

**COMMONWEALTH OF KENTUCKY STATE FISCAL NOTE STATEMENT
LEGISLATIVE RESEARCH COMMISSION
2018 REGULAR SESSION**

MEASURE

2018 BR NUMBER **0485**

SENATE BILL NUMBER **205**

RESOLUTION NUMBER _____

AMENDMENT NUMBER _____

SUBJECT/TITLE **An ACT relating to sales and use tax.**

SPONSOR **Senator C. McDaniel**

NOTE SUMMARY

FISCAL ANALYSIS: IMPACT NO IMPACT INDETERMINABLE IMPACT

LEVEL(S) OF IMPACT: STATE LOCAL FEDERAL

BUDGET UNIT(S) IMPACT: _____

FUND(S) IMPACT: GENERAL ROAD FEDERAL RESTRICTED AGENCY _____ OTHER

FISCAL SUMMARY

FISCAL ESTIMATES	2017-2018	2018-2019	2019-2020	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES		(Indeterminable)	(Indeterminable)	(Indeterminable)
EXPENDITURES				
NET EFFECT		(Indeterminable)	(Indeterminable)	(Indeterminable)

() indicates a decrease/negative

MEASURE'S PURPOSE: This proposal, if enacted, exempts from sales and use tax tangible personal property sold to or purchased by a person who is under contract to incorporate the tangible personal property into a structure or improvement to real estate if the tangible personal property enters into and becomes a permanent part of the structure or real estate and is used to fulfill the terms of a contract with a federal, state, or local government entity or a resident, nonprofit educational, charitable, or religious institution.

PROVISIONS/MECHANICS:

Section 1 amends KRS 139.480 to exempt from sales and use tax tangible personal property sold to or purchased by a person under contract with a federal, state, or local governmental agency, or a resident, nonprofit educational, charitable, or religious institution to incorporate the tangible personal property into a structure or improvement to real estate.

FISCAL EXPLANATION: Currently, governmental agencies and resident, nonprofit educational, charitable, and religious institutions may purchase tangible personal property for use in their exempt function including materials that they purchase to become a permanent part of a

structure or an improvement to real estate if the structure or improvement to real estate is used in their exempt function.

However, persons under contract with governmental agencies or nonprofit educational, charitable or religious institutions, that purchase tangible personal property which will enter or become a permanent part of a structure or improvement to real estate must currently pay the sales or use tax on those purchases unless the exempt entity chooses to separately advertise bids and award separate contracts for materials and labor. While this workaround may effectively exempt the purchaser from the tax and in turn alleviate the exempt entity from reimbursing the purchaser for the tax, according to the Department of Revenue, not all exempt entities use this method consistently.

This proposal, if enacted, will allow persons under contract with the exempt entity to purchase tangible personal property without payment of the sales and use tax. Therefore, there will be a negative impact to the General Fund. The amount is indeterminable.

DATA SOURCE(S): Department of Revenue

PREPARER: Charlotte Quarles NOTE NUMBER: 171 REVIEW: JAB DATE: 3/12/2018