

# Notice

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**Tax Type:** Kansas Retailers' Sales Tax  
**Brief Description:** State sales tax rate increase effective 07-01-2002  
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**Body:**

## **Office of Policy & Research**

### **NOTICE 02-09**

#### **STATE SALES TAX RATE INCREASE**

##### **Legislative background**

The Kansas State Sales and Use Tax rate will increase from 4.9% to 5.3% on July 1, 2002, as provided in 2002 Senate Bill 39, Section 6. The state rate increase will apply to all sales of tangible personal property or services that are subject to sales or use tax on and after July 1, 2002. The local sales and use tax rates, which are fixed by cities and counties, remain in effect as fixed by the local units of government and by the Local Retailers' Sales Tax Act.

Senate Bill 39 also provides that the state sales and use tax rate will decrease from 5.3% to 5.2% effective July 1, 2004, and then to 5% effective July 1, 2005. The department of revenue will publish a notice for each of these state sales tax rate changes.

##### **Reporting sales tax during the transition from 4.9% to 5.3%**

**1) Retailers who report on the accrual basis.** Retailers using accrual basis accounting should record sales when the earning process is complete and the amount due from the customer is measurable and legally collectable. At this time, the sale is recorded on the retailer's books and is subject to sales tax at the current rate. Thus, all sales recorded in the retailer's books on or after July 1, 2002 will be subject to the new 5.3% state rate, plus any applicable local sales tax.

**2) Retailers who report on the cash basis.** Retailers using cash basis accounting should report sales of property or services when the cash is collected from the customer. This may occur when the property is transferred to the buyer or the service is performed, or it may occur several weeks later. This means that some sales made before July 1, 2002 may not be reported until after July 1, 2002. In order to prevent the possibility that a retailer would have to remit state sales tax at the rate of 5.3% on sales on which he properly charged and collected state sales tax at the rate of 4.9%, the following procedure should be followed:

Retailers who report sales tax on a cash basis shall keep a separate record of cash receipts billed for taxable sales made before July 1, 2002, where cash is received on or after July 1, 2002.

When reporting these sales on the sales tax return, the total amount of such receipts shall be reported as part of the "Gross Sales" on Line 1 of the ST-16 or Column 2, Part III of the ST-36.

Under the "Deductions" portion of the return (back of the ST-16 or Part II of the ST-36) on the line "Other Allowable Deductions," the retailer should write these words: "% of taxable sales made prior to July 1, 2002." The amount that is entered on this line is obtained by multiplying the gross receipts received for sales made before July 1, 2002, and payment received after July 1, 2002 times a percentage.

The percentage to use is obtained by dividing the amount of the sales tax increase on July 1, 2002, i.e., .004 or .4% by the new combined tax rate for that jurisdiction. For example, .004 divided by .072 (new tax rate for Topeka) equals .056 or 5.6%.

## Example

A cash basis Topeka retailer makes a \$100 sale on June 28, 2002, but payment is not received until July 5, 2002. The retailer has total gross receipt for July of \$1,000. On his July sales tax return the retailer will take a deduction to adjust for the June sale of \$100 that is taxed at the lower rate of 4.9%. The deduction under "other allowable deduction" is \$5.60. The \$5.60 deduction is calculated as follows:  $.004$  divided by  $.072 = 5.6\%$  ( $.056$ ) times \$100 equals \$5.60

On the sales tax return "Gross Sales" are \$1,000 and the "Deduction" is \$5.60 leaving "Net Sales" of \$994.40 times the 7.2% sales tax rate equals \$71.60 for sales tax reported on the return.

Verification: \$71.60 is the same amount of sales tax due if we calculated it separately - \$100 times  $.068 = \$6.80$  sales tax and \$900 times  $.072 = \$64.80$ .  $\$6.80 + \$64.80 = \$71.60$ .

Quarterly and annual sales tax filers should also maintain a separate accounting of taxable purchases made before July 1, 2002, and report the deduction for sale subject to the law rate in the same manner as the monthly filer example shown above.

A sale of tangible personal property occurs when the customer takes title to or possession of an item. A cash-basis retailer should charge the customer the tax in place when the item is delivered to the customer unless the contract of sale specifically identifies and passes title to the customer at a different time. A sale of services generally takes place when the service is performed for the customer. A cash-basis retailer should charge the customer the tax in place when the item being repaired is delivered to the customer or when real property services are performed.

**3) Reporting consumer's compensating use tax.** Taxable purchases made on or after July 1, 2002 are subject to the new state use tax rate of 5.3%. Annual consumer use tax filers should maintain a separate listing of taxable purchases made before July 1, 2002. When reporting on an annual return that includes periods after July 1, 2002, the new higher state sales tax rate of 5.3% should be used on the return. To accurately report state tax using the 5.3%, the sum of the purchases made before July 1, 2002 should be adjusted by multiplying it by  $4.9\%/5.3\%$  or 0.925. The resulting product of the multiplication provides an adjusted figure for pre-July 1, 2002 purchases. This adjusted figure should be added to the sum of the post-July 1, 2002 purchases and the total reported on the return as the amount of taxable purchases. State tax at the rate of 5.3% should be paid on the resulting amount for the return.

**4) Leases and rental of tangible personal property.** Kansas treats each lease period as a separate sale. Taxable lease and rental billings for periods that begin on or after July 1, 2002 are subject to the new state sales tax rate of 5.3%, plus any applicable local sales taxes. It is immaterial that the lease or rental agreement was entered into before July 1, 2002.

**5) Maintenance and service contracts.** Taxable maintenance and service contracts billing made for periods that begin on or after July 1, 2002 are subject to new state sales tax of 5.3%, plus any applicable local sales tax. It is immaterial that the maintenance and service contract was entered into before July 1, 2002.

**6) Construction contracts.** Services taxable under a construction contract are taxable when the services are performed. This means that contractors who estimated a construction contract where work begins after July 1, 2002 will be required to remit sales tax on services at the state rate of 5.3% even though the contractor's estimate may have assumed that the 4.9% state rate still would be in effect. Purchases of materials are taxed based on the sales tax rate in place when the contractor takes delivery of the materials.

**7) Telephone companies, television cable companies, community antennae, and other subscriber telephone, radio and television service companies.** Services provided by these companies are subject to tax at the new 5.3% state rate on July 1, 2002. These companies shall elect to report sales tax on all accounts under one of the following two options: (a) Billings to consumers that cover the period before and after July 1, 2002 should be prorated to reflect the increased tax rate for those services that occurred on and after July 1, 2002; or (b) Report charges for services billed on the first billing dated on or after July 1, 2002, at the higher state rate of 5.3%, even though some services

may be furnished before July 1, 2002. Report charges for services billed on the last bill dated before July 1, 2002, at the lower 4.9% state rate, even though some services may be furnished after July 1, 2002.

**8) Utility bills for nonresidential gas, water, and electricity based on meter readings.** Services provided by these companies are subject to state tax at the new 5.3% state rate on July 1, 2002. These companies shall elect to report sales tax on all accounts under one of the following two options: (a) Billings to consumers that cover the period before and after July 1, 2002 should be prorated to reflect the increased tax rate for those services that occurred on and after July 1, 2002; or (b) If a meter is read on or after July 1, 2002, and the number of days from July 1, 2002 is more than half of the total number of days covered by the bill, report the sales of these services at the higher rate. If the number of days is less than half the total number of days covered by the bill, report the sales of these services at the lower state rate.

**9) Utility bills for residential or agricultural use of gas, water, and electricity.** State sales tax does not apply to sales of electricity, gas, or water that is delivered through lines, pipes, or mains for noncommercial use. *K.S.A. 79-3606(w)*. Accordingly, the state tax increase does not apply to these billings.

**10) Hotel occupancy** Report taxable daily rentals for a one day billing that includes June 30th and July 1st at the higher state sales tax rate of 5.3%. Report all taxable rentals thereafter at the higher state sales tax rate of 5.3%. If a taxable rental is other than on a daily basis, prorate the amount of rent between the number of days taxable at the lower rate and the number of days taxable at the higher rate.

**Contacting Taxpayer Assistance.** To obtain additional copies of this or any other notice please call the Kansas Department of Revenue's voice mail forms request line at 1-785-296-4937 or download them from our web site: [www.ksrevenue.org](http://www.ksrevenue.org). Our Taxpayer Assistance Center can help you with questions about this notice. The number to use to call the Taxpayer Assistance Center from Topeka is 368-8222. For calls placed from outside Topeka, please use our toll free number: 1-877-526-7738. Our fax number is 1-785-291-3614. The number for the department's hearing impaired TTY is 1-785-296-6461.

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