 0.1613." The Factor for this rate increase is "0.1613."

Old Rate/**New Rate** → Factor

5.3/**6.3%** → 0.1587
5.8/**6.8%** → 0.1471
6.05/**7.05%** → 0.1418
6.3/**7.3%** → 0.1370
6.3/**7.8%*** → 0.19231

6.3/**8.3%*** → 0.2410
6.45/**7.45%** → 0.1342
6.525/**7.525%** → 0.1329
6.55/**7.55%** → 0.1325
6.7/**7.7%** → 0.1299

6.8/**7.8%** → 0.1282
6.8/**8.3%*** → 0.1807
6.8/**9.8%*** → 0.3061
6.95/**7.95%** → 0.1258
7.0/**8.0%** → 0.1250

7.05/**8.05%** → 0.1242
7.15/**8.15%** → 0.1227

7.2/**8.2%** → 0.1220
7.3/**8.3%** → 0.1205
7.3/**8.8%*** → 0.1705

7.3/**9.3%*** → 0.2151
7.45/**8.45%** → 0.1183
7.525/**8.525%** → 0.1173
7.55/**8.55%** → 0.1170
7.55/**8.8%*** → 0.1420
7.55/**8.925%*** → 0.15406
7.55/**10.5%*** → 0.2801
7.6/**8.6%*** → 0.1163
7.6/**9.25%*** → 0.1784
7.6/**9.6%*** → 0.2083

7.65/**8.65%** → 0.1156
7.65/**9.25%*** → 0.1730
7.775/**8.775%** → 0.1140
7.8/**8.8%** → 0.1136
7.8/**9.3%*** → 0.1613

7.8/**9.8%*** → 0.2041
7.85/**8.85%** → 0.1130
7.9/**8.9%** → 0.1124
7.9/**9.9%*** → 0.2020
7.925/**8.925%** → 0.1120

7.95/**8.95%** → 0.1117
8.025/**9.025%** → 0.1108
8.05/**9.05%** → 0.1105
8.15/**9.15%** → 0.1093
8.15/**9.525%*** → 0.1444

8.275/**9.275%** → 0.1078
8.3/**9.3%** → 0.1075

8.525/**9.525%** → 0.1050
8.55/**9.55%** → 0.1047
8.55/**9.925%*** → 0.1385

8.55/**10.55%*** → 0.1900
8.65/**9.65%** → 0.1036
8.775/**9.775%** → 0.1023
8.8/**9.8%** → 0.1020
8.85/**9.85%** → 0.1015

8.9/**9.9%** → 0.1010
8.925/**9.925%** → 0.1008
9.05/**10.05%** → 0.0995
9.3/**10.3%**→ 0.0971
9.55/**10.55%** → 0.0948

IX. How the Factor is Determined. Each Factor is calculated by applying the following formula to the two tax rates: *(New Rate minus Old Rate = X)*; *(X divided by New Rate = Factor).* The formula may be used to determine a Factor for a rate change not listed in the Factor Table. An asterisk (*) indicates that both the state rate *and* a local sales tax rate were increased on July 1, 2010, since the difference between the two rates is more than the 1% state rate increase.

There are multiple Factors because sales tax returns capture a retailer's sales receipts based on each jurisdiction where a sale is sourced. Each jurisdiction is assigned a Taxing Jurisdiction Code that references its combined sales tax rate, which is the state rate plus all applicable city and county rates. *Pub. KS-1700.* Because local sales tax rates vary, there is no single Factor that can be used for all receipts.

To find the local sales and use tax rate increases, go to the department's website, www.ksrevenue.org, and click on: *Your Business → Sales Tax → Latest Local Rate Changes → Effective July 1, 2010 - Sales Tax Rate Updates Only.*

X. Examples. Examples will be published on the department's website by July 1, 2010 showing how different electronically filed Kansas sales tax returns should be completed when a return includes some sales invoiced at the 5.3% state rate, and others sales invoiced at the 6.3% state rate.

Taxpayer Assistance. Additional copies of this Notice, and other department forms or publications, may be download from our website, **www.ksrevenue.org**. If you have questions about this rate increase and how it applies, please contact:

Taxpayer Assistance Center
Kansas Department of Revenue
915 SW Harrison St., 1st Floor
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