Questions

Sales & Use Tax – Part I

Section E

1. A Kentucky contractor-manufacturer is in the business of manufacturing and erecting water towers and tanks which may or may not be considered real property, depending on where and how they are erected and how they are used. Much of the tanks and towers are made and assembled in the taxpayer's shops prior to erection on the job site. The taxpayer buys his raw materials and construction supplies from both in-state and out-of-state vendors. The taxpayer does not know at the time of purchase what materials will be considered raw materials and what will be considered construction supplies. Delivery of the materials are made in Kentucky. The taxpayer will erect these tanks and towers both in-state and out-of-state.

   If the above taxpayer sold a tank to a Kentucky company to be erected by the buying company and delivery was made in Kentucky, discuss what labor and materials are subject to tax.

   Same facts except the above taxpayer has a contract to erect this tank?

Same facts except the above taxpayer has a contract to erect this tank out-of-state?

2. An out-of-state contractor rents construction equipment from a Texas firm. The contractor uses this equipment on a Kentucky job for a period of three (3) months. Is the contractor liable for any tax on this equipment?

If so, on what basis would you tax this equipment?

3. In your audit on a contractor, you find several pieces of furniture and wood-working equipment that were purchased tax exempt. In your discussion of these items with the taxpayer, you discover that these items were installed in a monastery as part of a construction project. No use was made of these items in any way by the contractor. Is the contractor liable for the tax? Explain.

4. A contractor has brought some used equipment into Kentucky for use on a construction project. If the contractor has paid sales tax on this equipment to a state at a rate greater than 6% which has reciprocity with Kentucky, would any additional tax be due Kentucky? If additional tax is due, would any tax credits be allowed? Explain.

5. An out-of-state contractor with a job in Kentucky buys a new piece of equipment from an out-of-state dealer for use at the job site. On what basis would you tax the equipment?

6. A Kentucky contractor has a job out-of-state. Materials which are purchased from both in-state and out-of-state suppliers are delivered to the contractor in Kentucky. The contractor then takes the materials to the out-of-state job site with no use being made in Kentucky. Explain the tax consequences.

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7. A contractor manufactures some of the materials used in the construction business. Is the contractor-manufacturer entitled to any exemptions provided in **Regulations 103 KAR 30:120,** Machinery for New and Expanded Industry and **KRS 139.470(11),** for raw materials and industrial supplies?

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8. A contractor-retailer withdraws material from inventory for use in fulfilling a contract with an exempt institution. The exempt institution is billed for materials plus labor. The exempt institution issues its exemption number to the contractor-retailer to avoid the tax. Based on the facts given, is the claim for exemption valid? Explain.

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9. Builders, Inc. is divided into three independent divisions; a purchasing division, construction division and steel fabricating division. All materials are bought by the purchasing division which invoices the other two divisions at a 15% markup. The steel fabricating division sells fabricated steel to the construction division as well as to other construction companies. Discuss the tax application to the company's transactions.

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10. Compute the use tax due on construction machinery brought into Kentucky using the following situations.

a) Purchase price - $15,000
* Entered state on March 1, 2003
* Left state on November 30, 2003
Useful life - 5 years
Previous depreciation - 3 years

* Due to mechanical problems, the taxpayer established this equipment, not used from May 13 to June 24, 2003.

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b) Purchase price - $35,000

Entered state May 1, 2002
Left state October 25, 2003
Useful life - 6 years
Previous depreciation - 5 years

c) Fully depreciated at time of entering state

Purchase price - $25,000
Entered state June 15, 2002
Left state June 10, 2003
Useful life - 4 years
Depreciation - Full
Age of equipment when entered state - 8 years

11. A contractor is engaged in the sale, installation and repair of window air conditioners and central air conditioning and heating systems. Discuss the application of tax to each area of the contractor's operation.

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