Questions

Sales & Use Tax – Part I
Section H

1. In the course of doing an audit on DEF Corporation, you discover that they have made several sales of individual manufacturing assets. Further investigation reveals that two (2) of these sales were made from their plant in Georgia, but shipped to a Kentucky customer, four (4) separate sales were made to an equipment dealer in Kentucky and two (2) were to ABC Manufacturing Company, a division of DEF Corporation, in Tennessee. Are these sales exempt under **KRS 139.070?** Why or why not?

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2. Nontaxable sales known as "occasional sales" are those which:

   a) in an individual's course of business he makes only a few.
   b) a seller gets special permission to make.
   c) a seller makes no more than 2 during the course of one year of property not related to his course of business.
   d) a seller makes no more than 10 during the course of one year.

3. Under what two conditions would a successor of a business not be held liable for sales or use taxes owed the state by the predecessor?

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4. You are auditing the records of the Corner Hotel which was recently sold and is now the State Hotel. The lump sum selling price of the property was $30,000. The original owner contends that the equipment was fully depreciated and had no value, and that the selling price included only the real estate. You look at the equipment and determine that a value of $20,000 should be assigned to the equipment. What is the taxable base in this transaction?

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5. On 12/12/04, ABC Company purchased the assets of XYZ, Inc. Both companies are in the business of retailing bottled gas to consumers. One of the items involved in the sale of business assets was storage tanks at the customers' locations. ABC Company has not complied with **KRS 139.680.** You uncover this sale in a routine audit of ABC Company. Did ABC incur a tax liability on this transaction?

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6. Taxpayer A sold several manufacturing assets. In the course of doing the audit, the taxpayer shows the auditor three "Retail Installment Contract Agreement" forms reflecting sales from Taxpayer A to Taxpayer B. These are the only sales of manufacturing assets made by Taxpayer A. What is the tax status of these assets?

7. ABC Gas Company and MNO Gas Company are in the business of selling natural gas to residential customers. MNO purchased certain assets of ABC (gas meters). Are these assets exempt as an occasional sale? Explain.

8. A taxpayer is considering the sale of all of its mining equipment. The corporation has never made more than two sales in any twelve month period. However, in this current twelve month period, this bulk sale of assets would be the third sale. What is the tax status of the assets sold in the current year? prior years?

9. In the process of auditing Company B, you discover that Company A sold out to Company B. Neither taxpayer complied with **KRS 139.670 or 139.680.** However, the contract of sale indicates that A will be responsible for any taxes owed. Therefore, Company B contends that he is not responsible for the tax. How would you handle the situation?

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10. The following statement(s) are true relative to occasional sales.

a) A sale for resale does not count toward the determination of enough sales being made to bring the taxpayer outside the occasional sale exemption.

b) A sale of real estate does count toward determining if the taxpayer has made more than two sales in a 12 month period.

c) If the property being sold has been used in an activity for which a seller's permit was required, the sale of such assets cannot qualify as an occasional sale.

d) Sales in interstate commerce do count if the sale originates or terminates in Kentucky.

e) Sales made entirely outside Kentucky count toward determining if the threshold has been exceeded.

f) A bulk sale of "selling activity" assets qualifies as an occasional sale.

g) All of the above.

h) A, B, C, D and E only.

i) A, C and D only.