Policy & Research
915 SW Harrison St
Topeka KS 66612-1588

Kansas
Department of Revenue

Phone: 785-296-3081
FAX: 785-296-7928
www.ksrevenue.org

Nick Jordan, Secretary
Richard Cram, Director

Sam Brownback, Governor

NOTICE 15-03

Instructions for Reporting Sales Receipts on Sales Tax Returns Filed for July 2015

June 30, 2015

Certain retailers will need to adjust their July return to avoid overpaying tax

2015 State Sales and Use Tax Rate Increase - The Kansas state sales and use tax rate increases from 6.15% to 6.5% on July 1, 2015. This Notice explains a rate-increase adjustment certain retailers may claim as a deduction to avoid overpaying tax during a reporting period when they lawfully charged tax on different transactions at both the 6.15% and the 6.5% state rates.

Transitioning to the 6.5% State Sales Tax Rate - Notice 15-02 contains transition rules for retailers to use to determine whether the 6.15% or 6.5% state rate should be charged to a customer. Most retailers that follow these rules and timely reprogram their tax reporting software to account for the 2015 state and local tax rate increases can rely on proven software to calculate the correct amounts to report on their retailers' sales and use tax returns. However, certain retailers will need to make a rate-increase adjustment and claim an additional deduction on their July 2015 return to avoid paying more tax to the Department than they collect from customers. Some of these retailers will make the rate-increase adjustment on subsequent returns for reporting periods when they lawfully charge the 6.15% state rate to certain qualified customers.

When this Notice indicates the 6.15% or 6.5% state tax rate applies, retailers are required to charge customers the combined rate that equals the sum of the state rate *plus all applicable local tax rates*. "Services" means enumerated services that are taxable under K.S.A. 79-3603. *K.S.A. 79-3602(nn).* Discussions in this Notice about the July return or July reporting period refer to sales retailer records in the calendar month of July 2015 and report on its return due August 25, 2015.

Retailers that report sales on one return that were correctly invoiced to customers at the 6.15% and the 6.5% state rates - Some service providers, including utility, telecommunications, satellite television and cable television companies, bill subscribers for their continuous, ongoing service on a month-to-month or other periodic basis. When the effective date of a sales tax rate increase falls within the billing period assigned to a subscriber, K.S.A. 79-3678 requires all subscriber charges for continuous, ongoing service billed during that period to be taxed at the lower tax rate in place before the rate increase. The new, higher rate is charged on

customer invoices for the first billing period that starts on or after the effective date of the rate increase and on all invoices issued thereafter.

This rule simplifies how these types of service providers charge tax when the billing period assigned to a customer includes the effective date of a tax rate increase. However, the rule means that during a reporting period when there is a rate increase, these service providers will record sales receipts that are taxed at two different rates. This is problematic because Kansas sales and use tax returns do not allow two state tax rates to be reported on one return.

Department computers will calculate tax on a retailer's July 2015 return by applying the new 6.5% state rate to all of the reported taxable receipts even though some retailers correctly charged tax to customers at both the 6.15% rate and the 6.5% rate. To avoid reporting more tax to the Department than they collect from customers, these retailers will need to calculate the rate-increase adjustment explained in this Notice and claim it as an additional deduction on their July 2015 retailers' sales or use tax return.

Retailers entitled to make the rate-increase adjustment - In general, retailers that are entitled to make the rate-increase adjustment on their July 2015 return include: (1) cash basis retailers that record and report cash receipts from a credit sale made before July 2015; (2) accrual-basis service providers that bill charges for their continuous, ongoing service periodically and issue an invoice for a billing period that starts before and ends after July 1, 2015, such as a utility, telecommunications, satellite, or cable service providers; (3) accrual-basis membership clubs that invoice taxable dues for a period that starts before and ends after July 1, 2015; (4) lease or rental companies that bill periodic installments for periods that start before and end on or after July 1, 2015; and (5) vendors and subcontractors that honor a form PR-74c, *State Rate Increase Exemption Certificate*, and charge the 6.15% state rate on sales or services made on or after July 1, 2015.

Any accrual-basis service provider that fixes the first day of the month as the starting date of the billing period for all of its customers will invoice the new 6.5% rate on all of the periodic service charges it records in the July 2015 reporting period. These service providers will not be required to make the rate-increase adjustment discussed in this Notice. *K.S.A. 79-3678.*

Some retailers that are entitled to make a rate-increase adjustment on their July 2015 return will be entitled to claim the deduction on subsequent returns. In general, these retailers are limited to: (1) cash basis retailers that record and report cash receipts from a credit sale made before July 2015; and (2) vendors, subcontractors, and contractors that honor a PR-74c and charge tax at the 6.15% state rate on sales and services made on or after July 1, 2015.

Rate-increase adjustments and deductions. To make the adjustment, retailers are required to track the taxable receipts they record in July from customer charges that are taxed at the 6.15% state rate. Taxable receipts do not include the sales or use tax that was charged or collected. The sum of these July receipts is multiplied by the appropriate Factor selected from the Factor Table below. The product of this multiplication is the rate-increase adjustment the retailer may claim to increase the amount of any deductions it would otherwise be claiming on its July return.

In Kansas, local sales and use tax is imposed by cities, counties, and special tax jurisdictions designated by the legislature. When city, county, or special tax jurisdictions overlap, a retailer is required to charge tax at the combined rate equal to the sum of the state rate and all local tax rates in place at the point of sale. To account for and distribute local tax receipts to Kansas cities,

counties, and local tax jurisdictions, the Department has assigned Tax Jurisdiction Codes to different geographic areas in Kansas.

The Department's Jurisdiction Codes are published in Publication KS-1700, *Sales & Use Tax Code Booklet,* which can be downloaded from the Department's website, www.ksrevenue.org. Clicking on "Local sales tax rates" in the column entitled "Popular Items" on the Department's home page is a link to the "Local Sales Tax Information - Quarterly Updates." The Publication 1700 for the calendar quarter effective April 1, 2015 lists the combined tax rate in place for each Jurisdiction Code immediately ***before*** the July 1st rate increase. The Publication 1700 for the calendar quarter effective July 1, 2015 lists the combined tax rate in place for each Jurisdiction Code immediately ***after*** the July 1st rate increase.

To find the appropriate Factor for a particular tax jurisdiction, a retailer must determine the combined tax rate that was in place immediately before and after July 1, 2015 for each tax jurisdiction where it billed tax to customers at the 6.15% state rate during the July reporting period. Once the before-and-after combined rates are established for a Jurisdiction Code, the retailer is required to locate those rates in the Factor Table below. The decimal amount that follows the before-and-after combined tax rates is the Factor to use to calculate the rate-increase adjustment the retailer can claim as a deduction on its July return. The allowable rate-increase adjustment is the product that results from multiplying the Factor times the taxable sales receipts for each tax jurisdiction with July sales that are taxed at the 6.15% state rate. Retailers may elect to forego claiming the deduction if they determine the amount saved would be de minimus.

Retailers with tax accounting software that accurately tracks the amount of state and local taxes collected for each local tax jurisdiction - Large, multistate retailers often have sophisticated tax accounting software that tracks to the penny the amount of state and local sales tax they collect for the State of Kansas and for each local tax jurisdiction. These retailers rely on the known tax receipts and exemption data to "back into" the gross taxable receipts they report on their retailers' sales or use tax returns. When these retailers record sales taxed at two different rates during one reporting period, they should continue to follow their normal accounting and reporting practices. Because they rely on the actual tax receipts to "back into" their report of gross receipts, the rate-increase adjustment discussed in this Notice will be accomplished automatically if they follow their normal reporting procedures, assuming their software accurately accounts for the state and local sales and use taxes they collect from customers and has been timely reprogrammed to account for the 2015 state and local tax rate increases.

Retailers that are entitled to claim the deduction on their July return but cannot do so before the August 25th due date - Retailers that are entitled to claim the deductions discussed in this Notice but that have difficulty doing so in a timely manner should file their July 2015 return without the rate-increase adjustment on or before the August 25th due date to avoid assessment of penalty and interest. These retailers can file an amended July 2015 return to claim the rate-increase adjustment as a deduction anytime within the three years statute of limitations.

Calculating rate-increase adjustments and claiming them as deductions them on a retailer's sales or use tax return

Reporting the correct amount of tax collected at different rates. The Form ST-16 sales tax return is used by retailers such as convenience stores, body shops, restaurants, bars, car washes, and laundromats that source all of their sales to a single local tax jurisdiction. The Form

ST-36 sales tax return is by retailers such that source their sales to more than one local tax jurisdiction. Most retailers that are authorized to claim a rate-increase adjustment file Form ST-36 returns rather than Form ST-16 returns. Retailers that make a rate-increase adjustment to claim a deduction must maintain copies of their worksheets, computer printouts, any Form PR-74c's they receive, their records of sales taxed at the 6.15% state rate, and any other records that support the deduction being claimed.

Completing a Form ST-16 return. In general, the only retailers that file Form ST-16 returns that can claim a rate-increase adjustment are ones that: (1) report tax on the cash basis and have cash receipts in July or in a subsequent reporting period from credit sales made before July 2015; (2) honor a form PR-74c, *State Rate Increase Exemption Certificate*, and charge sales tax at the 6.15% rate on retail sales or services made or performed on or after July 1, 2015; (3) are membership clubs that charge taxable dues on a recurring periodic basis that start other than on the first day of the month; or (4) are a utility, telecommunications, satellite, or cable service providers that files Form ST-16 returns because they source all of their subscriber service charges to one tax jurisdiction.

When filling out a Form ST-16 for July 2015, the retailer should complete a sample ST-16 without regard to the fact that some customer sales were taxed at the 6.15% state rate while others were taxed at the 6.5% state rate. This sample return will serve as a work sheet and will not be filed with the Department.

To calculate the rate-increase adjustment, a retailer should total the sales that it invoiced at the 6.15% state rate and multiple the resulting sum by the Factor selected from the Factor Table below. The product that results from this multiplication is added to any other deductions listed on the sample return on Line N, Part II, *Other allowable deductions*. After entering Lines A through M, Part II from the sample return, the retailer should then complete Line O, Part II, *Total Deductions* based on the new, larger amount entered on Line N, Part II, *Other allowable deductions*.

The *Total Deductions* on Line O, Part II is carried to the front of the return and entered on Line 3, Part I, *Deductions.* Once the retailer completes Lines 2 and 6 of Part I to reflect *Merchandise Consumed* or a *Credit Memo,* it can complete the ST-16 using the 6.5% state sales tax rate. When the actual return is compared to the sample return, the only differences in the reported amounts should be the amounts entered on Lines N and O, Part II, and Lines 3 on Part I, and the amounts calculated for Lines 4, 5, 7, and 10, Part I that change because of rate-increase adjustment that increases the deduction being claimed.

Completing a Form ST-36 return. Generally, the five types of businesses listed above under *Retailers that may make the rate-increase adjustment* will be entitled to claim a rate-increase adjustment on their Form ST-36 return filed for July 2015. These businesses are required to track sales *for each Tax Jurisdiction Code* that it invoiced sales at the 6.15% state rate.

The retailer should complete a sample ST-36 without regard to the fact that some customer sales were taxed at the 6.15% state rate while others were taxed at the 6.5% state rate. This sample return will serve as a work sheet and will not be filed with the Department.

To find the appropriate Factor to make the rate-increase adjustment, a retailer must determine the combined sales tax rates in place immediately before and immediately after the July 1, 2015 rate increase. *See discussion of Pub. KS-1700, above, under Rate-increase adjustments and*

deductions. It must do this for each Tax Jurisdiction where it recorded July sales that were taxed at both the 6.15% and 6.5% state rates.

The before-and-after combined rates are listed in the Factor Table below. The decimal amount that follows the before-and-after rates is the appropriate Factor for the tax jurisdiction in question. This procedure must be repeated to establish the appropriate Factor for each Tax Jurisdiction Code where some sales recorded in July are invoiced at the 6.15% state rate.

To determine the allowable rate-increase adjustment that can be claimed as an additional deduction, the retailer should total the sales receipts that were invoiced at the 6.15% state rate for each Tax Jurisdiction where such sales were recorded. The sum of these sales for each Tax Jurisdiction is then multiplied by the appropriate Factor for that Tax Jurisdiction. The result of this multiplication is the tax rate-increase adjustment for that jurisdiction that increases the deductions shown on the sample return.

The tax rate-increase adjustment is added to the amounts on the sample return in Part III that are listed on the Line in Column 4, *Part II (Non-Utility) Deductions* that corresponds to the Taxing Jurisdiction Code listed under Column 1, *Code.* This is done for each jurisdiction where sales are taxed at the 6.15% rate. The sum of the total deductions reported in Column 4, *Part II (Non-Utility) Deductions,* in Part III is carried to Line N, Part II *Other allowable deductions* on first page of the return. Once the retailer completes the rest of the ST-36 by incorporating the other amounts entered on the sample return, the ST-36 can be completed using the 6.5% state sales tax rate.

Annual and quarterly filers. Annual and quarterly filers can claim the rate-increase deduction by following the instruction set forth above for completing a Form ST-16 or ST-36 return. When an annual reporting period includes periods before and after July 1, 2015, an annual filer should apply the appropriate Factor to its sales receipts recorded before July 2015 and to any subsequent receipts that were correctly taxed at the 6.15% state rate. Quarterly filers should follow the same instructions and apply the appropriate factor to sales receipts recorded in the third-calendar period that were correctly taxed at the 6.15% state rate.

Filing a July 2015 CT-9U Return. Out-of-state retailers that file CT-9U returns should follow the instructions in set forth above for completing a ST-36 Tax Return.

Factor Table. To use this Table, a retailer must first determine the combined sales tax rates in place for the local tax jurisdiction immediately before and after July 1, 2015. *See discussion, above ---Rate-increase adjustment made by claiming an additional deduction.*

A tax jurisdiction whose total combined sales tax rate increased from 6.15% to 6.5% on July 1, 2015 (no local sales tax rate increase) is shown as "6.15/**6.5%** 0.0538." The Factor for this rate increase is "0.0538." A tax jurisdiction whose total combined sales tax rate went from 6.15% to 7.5% on July 1, 2015 shows the combined *local* tax rate increase is 1.0%. This is reflected in the before-and-after rates of "6.15/**7.5%**." The Factor for this rate increase is "0.1800," as shown below. *(6.15/**7.5%** 0.1800)*

FACTOR TABLE

Old Rate/**New Rate** Factor

6.15/**6.5%** 0.0538	6.15/**7.5%** 0.1800

6.4/**6.75%** 0.0519
6.65/**7.0%** 0.0500
6.9/**7.25%** 0.0483

7.15/**7.5%** 0.0467
7.15/**8.0%** 0.1063
7.15/**8.5%** 0.1588
7.3/**7.65%** 0.0458
7.375/**7.725%** 0.0453
7.4/**7.75%** 0.0452
7.4/**8.75%** 0.1543
7.55/**7.9%** 0.0443
7.65/**8.0%** 0.0438
7.65/**9.0%** 0.1500

7.75/**8.1%** 0.0432
7.8/**8.15%** 0.0429
7.9/**8.25%** 0.0424
8.05/**8.4%** 0.0417
8.15/**8.5%** 0.0412
8.15/**9.0%** 0.0944
8.15/**9.5%** 0.1421
8.3/**8.65%** 0.0405
8.35/**8.7%** 0.0402
8.375/**8.725%** 0.0401

8.4/**8.75%** 0.0400
8.4/**8.75%** 0.0400
8.5/**9.1%** 0.0769
8.55/**8.9%** 0.0393
8.625/**8.975%** 0.0390

8.65/**9.0%** 0.0389
8.7/**9.05%** 0.0387
8.75/**9.1%** 0.0385
8.775/**9.125%** 0.0384

8.8/**9.15%** 0.0383

8.85/**9.2%** 0.0380
8.875/**9.225%** 0.0379
8.9/**9.25%** 0.0378
9.0/**9.35%** 0.0374
9.125/**9.475%** 0.0359

9.15/**9.5%** 0.0368
9.2/**9.55%** 0.0366
9.3/**9.65%** 0.0363
9.4/**9.75%** 0.0359
9.4/**10.10%** 0.0693

9. 5/**9.85%** 0.0355
9.625/**9.975%** 0.0351
9.65/**10.0%** 0.0350
9.7/**10.05%** 0.0348
9.75/**10.1%** 0.0347

9.775 **10.125%** 0.0346
9.8/**10.15%** 0.0345
9.875/**10.225%** 0.0342
9.9/**10.25%** 0.0341
10.0/**10.35%** 0.0338

10.025/**10.375%** 0.0337
10.15/**10.5%** 0.0333
10.4/**10.75%** 0.0326
10.4/**11.1%** 0.0631
10.65/**11.0%** 0.0318

10.75/**11.1%** 0.0315
10.775/**11.125%** 0.0315
10.875/**11.225%** 0.0312
11.15/**11.5%** 0.0304

How each Factor is Determined. The Factors are calculated according to the following formula: *(New Combined Rate minus Old Combined Rate = X)*; *(X divided by New Combined Rate = Factor).* This formula may be used to determine a Factor for a rate increase not listed in the Factor Table. The fact the difference between the two rates exceeds 0.35% shows both the state tax rate *and* the local tax rate or rates were increased effective July 1, 2015. Several new taxing districts were created and a number of cities and counties increased their local rates effective July 1, 2015. No local rates were reduced. *See EDU-96 Rev. 6-15.*

There are multiple Factors because sales tax returns capture a retailer's sales receipts based on each tax jurisdiction where sales are sourced. Each jurisdiction is assigned a Tax Jurisdiction Code that references its combined tax rate, which is the state rate plus all applicable city, county,

and special tax jurisdiction 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 homepage, www.ksrevenue.org, and click on: "Local sales tax rates" in the column entitled "Popular Items." This will take you to the "Local Sales Tax Information - Quarterly Updates."

Taxpayer Assistance. Additional copies of this Notice, and other Department forms or publications, may be downloaded from our web site, 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
Topeka, KS 66612-1588

Phone: 785-368-8222
Fax: 785-291-3614