

190.046 Compensation to dealer for work performed under warranty -- "Reasonable compensation" -- Submission, determination, and payment of dealer's claims -- Compensation to dealer for sponsored sales or service promotion events -- Audits -- Fraud.

- (1) Notwithstanding the terms of any franchise agreement, each motor vehicle manufacturer or distributor, doing business within this Commonwealth, shall assume all responsibility for and shall defend, indemnify, and hold harmless its motor vehicle dealers against any loss, damages, and expenses, including legal costs, arising out of complaints, claims, recall repairs or modifications or factory authorized or directed repairs, or lawsuits resulting from warranty defects, which shall include structural or production defects; defects in the assembly; or design of motor vehicles, parts, accessories; or other functions beyond the control of the dealer, including without limitation, the selection of parts or components for the vehicle. Each manufacturer or distributor shall pay reasonable compensation to any authorized dealer who performs work to repair defects, or to repair any damage to the manufacturer's or distributor's product sustained while the product is in transit to the dealer, when the carrier or the means of transportation is designated by the manufacturer or distributor. Each manufacturer or distributor shall provide to its dealers with each model year a schedule of time allowances for the performance of warranty repair work and services, which shall include time allowances for the diagnosis and performance of warranty work and service time, and shall be reasonable and adequate for the work to be performed.
- (2)
 - (a) In the determination of what constitutes "reasonable compensation" under this section, the principal factor to be considered shall be the amount of money that the dealer is charging its other customers for the same type service or repair work. Other factors may be considered, including:
 1. The compensation being paid by other manufacturers or distributors to their dealers for work; and
 2. The prevailing amount of money being paid or charged by the dealers in the city or community in which the authorized dealer is doing business.
 - (b) Except as provided in paragraph (d) of this subsection, "reasonable compensation" shall include:
 1. Diagnosing the defect as needed;
 2. Repair service;
 3. Labor;
 4. Parts; and
 5. Administrative and clerical costs.
 - (c) Except as provided in paragraph (d) of this subsection, the compensation of a dealer shall not be less than:
 1. The amount charged by the dealer for like services and parts, which minimum compensation for parts shall be dealer cost plus thirty percent (30%) gross profit, to retail customers for nonwarranty service and repairs; or

2. The amounts indicated for work on the schedule of warranty compensation required to be filed by the manufacturer with the commission as a part of the manufacturer's license application by KRS 190.030.
- (d) The compensation of a dealer for vehicles with a classification of seven (7) or higher as established in 49 C.F.R. sec. 565.15 by a manufacturer, component manufacturer, or distributor shall be subject to the following conditions:
1. The dealer shall be entitled to receive, as to reimbursement for parts, not less than its actual acquisition cost of the parts including freight, handling, taxes, and any other related out-of-pocket expenses, plus a gross profit margin of thirty percent (30%);
 2. In addition to paragraph (b) of this subsection, "reasonable compensation" shall also include:
 - a. All dealer costs incurred for training and certifying technicians and warranty administration personnel;
 - b. Dealer costs to acquire, use, and maintain computer hardware and software systems utilized for warranty and recall repairs, including diagnostic computers, mobile devices, and software for tracking and reporting warranty and recall time and expenses; and
 - c. Dealer costs for specialized tools and hardware required for warranty and recall repairs;
 3. A dealer may submit reimbursement requests for its costs described in subparagraph 2. of this paragraph, and the manufacturer, component manufacturer, or distributor shall pay for those costs, at the dealer's election either on a:
 - a. Per repair basis, as may be mutually agreeable between the dealer and manufacturer, component manufacturer, or distributor;
 - b. Per repair basis, based upon the amounts customarily charged by the dealer to retail customers for similar nonwarranty work; or
 - c. Periodic basis no less frequent than annually, with reasonable documentation of the costs and a reasonable method of allocating the costs between reimbursable warranty and recall services and nonwarranty services;
 4. If labor hours on a warranty or recall repair, diagnostics, or service are incurred by a technician trained or certified in that service by a manufacturer, component manufacturer, or distributor, or if such training or certification is not furnished, the actual hours incurred shall be the basis of reasonable compensation unless the manufacturer, component manufacturer, or distributor proves by clear and convincing evidence that the hours incurred were unreasonable for the specific repair. Reference to standard repair times, labor guides, or time allowance guidelines shall not constitute sufficient evidence of that proof;
 5. If a component manufacturer for any system, subassembly, or other

component part of a motor vehicle has assumed, undertaken, or otherwise has legal responsibility for reimbursement and processing of a dealer claim for warranty or recall services by virtue of any pass-through or extended warranty arrangement, governmental recall mandate, consent decree, judicial decree, litigation settlement, or other means, the component manufacturer shall be subject to all the requirements of this section as if primarily liable as a manufacturer or distributor. This subparagraph shall not relieve the manufacturer or distributor of the motor vehicle from any primary liability for the indemnification obligations of subsection (1) of this section to its dealers. If a component warranty is made contemporaneously with the sale of a new motor vehicle and extends beyond the original manufacturer or distributor warranty on the entire vehicle, the manufacturer or distributor shall continue to have primary liability to its dealers for the performance of warranty service on those components during the extended period;

6. Compensation to be paid a dealer from a component manufacturer for warranty or recall work on a component part shall be no less than the amount that would otherwise be reimbursable if the manufacturer or distributor of the vehicle had made the component warranty or was otherwise responsible for the component part. This subparagraph shall apply regardless of whether or not the part bears a different part number than the originally manufactured part, or is a remanufactured or rebuilt part that is required or permitted to be utilized in a warranty or recall repair;
7. A manufacturer, component manufacturer, or distributor shall not refuse payment for a replacement part installed by a dealer in connection with a warranty or recall repair that the manufacturer, component manufacturer, or distributor claims is not defective based upon laboratory or other testing, or where no fault with the part is found, unless the part is returned to the dealer with a written certification from the manufacturer, component manufacturer, or distributor setting forth the test conditions and results and warranting that the part is not defective, is fully functional, and qualified for reuse in future repairs;
8. A manufacturer, component manufacturer, or distributor shall not require unreasonable proof or unduly burdensome processes to establish reasonable compensation;
9. A manufacturer, component manufacturer, or distributor shall not require a dealer for vehicles with a classification of seven (7) or higher as established in 49 C.F.R. sec. 565.15 to submit a claim authorized under this section sooner than ninety (90) days after the dealer completes the preparation, delivery, or warranty service authorizing the claim for preparation, delivery, or warranty service; and
10. As used in this paragraph, "component manufacturer" means any person who manufactures, assembles, imports, or distributes new,

remanufactured, or rebuilt parts, assemblies, subassemblies, or other components for motor vehicles.

- (e) A manufacturer or distributor shall not require unreasonable proof to establish "reasonable compensation."
- (3)
 - (a) Except as provided in subsection (2)(d)9. of this section, a manufacturer or distributor shall not require a dealer to submit a claim authorized under this section sooner than thirty (30) days after the dealer completes the preparation, delivery, or warranty service authorizing the claim for preparation, delivery, or warranty service.
 - (b) All claims made by a dealer under this section shall be paid within thirty (30) days after their approval.
 - (c) All claims shall be either approved or disapproved by the manufacturer or distributor within thirty (30) days after their receipt on a completed form supplied or approved by the manufacturer or distributor.
 - (d) Any claims not specifically disapproved in writing within thirty (30) days after the receipt of the form shall be considered to be approved and payment shall be made within thirty (30) days thereafter.
 - (e) A dealer shall not be required to maintain defective parts for more than thirty (30) days after payment of a claim.
 - (f) Any dispute between the dealer and the manufacturer or distributor shall be subject to the provisions of KRS 190.057.
- (4) A manufacturer or distributor shall compensate the dealer for manufacturer-sponsored or distributor-sponsored sales or service promotion events, including but not limited to rebates, programs, or activities in accordance with established written guidelines for such events, programs, or activities, which the manufacturer or distributor shall provide to each dealer.
- (5)
 - (a) A manufacturer or distributor shall not require a dealer to submit a claim authorized under subsection (4) of this section sooner than ninety (90) days after the dealer becomes eligible to submit the claim.
 - (b) All claims made by a dealer pursuant to subsection (4) of this section for promotion events, including but not limited to rebates, programs, or activities, shall be paid within thirty (30) days after their approval.
 - (c) All claims shall be either approved or disapproved by the manufacturer or distributor within thirty (30) days after their receipt on a completed form supplied or approved by the manufacturer or distributor.
 - (d) Any claim not specifically disapproved in writing within thirty (30) days after the receipt of this form shall be considered to be approved and payment shall be made within thirty (30) days.
- (6) If a dealer submits any claim under this section to a manufacturer or distributor that is incomplete, inaccurate, or lacking any information usually required by the manufacturer or distributor, or if incomplete, inaccurate, or missing information is discovered during an audit, then the manufacturer or distributor shall promptly notify the dealer, and the time limit to submit the claim shall be extended for a reasonable length of time, not less than five (5) business days following notice by

the manufacturer or distributor to the dealer, for the dealer to provide the complete, accurate, or lacking information to the manufacturer or distributor. A dealer's failure to comply with the specific requirements of the manufacturer or distributor for processing a claim may not constitute grounds for denial of the claim or reduction of the amount of compensation paid to the dealer if the dealer presents reasonable documentation or other evidence to substantiate the claim.

- (7) (a) A manufacturer or distributor may only audit warranty, recall, sales, or incentive claims for a period of twelve (12) months following payment, or the end of a program which does not exceed one (1) year in length, whichever is later, subject to all of the provisions of this section.
- (b) A manufacturer or distributor shall not require documentation for warranty, recall, sales, or incentive claims more than twelve (12) months after the claim was paid or the end of a program which does not exceed one (1) year in length, whichever is later.
- (c) Prior to requiring any charge-back, reimbursement, or credit against a future transaction arising out of an audit, the manufacturer or distributor shall submit written notice to the dealer along with a copy of its audit and the detailed reason for each intended charge-back, reimbursement, or credit.
- (d) Notwithstanding the limitations of this subsection, a manufacturer that possesses evidence which would cause a person of ordinary caution, prudence, and judgment to believe that a dealer submitted a claim that was fraudulent, false, or misleading may audit the dealer for the claims during any period in which an action for fraud or for the submission of false or misleading claims may be commenced under applicable state law.

Effective: July 15, 2026

History: Amended 2026 Ky. Acts ch. 83, sec. 1, effective July 15, 2026. -- Amended 2024 Ky. Acts ch. 162, sec. 1, effective July 15, 2024. -- Amended 2023 Ky. Acts ch. 7, sec. 4, effective June 29, 2023. -- Amended 2011 Ky. Acts ch. 3, sec. 1, effective June 8, 2011. -- Amended 2000 Ky. Acts ch. 23, sec. 4, effective February 22, 2000. -- Amended 1992 Ky. Acts ch. 452, sec. 5, effective July 14, 1992. -- Amended 1982 Ky. Acts ch. 373, sec. 7, effective July 15, 1982. -- Amended 1978 Ky. Acts ch. 182, sec. 2, effective June 17, 1978. -- Amended 1974 Ky. Acts ch. 107, sec. 1. -- Created 1972 Ky. Acts ch. 75, sec. 2.