



Kentucky Automobile Dealers Association
The Voice of Automobile Dealers in Kentucky



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Dealer Alert

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Important Changes to Your Sales Tax Obligations

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As a result of legislative changes to Kentucky's tax code that—among other things—expanded the definition of taxable warranty contracts across many industries, including making contracts relating to real property taxable, dealers will need to begin charging sales tax on sales of ALL extended warranty contracts beginning January 1, 2023. While this is a significant change from prior law (which required Kentucky sales tax to be charged only on extended warranty contracts on vehicles being titled in Kentucky or states with whom Kentucky had reciprocity), it will perhaps make the issue simpler going forward.

Since roughly 2018, dealers have been required to charge sales tax on extended warranties. However, until now, the extended warranty was only subject to sales tax if the vehicle was subject to the Motor Vehicle Usage Tax. The practical effect of this was that dealers did not have to charge sales tax on an extended warranty if the motor vehicle at issue was going to be titled and registered outside the Commonwealth.

House Bill 8, enacted by the general assembly this year, made a host of changes to Kentucky's tax code, expanding services to be taxed, and beginning to implement a reduction in state income tax. With respect to warranties, the legislation changed the statutory definition of "extended warranty services" contained in KRS 139.010. In addition to making warranty contracts on real property taxable, the bill removed the requirement that to be taxable, a vehicle's extended warranty had to be on a vehicle subject to Kentucky's Motor Vehicle Usage Tax. **This change becomes effective on JANUARY 1, 2023.** The practical effect for dealers is that instead of collecting sales tax only on extended warranty contracts for vehicles to be titled in Kentucky (or one of 8 states with reciprocity), you will now collect sales tax on all extended warranty contracts, regardless of where the vehicle will be titled, and regardless of whether the vehicle is subject to Kentucky's Motor Vehicle Usage Tax.

What has NOT changed is the fact that you need to make the sales tax on the extended warranty a separate line item from the Motor Vehicle Usage Tax, sale price, and any other items or add-ons. This will help you remain compliant and assist you with proper reporting and submission of taxes to the Commonwealth. And importantly, **this DOES NOT CHANGE how taxes are calculated for Kentucky customers, or customers residing in Indiana, Arizona, California, Florida, Massachusetts, Michigan, South Carolina, and Washington.**

For further information on tax calculation or reporting, you should contact your accountant. If you have any questions about the legal implications of this change please contact your Stoll Keenon Ogden Automotive Dealership Services team:

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