

139.470 Exempt transactions.

There are excluded from the computation of the amount of taxes imposed by this chapter:

- (1) Gross receipts from the sale of, and the storage, use, or other consumption in this state of, tangible personal property or digital property which this state is prohibited from taxing under the Constitution or laws of the United States, or under the Constitution of this state;
- (2) Gross receipts from sales of, and the storage, use, or other consumption in this state of:
 - (a) Nonreturnable and returnable containers when sold without the contents to persons who place the contents in the container and sell the contents together with the container; and
 - (b) Returnable containers when sold with the contents in connection with a retail sale of the contents or when resold for refilling;

As used in this section the term "returnable containers" means containers of a kind customarily returned by the buyer of the contents for reuse. All other containers are "nonreturnable containers";

- (3) Gross receipts from occasional sales of tangible personal property or digital property and the storage, use, or other consumption in this state of tangible personal property or digital property, the transfer of which to the purchaser is an occasional sale;
- (4) Gross receipts from sales of tangible personal property to a common carrier, shipped by the retailer via the purchasing carrier under a bill of lading, whether the freight is paid in advance or the shipment is made freight charges collect, to a point outside this state and the property is actually transported to the out-of-state destination for use by the carrier in the conduct of its business as a common carrier;
- (5) Gross receipts from sales of tangible personal property sold through coin-operated bulk vending machines, if the sale amounts to fifty cents (\$0.50) or less, if the retailer is primarily engaged in making the sales and maintains records satisfactory to the department. As used in this subsection, "bulk vending machine" means a vending machine containing unsorted merchandise which, upon insertion of a coin, dispenses the same in approximately equal portions, at random and without selection by the customer;
- (6) Gross receipts from sales to any cabinet, department, bureau, commission, board, or other statutory or constitutional agency of the state and gross receipts from sales to counties, cities, or special districts as defined in KRS 65.005. This exemption shall apply only to purchases of tangible personal property, digital property, or services for use solely in the government function. A purchaser not qualifying as a governmental agency or unit shall not be entitled to the exemption even though the purchaser may be the recipient of public funds or grants;
- (7)
 - (a) Gross receipts from the sale of sewer services, water, and fuel to Kentucky residents for use in heating, water heating, cooking, lighting, and other residential uses if the sewer services, water, and fuel are purchased and declared by the resident as used in his or her place of domicile.
 - (b) As used in this subsection:

1. "Fuel" shall include but not be limited to natural gas, electricity, fuel oil, bottled gas, coal, coke, and wood; and
 2. "Place of domicile" means the place where an individual has his or her legal, true, fixed, and permanent home and principal establishment, and to which, whenever the individual is absent, the individual has the intention of returning.
- (c) Determinations of eligibility for the exemption shall be made by the department.
- (d) The exemption shall apply to charges for sewer service, water, and fuel billed to an owner or operator of a multi-unit residential rental facility or mobile home and recreational vehicle park if the owner or operator declares that the sewer services, water, and fuel are purchased for Kentucky residents to be used in the resident's place of domicile.
- (e) The exemption shall apply also to residential property which may be held by legal or equitable title, by the entireties, jointly, in common, as a condominium, or indirectly by the stock ownership or membership representing the owner's or member's proprietary interest in a corporation owning a fee or a leasehold initially in excess of ninety-eight (98) years if the sewer services, water, and fuel are purchased for and declared by the Kentucky resident as used in his or her place of domicile;
- (8) Gross receipts from sales to an out-of-state agency, organization, or institution exempt from sales and use tax in its state of residence when that agency, organization, or institution gives proof of its tax-exempt status to the retailer and the retailer maintains a file of the proof;
- (9) (a) Gross receipts derived from the sale of tangible personal property, as provided in paragraph (b) of this subsection, to a manufacturer or industrial processor if the property is to be directly used in the manufacturing or industrial processing process of:
1. Tangible personal property at a plant facility;
 2. Distilled spirits or wine at a plant facility or on the premises of a distiller, rectifier, winery, or small farm winery licensed under KRS 243.030 that includes a retail establishment on the premises; or
 3. Malt beverages at a plant facility or on the premises of a brewer or microbrewery licensed under KRS 243.040 that includes a retail establishment;
- and which will be for sale.
- (b) The following tangible personal property shall qualify for exemption under this subsection:
1. Materials which enter into and become an ingredient or component part of the manufactured product;
 2. Other tangible personal property which is directly used in the manufacturing or industrial processing process, if the property has a useful life of less than one (1) year. Specifically, these items are categorized as follows:

- a. Materials. This refers to the raw materials which become an ingredient or component part of supplies or industrial tools exempt under subdivisions b. and c. below;
 - b. Supplies. This category includes supplies such as lubricating and compounding oils, grease, machine waste, abrasives, chemicals, solvents, fluxes, anodes, filtering materials, fire brick, catalysts, dyes, refrigerants, and explosives. The supplies indicated above need not come in direct contact with a manufactured product to be exempt. "Supplies" does not include repair, replacement, or spare parts of any kind; and
 - c. Industrial tools. This group is limited to hand tools such as jigs, dies, drills, cutters, rolls, reamers, chucks, saws, and spray guns and to tools attached to a machine such as molds, grinding balls, grinding wheels, dies, bits, and cutting blades. Normally, for industrial tools to be considered directly used in the manufacturing or industrial processing process, they shall come into direct contact with the product being manufactured or processed; and
3. Materials and supplies that are not reusable in the same manufacturing or industrial processing process at the completion of a single manufacturing or processing cycle. A single manufacturing cycle shall be considered to be the period elapsing from the time the raw materials enter into the manufacturing process until the finished product emerges at the end of the manufacturing process.
 - (c) The property described in paragraph (b) of this subsection shall be regarded as having been purchased for resale.
 - (d) For purposes of this subsection, a manufacturer or industrial processor includes an individual or business entity that performs only part of the manufacturing or industrial processing activity, and the person or business entity need not take title to tangible personal property that is incorporated into, or becomes the product of, the activity.
 - (e) The exemption provided in this subsection does not include repair, replacement, or spare parts;
- (10) Any water use fee paid or passed through to the Kentucky River Authority by facilities using water from the Kentucky River basin to the Kentucky River Authority in accordance with KRS 151.700 to 151.730 and administrative regulations promulgated by the authority;
- (11) Gross receipts from the sale of newspaper inserts or catalogs purchased for storage, use, or other consumption outside this state and delivered by the retailer's own vehicle to a location outside this state, or delivered to the United States Postal Service, a common carrier, or a contract carrier for delivery outside this state, regardless of whether the carrier is selected by the purchaser or retailer or an agent or representative of the purchaser or retailer, or whether the F.O.B. is retailer's shipping point or purchaser's destination.
 - (a) As used in this subsection:

1. "Catalogs" means tangible personal property that is printed to the special order of the purchaser and composed substantially of information regarding goods and services offered for sale; and
 2. "Newspaper inserts" means printed materials that are placed in or distributed with a newspaper of general circulation.
- (b) The retailer shall be responsible for establishing that delivery was made to a non-Kentucky location through shipping documents or other credible evidence as determined by the department;
- (12) Gross receipts from the sale of water used in the raising of equine as a business;
- (13) Gross receipts from the sale of metal retail fixtures manufactured in this state and purchased for storage, use, or other consumption outside this state and delivered by the retailer's own vehicle to a location outside this state, or delivered to the United States Postal Service, a common carrier, or a contract carrier for delivery outside this state, regardless of whether the carrier is selected by the purchaser or retailer or an agent or representative of the purchaser or retailer, or whether the F.O.B. is the retailer's shipping point or the purchaser's destination.
- (a) As used in this subsection, "metal retail fixtures" means check stands and belted and nonbelted checkout counters, whether made in bulk or pursuant to specific purchaser specifications, that are to be used directly by the purchaser or to be distributed by the purchaser.
- (b) The retailer shall be responsible for establishing that delivery was made to a non-Kentucky location through shipping documents or other credible evidence as determined by the department;
- (14) Gross receipts from the sale of unenriched or enriched uranium purchased for ultimate storage, use, or other consumption outside this state and delivered to a common carrier in this state for delivery outside this state, regardless of whether the carrier is selected by the purchaser or retailer, or is an agent or representative of the purchaser or retailer, or whether the F.O.B. is the retailer's shipping point or purchaser's destination;
- (15) Amounts received from a tobacco buydown. As used in this subsection, "buydown" means an agreement whereby an amount, whether paid in money, credit, or otherwise, is received by a retailer from a manufacturer or wholesaler based upon the quantity and unit price of tobacco products sold at retail that requires the retailer to reduce the selling price of the product to the purchaser without the use of a manufacturer's or wholesaler's coupon or redemption certificate;
- (16) Gross receipts from the sale of tangible personal property or digital property returned by a purchaser when the full sales price is refunded either in cash or credit. This exclusion shall not apply if the purchaser, in order to obtain the refund, is required to purchase other tangible personal property or digital property at a price greater than the amount charged for the property that is returned;
- (17) Gross receipts from the sales of gasoline and special fuels subject to tax under KRS Chapter 138;
- (18) The amount of any tax imposed by the United States upon or with respect to retail sales, whether imposed on the retailer or the consumer, not including any

manufacturer's excise or import duty;

- (19) Gross receipts from the sale of any motor vehicle as defined in KRS 138.450 which is:
- (a) Sold to a Kentucky resident, registered for use on the public highways, and upon which any applicable tax levied by KRS 138.460 has been paid; or
 - (b) Sold to a nonresident of Kentucky if the nonresident registers the motor vehicle in a state that:
 1. Allows residents of Kentucky to purchase motor vehicles without payment of that state's sales tax at the time of sale; or
 2. Allows residents of Kentucky to remove the vehicle from that state within a specific period for subsequent registration and use in Kentucky without payment of that state's sales tax;
- (20) Gross receipts from the sale of a semi-trailer as defined in KRS 189.010(12) and trailer as defined in KRS 189.010(17);
- (21) Gross receipts from the collection of:
- (a) Any fee or charge levied by a local government pursuant to KRS 65.760;
 - (b) The charge imposed by KRS 65.7629(3);
 - (c) The fee imposed by KRS 65.7634; and
 - (d) The service charge imposed by KRS 65.7636;
- (22) Gross receipts derived from charges for labor or services to apply, install, repair, or maintain tangible personal property directly used in manufacturing or industrial processing process of:
- (a) Tangible personal property at a plant facility;
 - (b) Distilled spirits or wine at a plant facility or on the premises of a distiller, rectifier, winery, or small farm winery licensed under KRS 243.030; or
 - (c) Malt beverages at a plant facility or on the premises of a brewer or microbrewery licensed under KRS 243.040;
- that is not otherwise exempt under subsection (9) of this section or KRS 139.480(10), if the charges for labor or services are separately stated on the invoice, bill of sale, or similar document given to purchaser;
- (23) (a) For persons selling services included in KRS 139.200(2)(g) to (p) prior to January 1, 2019, gross receipts derived from the sale of those services if the gross receipts were less than six thousand dollars (\$6,000) during calendar year 2018. When gross receipts from these services exceed six thousand dollars (\$6,000) in a calendar year:
1. All gross receipts over six thousand dollars (\$6,000) are taxable in that calendar year; and
 2. All gross receipts are subject to tax in subsequent calendar years.
- (b) For persons selling services included in KRS 139.200(2)(q) to (ax) prior to January 1, 2023, gross receipts derived from the sale of those services if the gross receipts were less than six thousand dollars (\$6,000) during calendar year 2021. When gross receipts from these services exceed six thousand

dollars (\$6,000) in a calendar year:

1. All gross receipts over six thousand dollars (\$6,000) are taxable in that calendar year; and
 2. All gross receipts are subject to tax in subsequent calendar years.
- (c) The exemption provided in this subsection shall not apply to a person also engaged in the business of selling tangible personal property, digital property, or services included in KRS 139.200(2)(a) to (f); and
- (24) (a) For persons that first begin making sales of services included in KRS 139.200(2)(g) to (p) on or after January 1, 2019, gross receipts derived from the sale of those services if the gross receipts are less than six thousand dollars (\$6,000) within the first calendar year of operation. When gross receipts from these services exceed six thousand dollars (\$6,000) in a calendar year:
1. All gross receipts over six thousand dollars (\$6,000) are taxable in that calendar year; and
 2. All gross receipts are subject to tax in subsequent calendar years.
- (b) For persons that first begin making sales of services included in KRS 139.200(2)(q) to (ax) on or after January 1, 2023, gross receipts derived from the sale of those services if the gross receipts are less than six thousand dollars (\$6,000) within the first calendar year of operation. When gross receipts from these services exceed six thousand dollars (\$6,000) in a calendar year:
1. All gross receipts over six thousand dollars (\$6,000) are taxable in that calendar year; and
 2. All gross receipts are subject to tax in subsequent calendar years.
- (c) The exemption provided in this subsection shall not apply to a person that is also engaged in the business of selling tangible personal property, digital property, or services included in KRS 139.200(2)(a) to (f).

Effective: March 24, 2023

History: Amended 2023 Ky. Acts ch. 92, sec. 12, effective March 24, 2023. -- Amended 2022 Ky. Acts ch. 212, sec. 8, effective January 1, 2023. -- Amended 2020 Ky. Acts ch. 91, sec. 35, effective August 1, 2020. -- Amended 2019 Ky. Acts ch. 151, sec. 26, effective June 27, 2019. -- Amended 2018 Ky. Acts ch. 207, sec. 121, effective April 27, 2018. -- Amended 2016 Ky. Acts ch. 111, sec. 28, effective January 1, 2017. -- Amended 2013 Ky. Acts ch. 119, sec. 13, effective July 1, 2013. -- Amended 2009 Ky. Acts ch. 2 sec. 3, effective April 1, 2009; and ch. 73, sec. 16, effective July 1, 2009. -- Amended 2008 Ky. Acts ch. 95, sec. 10, effective August 1, 2008. -- Amended 2007 Ky. Acts ch. 141, sec. 8, effective July 1, 2007. -- Amended 2006 Ky. Acts ch. 252, Pt. XXXVI, sec. 1, effective August 1, 2006. -- Amended 2005 Ky. Acts ch. 85, sec. 420, effective June 20, 2005; and ch. 184, sec. 17, effective June 20, 2005. -- Amended 2003 Ky. Acts ch. 124, sec. 20, effective July 1, 2004; and ch. 100, sec. 1, effective June 24, 2003. -- Amended 2002 Ky. Acts ch. 361, sec. 14, effective August 1, 2002. -- Amended 2001 Ky. Acts ch. 68, sec. 2, effective March 15, 2001. -- Amended 2000 Ky. Acts ch. 352, sec. 1, effective July 14, 2000. -- Amended 1998 Ky. Acts ch. 125, sec. 2, effective July 15, 1998; ch. 412, sec. 1, effective August 1, 1998; and ch. 536, sec. 1, effective July 15, 1998. -- Amended 1996 Ky. Acts ch. 229, sec. 5, effective July 15, 1996; and ch. 344, sec. 10, effective July 15, 1996. -- Amended 1994 Ky. Acts ch. 501, sec. 2, effective July 15, 1994. -- Amended 1992 Ky. Acts ch. 214, sec. 1, effective July 14, 1992. --

Amended 1990 Ky. Acts ch. 414, sec. 2, effective July 13, 1990. -- Amended 1988 Ky. Acts ch. 136, sec. 1, effective July 15, 1988. -- Amended 1986 Ky. Acts ch. 312, sec. 1, effective July 15, 1986. -- Amended 1984 Ky. Acts ch. 162, sec. 1, effective July 13, 1984. -- Amended 1982 Ky. Acts ch. 395, sec. 8, effective July 15, 1982. -- Amended 1979 (1st Extra. Sess.) Ky. Acts ch. 18, sec. 1, effective June 1, 1979. -- Amended 1976 Ky. Acts ch. 77, Pt. III, sec. 1, effective July 1, 1976; and ch. 155, sec. 18, effective July 1, 1976. -- Amended 1966 Ky. Acts ch. 240, sec. 1. -- Created 1960 Ky. Acts ch. 5, Art. I, sec. 46.

Legislative Research Commission Note (3/24/2023). 2023 Ky. Acts ch. 92, sec. 57, provides that the amendments to this statute in that Act apply retroactively to January 1, 2023, and notwithstanding KRS 131.183, interest shall not be allowed or paid on a refund related to those amendments.

Legislative Research Commission Note (4/27/2018). Pursuant to 2018 Ky. Acts ch. 207, sec. 152, the amendments made to this statute in that Act apply to transactions occurring on or after July 1, 2018.

Legislative Research Commission Note (6/20/2005). 2005 Ky. Acts chs. 11, 85, 95, 97, 98, 99, 123, and 181 instruct the Reviser of Statutes to correct statutory references to agencies and officers whose names have been changed in 2005 legislation confirming the reorganization of the executive branch. Such a correction has been made in this section.

Legislative Research Commission Note (6/24/2003). This section was amended by 2003 Ky. Acts ch. 100, sec. 1, effective June 24, 2003. Section 2 of that Act said, "The provisions of this Act shall also apply retroactively to periods beginning prior to the effective date of this Act."