**Opinion Letter**

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| **Letter Number:** | **O-2004-007** |

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| **Tax Type:** | **Kansas Retailers' Sales Tax** |
| **Brief Description:** | **Rental and sales of various products; provision of a variety of services.** |
| **Keywords:** |  |
| **Approval Date:** | **11/03/2004** |

**Body:**

Office of Policy & Research

November 3, 2004

XXXX
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XXXX

RE: Your e-mail received October 1, 2004

Dear XXXX:

I have been asked to answer your recent e-mail. You work for XXXX, a nationwide company that rents and sells products at retail and provides a variety of services. These activities include uniform sales and rentals, sales of restrooms and hygiene products, rentals of mats, mops, and towels, document shredding and storage, clean room supplies and services, and flame resistant clothing, among other things.

Your letter asks how three of XXXX's business endeavors should be taxed. One is uniform rentals and sales. XXXX launders or dry cleans the uniforms as part of its rental service. The second is sales of restroom supplies and the providing of restroom maintenance services. The third is sales and rental of mops, mats, and towels. As with its uniform rentals, XXXX launders or dry cleans the mops, mats, and towels as part of its rental service. Your letter also asks whether XXXX is should pay tax on its purchases of office equipment, office supplies, maintenance equipment, delivery vehicles, building repairs, building repair materials, utility purchases, laundry supplies, and so forth.

To answer your questions, I will explain how Kansas sales tax applies to the various purchases and services and then address the particular issues that you raise.

Generally, Kansas sales tax law treats all businesses like XXXX as the user or consumer of office equipment, office supplies, billing invoices, delivery vehicles, and building materials that it buys for use in its business operates. These things are fully taxable at the time of purchase. Unlike some states, Kansas taxes repair services done to tangible personal property or to real property that was once tangible personal property. This means that repairs to a building are taxable, since a building is constructed of bricks, windows, doors, flooring, roofing, and other items that were once tangible personal property. Similarly, repairs to motor vehicles, office equipment, and other items of tangible personal property are fully taxable.

Under Kansas law, rental services are subject to sales tax. Each billing for rental property is treated as a recurring sale that is fully taxable. This means that XXXX is required to collect tax on the full amount that it charges to customers for the rental of uniforms, garments, mats, mops, towels, and other items. The tax base for taxable Kansas sales and rental includes delivery and shipping charges. Because delivery and shipping charges are part of the tax base, these charges are taxed when the sale itself is taxed and not taxed if the sale is exempt for some reason. As with its rentals, XXXX is required to charge sales tax on its retail sales of uniforms and other merchandise.

Kansas law extends a number of exemptions to rental businesses. Under Kansas law, XXXX may claim an exemption when it buys uniforms, garments, mats, mops, towels, and the other items that it will rent. XXXX may claim exemption when it buys things that become part of a uniform such as emblems, zippers, buttons, and patches. These things are considered to be component parts of the uniforms or other items being rented. Under the law, the component part exemption extends to things like clothes hangers and plastic garment bags that are given to the customer when the rental merchandise is delivered. If XXXX sends rental uniform out to a third-party seamstress for repair, XXXX may claim a resale exemption on the purchases of the services and repair parts from the seamstress.

To claim the exemption, XXXX is required to provide its vendors with a completed copy of a resale exemption certificate. Sales tax exemption certificates are published in Publication KS-1520, which may be downloaded from our web site at www.ksrevenue.org. You may obtain a copy of the publication by calling our forms request line at 1-785-296-4937. While XXXX may claim exemption when it buys merchandise to rent, it must pay tax when it buys uniforms and other items to use in its own business operations.

Rental agreements for uniforms, linens, and mats commonly provide that the customer will receive clean rental items periodically. When a rental company enters into this type of contract, the rental company may claim exemption on its purchases of soap, bleach, and other chemicals that are used to launder and clean the rental property. The law treats the laundry supplies as being consumed by the rental company in its taxable rental service.

Just as laundry supplies are exempt, so are purchases of water, gas, and electricity used to operate washing machines, dryers, mangles, and other equipment used to clean and press the rental items. Exemption on these utilities should be claimed by using an ST-28B or an ST-28C. These exemption forms are published in Publication KS-1520. Because of a specific provision in Kansas law, wastewater treatment chemicals are exempt, while wastewater treatment equipment is taxable.

While XXXX can claim exemption when it buys utilities to operate its washing machines, dryers, mangles, and other equipment that is used to clean and press items held for rental, XXXX cannot claim exemption when it buys the equipment or repair services or parts for the equipment. Exemption may not be claimed because XXXX is engaging in business as a retailer, and is using the equipment to launder the property that it rents. Tax applies to purchases of water heaters, water softeners, and other equipment that are used indirectly in the laundry operations as well as purchases of washers and dryers that are used directly in the laundry operations. XXXX is also required to pay sales or use tax on its purchases of small items such as emblem removers, marking pens, needles, bags, and other items that are used to repair or service the uniforms.

XXXX rents storage cabinets and dispensers for soap, lotion and towels. XXXX also contracts to fills the dispenser periodically. These things are fully taxable, whether they are viewed as rentals or as maintaining the dispensers. If you are collecting sales tax on the full sales price that you charge on these transaction, you can claim resale exemption when you buy the dispensers, cabinets, soap, lotions, and towels.

You also ask about fuel sold for use in your delivery vehicles. These sales are subject to motor fuel tax, which is often paid at the pump. When motor fuel tax is paid on fuel, Kansas does not impose addition sales tax on the fuel sales.

I believe that I have answered all of your questions. If you need to discuss this matter further, please call me at 1-785-296-4008.

Sincerely,

Thomas E. Hatten
Attorney/Policy & Research

**Date Composed: 11/05/2004 Date Modified: 11/05/2004**