

Sales Tax on Limited Services

In 1960, consumer spending on goods represented 53.4 percent of their expenditures. In 2012, goods represented only 33.8 percent. Conversely, in 1960, consumer expenditures on services represented 46.6 percent of total, personal expenditures made by Americans. By 2012, services represented 66.2 percent of personal consumption expenditures. In order to preserve the revenue base as Kentucky continues to move from a goods-based economy to a services-based economy, Gov. Beshear proposes to expand the sales tax to certain services.

Installation, Maintenance and Repair of Taxable Personal Property

Currently, Kentucky exempts from the sales tax separately stated charges for installation and repair labor that are part of a retail sale. Gov. Beshear proposes to apply the sales tax to all labor associated with repair and maintenance of tangible personal property that involves the installation of parts or material that is already taxable.

The following states have similar provisions within their tax codes: Ohio, Tennessee, West Virginia, Kansas, Michigan, Minnesota, Nebraska, New Jersey, South Dakota, Washington, Wisconsin and Wyoming. By expanding the sales tax to these services, the proposal limits the burden on vendors because they are already collecting sales tax on some portion of these transactions.

Examples	Full Implementation (millions)	Other States	Contiguous States
• Installation, repair and maintenance of all taxable machinery and equipment (personal and business)	\$54.45	24	OH, TN, WV
• Automotive repair services	\$45.15	25	OH, TN, WV
• Other repair services tied to consumer goods	\$17.09	24	OH, TN, WV
• Computer software/hardware installation and repair	\$16.50	23 if installed by seller, 18 if installed by 3rd party	3 if installed by seller, 3 if installed by 3rd party (OH, TN, WV)
• Labor and repair services on electronics	\$9.95	24	OH, TN, WV
Subtotal	\$143.14		

Note: Labor associated with items exempt from the sales tax will **not** be subject to tax, including:

- Labor associated with the initial installation of exempt property, such as machinery for new and expanded industry, industrial tools, farm machinery, recycling equipment or any other property currently exempt from sales tax.

- Labor associated with installation, maintenance or repair related to real property or fixtures to real property, such as contractor labor involving plumbing or electrical work, building construction, renovation and repairs.
- Labor, maintenance services, diagnostic testing, etc. that do not involve the sale and installation of parts or materials.

Admissions and Recreational Activities

Kentucky currently applies the sales tax to the admissions fees of several non-participatory recreational activities, such as amusement park entry fees, art exhibits, concerts, cover charges at bars, fairgrounds, movie theatres, museums, nightclubs, sports arenas, state parks and street fairs.

Gov. Beshear proposes to expand the sales tax to certain types of admissions like participatory recreational activities. Several types of admissions would remain exempt, including but not limited to tuition, registration fees or ticket charges for instructional seminars or workshops; competitive sporting event entry fees; and dance or swimming lessons.

Examples	Full Implementation (millions)	Other States	Contiguous States
• Fitness and recreational sports centers	\$9.24	22	MO, OH, TN, WV
• Golf courses and country clubs	\$8.25	23	MO, OH, TN, WV
• All other amusement and recreation industries	\$6.36	31 (cultural events), 37 (professional sporting events)	MO, TN, WV
• Overnight Trailer Campgrounds	\$5.80	29	IN, MO, TN, VA, WV
• Marina and boat dock slip rental and storage services	\$5.25	18	WV
Subtotal	\$34.90		

Limited Commercial, Residential and Personal Services

Recognizing that the demographics of the country are changing because of an aging population, and that therefore more people are paying for services they may have previously done for themselves, many states are taxing selected commercial, residential and personal services. Gov. Beshear proposes to tax the selected services listed below in order to stabilize the tax base.

Service Category	Full Implementation (millions)	Other States	Contiguous States
• Landscaping services, excluding lawncare	\$25.03	21	IN, OH, WV
• Janitorial services (including carpet, upholstery and window cleaning)	\$21.68	19	OH, WV
• Warranty Service Contracts for taxable property	\$21.61	33	IL, IN, OH, TN, VA, WV
• Industrial Launderers and Linen Supply	\$17.80	33	OH, TN, VA, WV
• Security systems services (except locksmiths)	\$11.20	18	OH, WV
• Pet care (except medical veterinary) services	\$2.64	18	TN, WV
• Tanning Salons	\$1.90	22	MO, OH, TN, WV
Subtotal	\$101.85		

Total Estimated Additional Sales Tax at Full Implementation = \$279.89 million.

Note: Many services are already subject to sales tax in Kentucky, including:

- Hotel accommodations
- Commercial sewer services
- Non-participatory admissions, such as concert and theater tickets
- Telecommunications services
- Commercial natural gas distribution, transmission and transportation
- Access to digital property