**Private Letter Ruling**

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| **Ruling Number:** | **P-2002-053** |

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| **Tax Type:** | **Kansas Retailers' Sales Tax** |
| **Brief Description:** | **"Core charges" for replacement parts for cars, trucks and other equipment.** |
| **Keywords:** |  |
| **Approval Date:** | **06/14/2002** |

**Body:**

Office of Policy & Research

June 14, 2002

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RE: Your letter dated June 3, 2002

Dear XXXX:

Thank you for your recent letter. You ask how Kansas sales tax applies to “core charges.” I will explain what our understanding is of core charges and how tax on core charges is accounted for in Kansas. I will then answer your specific questions.

Replacement parts for cars, trucks and other equipment are often sold with an added fee called a “core charge” when the customer does not have the old part to trade-in. Sometime after the sale, the customer returns to the retailer, turns in the used part, and is refunded the core charge. The retailer then forwards the used part to a re-manufacturer to be rebuilt.

Kansas treats these transactions basically as the anticipated trade-in of a used part. The retailer, at the time of sale, cannot determine whether the customer will turn in the used part for the refund. Thus, the core charge is subject to sales tax as part of the selling price. When the part is turned in, the retailer should refund both the core charge and the state and local sales tax that was collected on the core charge. This practice is consistent with Kansas law that allows a credit when the selling price is established for “an amount equal to the allowance given for the trade-in of property.” K.S.A. 79-3602(h).

You ask if core charges are taxable. The answer is yes, sales tax should be collected on the core charge. However, when the customer returns with a part and is paid for it, sales tax should be refunded on the payment for the part. This rule applies to all core charges. This answers your first two questions and your fourth question.

You next ask how a partial core charge refund is treated because the returned part if damaged or defective. Again the same rule applies. Sales tax should be collected on the entire selling price, including the core charge. Sales tax should be refunded on the amount that is paid to the customer when the part is returned. This would be the actual payment made for the part, rather than payment that could have been made if the part was in good condition.

Your last question posses an example. In it, an alternator is sold for $50 plus a core charge of $15. Under the Kansas approach, the customer should be charged state and local sales tax on $65. Later the customer returns with the used alternator for the $15 credit (core charge). The customer should receive the $15 plus the state and local sale tax figured on the $15. This approach is consistent with Kansas law that allows a credit when the selling price is established for “an amount equal to the allowance given for the trade-in of property.” K.S.A. 79-3602(h). When a core charge is first made, there is only the possibility of a trade-in. When the part is returned, the trade-in effectively takes place, which reduces the selling price. This means that the tax should be refunded on the amount the seller pays to the customer for the part being returned.

I believe that I have answered all of your questions about core charges. If you need to discuss anything further, please call me at 785-296-3081. This private letter ruling is based solely on the facts provided in your request. If it is determined that undisclosed facts were material or necessary to make an accurate determination by the department, this ruling is null and void. This private letter ruling will be revoked in the future by operation of law without further department action if there is a change in the statutes, administrative regulations, or case law, or a published revenue ruling, that materially affects this private letter ruling.

Sincerely,

Thomas E. Hatten
Attorney/Policy & Research

**Date Composed: 06/18/2002 Date Modified: 06/18/2002**