

1 AN ACT relating to sales and use tax.

2 ***Be it enacted by the General Assembly of the Commonwealth of Kentucky:***

3 ➔Section 1. KRS 139.480 is amended to read as follows:

4 Any other provision of this chapter to the contrary notwithstanding, the terms "sale at  
5 retail," "retail sale," "use," "storage," and "consumption," as used in this chapter, shall not  
6 include the sale, use, storage, or other consumption of:

- 7 (1) Locomotives or rolling stock, including materials for the construction, repair, or  
8 modification thereof, or fuel or supplies for the direct operation of locomotives and  
9 trains, used or to be used in interstate commerce;
- 10 (2) Coal for the manufacture of electricity;
- 11 (3) (a) All energy or energy-producing fuels used in the course of manufacturing,  
12 processing, mining, or refining and any related distribution, transmission, and  
13 transportation services for this energy that are billed to the user, to the extent  
14 that the cost of the energy or energy-producing fuels used, and related  
15 distribution, transmission, and transportation services for this energy that are  
16 billed to the user exceed three percent (3%) of the cost of production.
- 17 (b) Cost of production shall be computed on the basis of a plant facility, which  
18 shall include all operations within the continuous, unbroken, integrated  
19 manufacturing or industrial processing process that ends with a product  
20 packaged and ready for sale.
- 21 (c) A person who performs a manufacturing or industrial processing activity for a  
22 fee and does not take ownership of the tangible personal property that is  
23 incorporated into, or becomes the product of, the manufacturing or industrial  
24 processing activity is a toller. For periods on or after July 1, 2018, the costs of  
25 the tangible personal property shall be excluded from the toller's cost of  
26 production at a plant facility with tolling operations in place as of July 1,  
27 2018.

- 1 (d) For plant facilities that begin tolling operations after July 1, 2018, the costs of  
2 tangible personal property shall be excluded from the tollers cost of  
3 production if the toller:
- 4 1. Maintains a binding contract for periods after July 1, 2018, that governs  
5 the terms, conditions, and responsibilities with a separate legal entity,  
6 which holds title to the tangible personal property that is incorporated  
7 into, or becomes the product of, the manufacturing or industrial  
8 processing activity;
  - 9 2. Maintains accounting records that show the expenses it incurs to fulfill  
10 the binding contract that include but are not limited to energy or energy-  
11 producing fuels, materials, labor, procurement, depreciation,  
12 maintenance, taxes, administration, and office expenses;
  - 13 3. Maintains separate payroll, bank accounts, tax returns, and other records  
14 that demonstrate its independent operations in the performance of its  
15 tolling responsibilities;
  - 16 4. Demonstrates one (1) or more substantial business purposes for the  
17 tolling operations germane to the overall manufacturing, industrial  
18 processing activities, or corporate structure at the plant facility. A  
19 business purpose is a purpose other than the reduction of sales tax  
20 liability for the purchases of energy and energy-producing fuels; and
  - 21 5. Provides information to the department upon request that documents  
22 fulfillment of the requirements in subparagraphs 1. to 4. of this  
23 paragraph and gives an overview of its tolling operations with an  
24 explanation of how the tolling operations relate and connect with all  
25 other manufacturing or industrial processing activities occurring at the  
26 plant facility;
- 27 (4) Livestock of a kind the products of which ordinarily constitute food for human

- 1 consumption, provided the sales are made for breeding or dairy purposes and by or  
2 to a person regularly engaged in the business of farming;
- 3 (5) Poultry for use in breeding or egg production;
- 4 (6) Farm work stock for use in farming operations;
- 5 (7) Seeds, the products of which ordinarily constitute food for human consumption or  
6 are to be sold in the regular course of business, and commercial fertilizer to be  
7 applied on land, the products from which are to be used for food for human  
8 consumption or are to be sold in the regular course of business; provided the sales  
9 are made to farmers who are regularly engaged in the occupation of tilling and  
10 cultivating the soil for the production of crops as a business, or who are regularly  
11 engaged in the occupation of raising and feeding livestock or poultry or producing  
12 milk for sale; and provided further that tangible personal property so sold is to be  
13 used only by those persons designated above who are so purchasing;
- 14 (8) Insecticides, fungicides, herbicides, rodenticides, and other farm chemicals to be  
15 used in the production of crops as a business, or in the raising and feeding of  
16 livestock or poultry, the products of which ordinarily constitute food for human  
17 consumption;
- 18 (9) Feed, including pre-mixes and feed additives, for livestock or poultry of a kind the  
19 products of which ordinarily constitute food for human consumption;
- 20 (10) Machinery for new and expanded industry;
- 21 (11) Farm machinery. As used in this section, the term "farm machinery":
- 22 (a) Means machinery used exclusively and directly in the occupation of:
- 23 1. Tilling the soil for the production of crops as a business;
- 24 2. Raising and feeding livestock or poultry for sale; or
- 25 3. Producing milk for sale;
- 26 (b) Includes machinery, attachments, and replacements therefor, repair parts, and  
27 replacement parts which are used or manufactured for use on, or in the

1 operation of farm machinery and which are necessary to the operation of the  
2 machinery, and are customarily so used, including but not limited to combine  
3 header wagons, combine header trailers, or any other implements specifically  
4 designed and used to move or transport a combine head; and

5 (c) Does not include:

- 6 1. Automobiles;
- 7 2. Trucks;
- 8 3. Trailers, except combine header trailers; or
- 9 4. Truck-trailer combinations;

10 (12) Tombstones and other memorial grave markers;

11 (13) On-farm facilities used exclusively for grain or soybean storing, drying, processing,  
12 or handling. The exemption applies to the equipment, machinery, attachments,  
13 repair and replacement parts, and any materials incorporated into the construction,  
14 renovation, or repair of the facilities;

15 (14) On-farm facilities used exclusively for raising poultry or livestock. The exemption  
16 shall apply to the equipment, machinery, attachments, repair and replacement parts,  
17 and any materials incorporated into the construction, renovation, or repair of the  
18 facilities. The exemption shall apply but not be limited to vent board equipment,  
19 waterer and feeding systems, brooding systems, ventilation systems, alarm systems,  
20 and curtain systems. In addition, the exemption shall apply whether or not the seller  
21 is under contract to deliver, assemble, and incorporate into real estate the  
22 equipment, machinery, attachments, repair and replacement parts, and any materials  
23 incorporated into the construction, renovation, or repair of the facilities;

24 (15) Gasoline, special fuels, liquefied petroleum gas, and natural gas used exclusively  
25 and directly to:

- 26 (a) Operate farm machinery as defined in subsection (11) of this section;
- 27 (b) Operate on-farm grain or soybean drying facilities as defined in subsection

- 1 (13) of this section;
- 2 (c) Operate on-farm poultry or livestock facilities defined in subsection (14) of
- 3 this section;
- 4 (d) Operate on-farm ratite facilities defined in subsection (23) of this section;
- 5 (e) Operate on-farm llama or alpaca facilities as defined in subsection (25) of this
- 6 section; or
- 7 (f) Operate on-farm dairy facilities;
- 8 (16) Textbooks, including related workbooks and other course materials, purchased for
- 9 use in a course of study conducted by an institution which qualifies as a nonprofit
- 10 educational institution under KRS 139.495. The term "course materials" means only
- 11 those items specifically required of all students for a particular course but shall not
- 12 include notebooks, paper, pencils, calculators, tape recorders, or similar student
- 13 aids;
- 14 (17) Any property which has been certified as an alcohol production facility as defined
- 15 in KRS 247.910;
- 16 (18) Aircraft, repair and replacement parts therefor, and supplies, except fuel, for the
- 17 direct operation of aircraft in interstate commerce and used exclusively for the
- 18 conveyance of property or passengers for hire. Nominal intrastate use shall not
- 19 subject the property to the taxes imposed by this chapter;
- 20 (19) Any property which has been certified as a fluidized bed energy production facility
- 21 as defined in KRS 211.390;
- 22 (20) (a) 1. Any property to be incorporated into the construction, rebuilding,
- 23 modification, or expansion of a blast furnace or any of its components or
- 24 appurtenant equipment or structures as part of an approved supplemental
- 25 project, as defined ~~in~~by KRS 154.26-010; and
- 26 2. Materials, supplies, and repair or replacement parts purchased for use in
- 27 the operation and maintenance of a blast furnace and related carbon

1 steel-making operations as part of an approved supplemental project, as  
2 defined ~~in~~by KRS 154.26-010.

3 (b) The exemptions provided in this subsection shall be effective for sales made:

4 1. On and after July 1, 2018; and

5 2. During the term of a supplemental project agreement entered into  
6 pursuant to KRS 154.26-090;

7 (21) Beginning on October 1, 1986, food or food products purchased for human  
8 consumption with food coupons issued by the United States Department of  
9 Agriculture pursuant to the Food Stamp Act of 1977, as amended, and required to  
10 be exempted by the Food Security Act of 1985 in order for the Commonwealth to  
11 continue participation in the federal food stamp program;

12 (22) Machinery or equipment purchased or leased by a business, industry, or  
13 organization in order to collect, source separate, compress, bale, shred, or otherwise  
14 handle waste materials if the machinery or equipment is primarily used for  
15 recycling purposes;

16 (23) Ratite birds and eggs to be used in an agricultural pursuit for the breeding and  
17 production of ratite birds, feathers, hides, breeding stock, eggs, meat, and ratite by-  
18 products, and the following items used in this agricultural pursuit:

19 (a) Feed and feed additives;

20 (b) Insecticides, fungicides, herbicides, rodenticides, and other farm chemicals;  
21 and

22 (c) On-farm facilities, including equipment, machinery, attachments, repair and  
23 replacement parts, and any materials incorporated into the construction,  
24 renovation, or repair of the facilities. The exemption shall apply to incubation  
25 systems, egg processing equipment, waterer and feeding systems, brooding  
26 systems, ventilation systems, alarm systems, and curtain systems. In addition,  
27 the exemption shall apply whether or not the seller is under contract to

1 deliver, assemble, and incorporate into real estate the equipment, machinery,  
2 attachments, repair and replacement parts, and any materials incorporated into  
3 the construction, renovation, or repair of the facilities;

4 (24) Embryos and semen that are used in the reproduction of livestock, if the products of  
5 these embryos and semen ordinarily constitute food for human consumption, and if  
6 the sale is made to a person engaged in the business of farming;

7 (25) Llamas and alpacas to be used as beasts of burden or in an agricultural pursuit for  
8 the breeding and production of hides, breeding stock, fiber and wool products,  
9 meat, and llama and alpaca by-products, and the following items used in this  
10 pursuit:

11 (a) Feed and feed additives;

12 (b) Insecticides, fungicides, herbicides, rodenticides, and other farm chemicals;  
13 and

14 (c) On-farm facilities, including equipment, machinery, attachments, repair and  
15 replacement parts, and any materials incorporated into the construction,  
16 renovation, or repair of the facilities. The exemption shall apply to waterer  
17 and feeding systems, ventilation systems, and alarm systems. In addition, the  
18 exemption shall apply whether or not the seller is under contract to deliver,  
19 assemble, and incorporate into real estate the equipment, machinery,  
20 attachments, repair and replacement parts, and any materials incorporated into  
21 the construction, renovation, or repair of the facilities;

22 (26) Baling twine and baling wire for the baling of hay and straw;

23 (27) Water sold to a person regularly engaged in the business of farming and used in the:

24 (a) Production of crops;

25 (b) Production of milk for sale; or

26 (c) Raising and feeding of:

27 1. Livestock or poultry, the products of which ordinarily constitute food

1 for human consumption; or

2 2. Ratites, llamas, alpacas, buffaloes~~[buffalo]~~, cervids or aquatic  
3 organisms;

4 (28) Buffaloes~~[Buffaloes]~~ to be used as beasts of burden or in an agricultural pursuit for  
5 the production of hides, breeding stock, meat, and buffalo by-products, and the  
6 following items used in this pursuit:

7 (a) Feed and feed additives;

8 (b) Insecticides, fungicides, herbicides, rodenticides, and other farm chemicals;  
9 and

10 (c) On-farm facilities, including equipment, machinery, attachments, repair and  
11 replacement parts, and any materials incorporated into the construction,  
12 renovation, or repair of the facilities. The exemption shall apply to waterer  
13 and feeding systems, ventilation systems, and alarm systems. In addition, the  
14 exemption shall apply whether or not the seller is under contract to deliver,  
15 assemble, and incorporate into real estate the equipment, machinery,  
16 attachments, repair and replacement parts, and any materials incorporated into  
17 the construction, renovation, or repair of the facilities;

18 (29) Aquatic organisms sold directly to or raised by a person regularly engaged in the  
19 business of producing products of aquaculture, as defined in KRS 260.960, for sale,  
20 and the following items used in this pursuit:

21 (a) Feed and feed additives;

22 (b) Water;

23 (c) Insecticides, fungicides, herbicides, rodenticides, and other farm chemicals;  
24 and

25 (d) On-farm facilities, including equipment, machinery, attachments, repair and  
26 replacement parts, and any materials incorporated into the construction,  
27 renovation, or repair of the facilities and, any gasoline, special fuels, liquefied



1           petroleum gas, or natural gas used to operate the facilities. The exemption  
2           shall apply, but not be limited to: waterer and feeding systems; ventilation,  
3           aeration, and heating systems; processing and storage systems; production  
4           systems such as ponds, tanks, and raceways; harvest and transport equipment  
5           and systems; and alarm systems. In addition, the exemption shall apply  
6           whether or not the seller is under contract to deliver, assemble, and  
7           incorporate into real estate the equipment, machinery, attachments, repair and  
8           replacement parts, and any materials incorporated into the construction,  
9           renovation, or repair of the facilities;

10   (30) Members of the genus cervidae permitted by KRS Chapter 150 that are used for the  
11       production of hides, breeding stock, meat, and cervid by-products, and the  
12       following items used in this pursuit:

- 13       (a) Feed and feed additives;
- 14       (b) Insecticides, fungicides, herbicides, rodenticides, and other chemicals; and
- 15       (c) On-site facilities, including equipment, machinery, attachments, repair and  
16       replacement parts, and any materials incorporated into the construction,  
17       renovation, or repair of the facilities. In addition, the exemption shall apply  
18       whether or not the seller is under contract to deliver, assemble, and  
19       incorporate into real estate the equipment, machinery, attachments, repair and  
20       replacement parts, and any materials incorporated into the construction,  
21       renovation, or repair of the facilities;

22   (31) (a) Repair or replacement parts for the direct operation or maintenance of a motor  
23       vehicle, including any towed unit, used exclusively in interstate commerce for  
24       the conveyance of property or passengers for hire, provided the motor vehicle  
25       is licensed for use on the highway and its declared gross vehicle weight with  
26       any towed unit is forty-four thousand and one (44,001) pounds or greater.  
27       Nominal intrastate use shall not subject the property to the taxes imposed by

1           this chapter; and

2           (b) Repair or replacement parts for the direct operation and maintenance of a  
3           motor vehicle operating under a charter bus certificate issued by the  
4           Transportation Cabinet under KRS Chapter 281, or under similar authority  
5           granted by the United States Department of Transportation.

6           (c) For the purposes of this subsection, "repair or replacement parts" means tires,  
7           brakes, engines, transmissions, drive trains, chassis, body parts, and their  
8           components. "Repair or replacement parts" shall not include fuel, machine  
9           oils, hydraulic fluid, brake fluid, grease, supplies, or accessories not essential  
10          to the operation of the motor vehicle itself, except when sold as part of the  
11          assembled unit, such as cigarette lighters, radios, lighting fixtures not  
12          otherwise required by the manufacturer for operation of the vehicle, or tool or  
13          utility boxes;

14       (32) Food donated by a retail food establishment or any other entity regulated under  
15       KRS 217.127 to a nonprofit organization for distribution to the needy;

16       (33) Drugs and over-the-counter drugs, as defined in KRS 139.472, that are purchased  
17       by a person regularly engaged in the business of farming and used in the treatment  
18       of cattle, sheep, goats, swine, poultry, ratite birds, llamas, alpacas,  
19       buffaloes~~[buffalo]~~, aquatic organisms, or cervids;

20       (34) (a) Building materials, fixtures, or supplies purchased by a construction  
21       contractor if:

- 22           1. Fulfilled by a construction contract for a sewer or water project with:
- 23               a. A municipally owned water utility organized under KRS Chapter
- 24                 96;
- 25               b. A water district or water commission formed or organized under
- 26                 KRS Chapter 74;
- 27               c. A sanitation district established under KRS Chapter 220 or formed

- 1                   pursuant to KRS Chapter 65;
- 2                   d.    A nonprofit corporation created under KRS 58.180 to act on behalf
- 3                   of a governmental agency in the acquisition and financing of
- 4                   public projects;
- 5                   e.    Regional wastewater commissions formed under KRS Chapter
- 6                   278;
- 7                   f.    A municipally owned joint sewer agency formed under KRS
- 8                   Chapter 76; or
- 9                   g.    Any other governmental agency; and
- 10                2.    The building materials, fixtures, or supplies:
- 11                a.    Will be permanently incorporated into a structure or improvement
- 12                to real property, or will be completely consumed, in fulfilling a
- 13                construction contract for the purpose of furnishing water or sewer
- 14                services to the general public; and
- 15                b.    Would be exempt if purchased directly by the entities listed in
- 16                subparagraph 1. of this paragraph.
- 17                (b) As used in this subsection, "construction contract" means a:
- 18                1.    Lump sum contract;
- 19                2.    Cost plus contract;
- 20                3.    Materials only contract;
- 21                4.    Labor and materials contract; or
- 22                5.    Any other type of contract.
- 23                (c) The exemption provided in this subsection shall apply without regard to the
- 24                payment arrangement between the construction contractor, the retailer, and
- 25                the entities listed in paragraph (a)1. of this subsection or to the place of
- 26                delivery for the building materials, fixtures, or supplies;
- 27                (35) (a) On or after February 25, 2022, the rental of space for meetings, conventions,

1 short-term business uses, entertainment events, weddings, banquets, parties,  
2 and other short-term social events, as referenced in KRS 139.200, if the tax  
3 established in KRS 139.200 is paid by the primary lessee to the lessor.

4 (b) For the purpose of this subsection, "primary lessee" means the person who  
5 leases the space and who has a contract with the lessor of the space only if:

- 6 1. The contract between the lessor and the lessee specifies that the lessee  
7 may sublease, subrent, or otherwise sell the space; and
- 8 2. The space is then sublet, subrented, or otherwise sold to exhibitors,  
9 vendors, sponsors, or other entities and persons who will use the space  
10 associated with the event to be conducted under the primary lease;

11 (36) Prewritten computer software access services sold to or purchased by a retailer that  
12 develops prewritten computer software for print technology and uses and sells  
13 prewritten computer software access services for print technology;

14 (37) (a) Currency or bullion.

15 (b) As used in this subsection:

16 1. "Bullion":

17 a. Means bars, ingots, or coins, which are:

- 18 i. Made of gold, silver, platinum, palladium, or a combination  
19 of these metals;
- 20 ii. Valued based on the content of the metal and not its form;  
21 and
- 22 iii. Used, or have been used, as a medium of exchange, security,  
23 or commodity by any state, the United States government, or  
24 a foreign nation; and

25 b. Does not include medallions or coins that are incorporated into a  
26 pendant or other jewelry; and

27 2. "Currency":

- 1           a. Means a coin or currency made of gold, silver, platinum,  
2           palladium, or other metal or paper money that is or has been used  
3           as legal tender and is sold based on its value as a collectible item  
4           rather than the value as a medium of exchange; and  
5           b. Does not include a coin or currency that has been incorporated into  
6           jewelry;~~and~~

7 (38) Medicinal cannabis as defined in KRS 218B.010 when sold, used, stored, or  
8 consumed in accordance with KRS Chapter 218B; and

9 (39) (a) Bees used in a commercial enterprise for:

10           1. The production of honey or wax for sale; or

11           2. The pollination of crops, the products of which:

12           a. Ordinarily constitute food for human consumption; or

13           b. Are to be sold in the regular course of business; and

14           (b) The following items used in that commercial enterprise:

15           1. Sugar and high fructose corn syrup;

16           2. Medication and other chemicals used to control mites, fungi, and  
17           parasites;

18           3. Hive components, including but not limited to hive bodies, hive stands,  
19           and woodenware;

20           4. Hive accessories, including but not limited to queen excluders, bucket  
21           feeders, and pollen traps;

22           5. Beeswax foundation and frames;

23           6. Extractors, decapping tanks, and knives;

24           7. Beekeeping apparel; and

25           8. Machinery and equipment designed exclusively for the management  
26           of bees and products derived from bees.

27           ➔Section 2. This Act takes effect August 1, 2026.