

Professional service businesses that have a physical location in the City of Louisville must obtain a Louisville Sales/Use Tax License, even if they do not sell tangible personal property or provide taxable services. Although service businesses may not have a sales tax liability (for goods sold by the business), they will usually have a use tax liability (on goods purchased by the business). This use tax liability must be reported and paid on a Louisville Sales/Use Tax Return at a minimum of annually, and, even if no tax is due, a zero tax return must be filed.

Please see the “Use Tax” publication in this Tax Guide for additional information. As noted above, an annual Louisville Sales/Use Tax Return is required to be filed. It is important that service-based businesses review and understand their use tax obligations.

Taxability of Services

Generally, professional services are not subject to Louisville sales tax, such as accounting services, legal services, consulting services, and planning and design services. Persons engaged in the business of rendering services are consumers, not retailers, of the tangible personal property they use in rendering their services. A few services are explicitly taxed by the Louisville Municipal Code (LMC), such as telecommunication services, gas and electric services, security monitoring services, and linen services.

In determining whether a transaction involves the sale of tangible personal property or the performance of a service with a transfer of tangible personal property occurring incidental to the performance of the service, the City will examine the transaction from the purchaser’s perspective. If the essence of the transaction is, from the purchaser’s perspective, the acquisition of service, the transaction is not taxable, even though some tangible personal property is incidentally transferred with the performance of the service. However, if a service is performed in the production of tangible personal property, and if the object of the transaction, from the purchaser’s perspective, is the acquisition of the tangible personal property produced, the transaction, or use of the item after sale, is taxable.

Manufacturing Services

The commission, hire, or purchase of professional services or labor used in manufacturing tangible personal property is taxable. Manufacturing or fabrication labor or services expended in the creation, assembly, production or configuration of tangible personal property is part of the taxable purchase price, even when the cost or charges for such labor or services is segregated or stated separately from the cost or charges for materials on the customer invoice.

Repair Services

Businesses that sell tangible personal property along with the service of installing, affixing, or repairing property, must collect sales tax on the purchase price of the property or materials sold. The service or labor charges may be excluded from the taxable purchase price if separately stated on the customer invoice.

The information contained in the Tax Guide publications is intended to offer general guidance in layman’s terms, for this topic, industry or business segment, and is not intended for legal purposes to be substituted for the full text of the Louisville Municipal Code rules and regulations. This guide does not constitute a city tax policy.

Research & Development Services

The development of information in a research and development contract is not a sale of tangible personal property, it is a service. Since certain information such as plans, designs etc., cannot be delivered orally, the information is conveyed on paper. The transfer of information on paper is not a sale of tangible personal property and is a transfer that is incidental to the service of developing information. In some instances, the information must be conveyed by transfer of a prototype or model. The transfer of a prototype or model is incidental to the transfer of the information or ideas and is not a retail sale of the unit to the customer. However, the service business, researcher, or similar, that manufactures the prototype or model is responsible to pay sales tax at the time of purchase, or, if sales tax is not paid, use tax to the City, on the cost of the materials used to construct the unit along with the cost of any other materials consumed.

If thereafter a contract is entered into for the production of the prototype, model or similar, the cost of all materials, labor, skill, thought, and profit should be included in the purchase price, and the appropriate City sales tax charged. Tax would also apply to any subsequent sales of the original prototype, plans, or models, or copies thereof, which are sold to subsequent buyers.

Examples

Louisville Business A is a CPA firm that provides financial planning services. In the conduct of their service, they transfer documents, portfolios or plans to their clients. This is not the sale of tangible personal property; it is a service. The true object of the transaction is for a conceptual plan or ideas and is merely conveyed on paper. However, the CPA firm is the user and consumer of all materials, paper, binders, etc., and is required to pay sales tax at the time of purchase, or use tax to the City if sales tax was not paid.

Louisville Business B is an architectural firm that provides construction and design plans to its clients. The firm provides a house plan to a resident based on his requirements. The conveyance of the plan is not the sale of tangible personal property. The true object of the transaction from the client's perspective is to have his requirements designed into his plans for a house. If, however, the firm transfers the same house plan to another client, the sale of the plan copy, including any profit, is taxable. The true object of this transaction is to obtain the house plan without modification and therefore is the sale of tangible personal property.

A Louisville Resident commissions a local artist to create a sculpture for their front foyer. The resident and the artist consult on the size and theme of the sculpture to be created. The artist should include any cost of materials, time, labor, creative thought, consulting fees and profit in the purchase price of the sculpture and charge the client sales tax on the full purchase price. The true object of the agreement from the purchaser's perspective is the acquisition of the sculpture and not merely the transference of an idea or thought.

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