Hotels and Lodging Facilities

Sales Tax Fact Sheet 141

What’s New in 2017
We have clarified who is responsible for collecting sales tax on residential short-term rentals (vacation home rentals). See Residential Short-Term Rentals.

Starting July 1, 2017, the only taxable food sold through vending machines is prepared food, soft drinks, candy, and dietary supplements.

Lodging facilities must charge sales tax on short-term lodging and certain related services. This may also include local sales taxes or city lodging taxes. For more information, see fact sheets:
- 164, Local Sales and Use Taxes
- 164S, Special Local Taxes

Lodging is the rental of a room or rooms for a temporary place to stay or live. Charge sales tax on lodging and lodging-related services furnished for periods of:
- less than 30 days; and
- 30 days or more if there is no enforceable written lease agreement that requires the customer to give prior notice of their intention to terminate

Lodging facilities include (but are not limited to):
- bed and breakfasts
- hotels
- campgrounds
- motels
- resorts
- residential short-term rentals
- rooming houses
- trailer camps

Lodging-related services
Charges for services provided within a guest room are taxable.

Examples
- cots, cribs, refrigerators, roll-away beds, and exercise equipment
- food or liquor from mini-bars and refrigerators
- in-room safes
- laundry and dry cleaning services
- pay-per-view movies and video games
- room service or room delivery, including mandatory tips and gratuities
- telephone access charges in guest rooms

Residential Short-Term Rentals
Residential short-term rentals include homes, a portion of a home, or any other property used for a temporary place to stay or live. Residential short-term rentals are a form of lodging and related services. Charges for the rentals are subject to general rate sales tax and any applicable local and lodging taxes. See Sales – Lodging and Related Services.
Facilitating the sale
Facilitating the sale of lodging includes “brokering, coordinating, or in any way arranging for purchase of or the right to use accommodations by a customer.” Facilitating the sale of lodging includes both:

- Collecting receipts from the customer of the lodging
- Transmitting the receipts to the owner of the residential property, whether the accommodations intermediary deducts or causes to be deducted any fees or other amounts from those receipts, either:
  - Directly by the accommodations intermediary or
  - Indirectly through agreements or arrangements with third parties

Facilitating the sale does not include only advertising the availability of the residential property for short-term rental, which directs the customer of the lodging to contact the owner of the property to reserve and purchase the lodging.

For all residential short-term rentals, who facilitates the sales transaction determines who is responsible for the tax. See the chart below for details.

<table>
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<tr>
<th>Residential short-term rental situations</th>
<th>Who’s responsible for the tax*</th>
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| The residential property is located in Minnesota and both conditions apply:  
  • The owner regularly furnishes lodging directly to a customer in the normal course of business (done for the purpose of profit or producing income)  
  • The customer makes the reservation with and pays the owner for the lodging and related services | The property owner must register as a retailer to collect, report, and remit taxes on the full sales price of lodging and related services. |
| The residential property is located in Minnesota and the owner uses the services of an accommodations intermediary to facilitate all sales of lodging at the owner’s property. | The accommodations intermediary must register as a retailer to collect, report, and remit taxes on the full sales price of lodging and related services. |
| The residential property is located in Minnesota and the rental of the business property by the owner is an isolated incident, not made in the normal course of business. See Isolated or occasional sales (page 3) | The property owner is not required to register or collect taxes on the sale. |
| The residential short-term rental is facilitated by both:  
  • the property owner in the normal course of business  
  • an accommodations intermediary to facilitate short-term lodging | Both the owner and the intermediary are responsible for sales tax. The sales tax is handled as follows:  
  • The property owner is required to collect, report, and remit taxes on the lodging and related services where they did not use the services of an accommodations intermediary.  
  • The accommodations intermediary is required to collect, report, and remit taxes on the lodging and related services they facilitated. |

*You must keep documentation to support who facilitated the sale and was responsible for remitting the applicable taxes on the lodging and related services.

For more information, see Revenue Notice 17-06, Lodging and Related Services – Residential Short-Term Rentals.
Isolated or occasional sales
For sales tax, a sales tax exemption will apply to the short-term rental in Minnesota if the sale is isolated or occasional, and not made in the normal course of business of selling lodging and related services. An “isolated” sale happens once. An “occasional sale” is infrequent and does not reoccur with some degree of regularity. Normal course of business is defined as activities that demonstrate a commercial continuity or consistency of making sales or performing services for the purposes of attaining profit or producing income.

For income tax purposes, the Internal Revenue Code (IRC) provides an isolated sale exemption when you rent out for 14 days or less a year a property that you also use as your home. This is an exemption from income tax on that rental income. However, this exemption does not apply to sales tax. Unless a sales tax exemption applies you must collect sales tax on the short-term rental of your property.

Complimentary services versus package deals
Supplies to provide complimentary services are taxed differently than supplies used to provide package deals.

Complimentary services
Complimentary services (or items) are those given to the customer as a courtesy with no additional charge.

Examples
- Complimentary breakfast
- Free birthday dessert
- Free drink in response to a customer complaint
- Shampoo, conditioner, and soap

Note: A complimentary breakfast is when the customer has access to breakfast and the charge for their room is not affected if they eat the meal or not.

When complimentary services are provided, hotels and lodging facilities must pay sales tax when they buy inputs to those services. This includes disposable items such as plates, napkins, silverware, etc.

Hotels or lodging facilities providing complimentary items must pay sales tax on the purchase of those items.

Package deals
A package deal is when the customer purchases a group of related products or services for one specified price.

Examples
- A “romance package” that might include a room, wine, dinner for two, and chocolate
- Free children’s meal
- Two-for-one drinks

When a package deal is purchased, the customer pays sales tax on the entire cost of that package. Hotels and lodging facilities may purchase inputs for these deals exempt for resale.

In this situation, disposable items can be purchased exempt because they are included in the taxable price that was paid by the customer.

Other taxable charges
Admissions to recreational areas and fees to use recreational facilities
Recreational facilities includes campgrounds, golf courses, mini golf courses, picnic grounds, playgrounds, tennis courts, health clubs, swimming beaches and pools.

For more information, see Fact Sheet 123, Athletic Facilities, Recreational Areas, Resorts and Campgrounds.

Copies
Charges for copies are taxable, including coin-operated machines.
**Damage charges**
Charges for damage to tangible items, such as equipment or boats, are taxable.

Charges for damage to real property, such as a hotel room or building, are not taxable.

If the charge is a combination of tangible items and real property; the entire charge is taxable if the nontaxable portion is not separately stated.

**Equipment sales**
Sales of surplus or used equipment or other items may be subject to sales tax.

For more information, see Fact Sheet 132, *Isolated and Occasional Sales*.

**Fax charges**
Charges to send a fax are taxable.

**Food and liquor sales**
Lodging facilities that have a restaurant, bar, or eating establishment must charge tax on those sales.

For more information, see Fact Sheet 137, *Restaurants and Bars*.

**Gift shop sales**
Most gift shop sales are taxable, except for food, clothing, and drugs.

For more information, see:

- Fact Sheets 102A through E, *Food and Food Ingredients, Candy, Soft Drinks and Other Beverages, Prepared Food, and Dietary Supplements*
- Fact Sheet 105, *Clothing*
- Fact Sheets 117A through F, *Drugs, Grooming and Hygiene Products, Durable Medical Equipment, Mobility Enhancing Equipment, Prosthetic Devices, and Health Product Exemptions*

Newspapers and tabloids are not taxable. Magazines or periodicals sold over the counter or through vending machines are taxable.

**Jukebox, pool table, and electronic games**
Charges to use these devices are taxable.

**‘No show’ charges**
‘No show’ charges are when the room was held for the customer, but the customer did not arrive and failed to cancel the reservation. These charges are taxable because a sale was made.

**Parking fees**
Parking fees are taxable, including charges for valet parking and car washing.

**Rental of equipment**
If charges to rent equipment are billed separately from a nontaxable meeting room, they are taxable.

This includes equipment such as audio-visual equipment, computers, public address systems, tables, chairs, flowers and decorations.

**Rental of games and recreational equipment**
Rental of games and recreational equipment is taxable, including the rental of games, athletic equipment, boats, paddle boats, canoes, and pontoons.

**Sales to schools and nonprofits**
Lodging is taxable when sold to schools, school districts and nonprofit organizations, even when billed directly to the school or nonprofit organization.
**Note:** Form ST3, *Certificate of Exemption*, cannot be used to purchase lodging exempt from sales tax.

**Telephone**
Charges to guests for the actual cost of telephone calls they make are not taxable if the charge is separately stated on the guest’s bill because the charge from the phone company to the hotel includes the sales tax.

Charges to guests for making the telephone service available to them are taxable. For example, if a hotel charges 50 cents per local call, it is an access charge and is taxable.

**Telephone call accounting systems**
Many hotels use “call accounting systems” to track and determine the amount to charge guests for long distance telephone calls. When using these systems, hotel personnel don’t know how much the actual telephone service costs until they receive their next bill from the telephone company.

In this situation, the hotel must charge sales tax on the total amount billed to their guests for long distance telephone service. The hotel must also continue to pay sales tax to the telephone company for all telephone services.

When the hotel can distinguish between telephone calls billed to guests and their own administrative costs for telephone service, the hotel is allowed to adjust the taxable amount reported on the sales tax return. This is done by subtracting the amount they are billed for the actual costs of long distance phone calls made by guests.

**Tips and service charges**
Tips left voluntarily by a customer are not taxable. This includes tips voluntarily added to a credit card slip.

A tip or service charge is taxable when added to the bill by the seller, even if the amount is separately stated or distributed directly to employees.

**Vending machines, coin-operated devices, or self-service honor systems**
Starting July 1, 2017, the only taxable food sold through vending machines is prepared food, soft drinks, candy, and dietary supplements. Previously, all food sold through vending machines was taxable.

Nontaxable items sold through vending machines include clothing (swimsuits, pantyhose, etc.), feminine hygiene products, aspirin and other drugs, postage stamps, and newspapers.

Generally, the person responsible for removing money from the vending machine or other coin-operated device is responsible for reporting and paying the sales tax.

For more information, see Fact Sheet 158, *Vending Machines and Other Coin-Operated Devices*.

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**Nontaxable sales**
Examples of services sold by lodging facilities that are not subject to sales tax include:

- Coat check
- Gift certificates
- Meeting room or banquet hall rental
- Messenger service
- Rented space for vendors (except sales tax is due on the portion of the rent that is attributable to use of the equipment, phones, furniture, parking spaces, etc.)

**Cancellation charges**
Cancellation charges are not taxable because the room was cancelled, no sale occurred and no sales tax is due.

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**Sales to governments**

**Federal government**
Lodging billed directly to and paid for by the federal government and its agencies are not taxable. However, lodging billed to an employee who is reimbursed by the federal government is taxable.

**Federal credit cards**
Federal employees sometimes use government credit cards to make purchases. There are four types of cards.
- Fleet Cards – for purchasing fuel and supplies for government vehicles
- Purchase Cards – for purchasing general supplies and services
- Travel Cards – for paying expenses related to official government travel (airline, hotel, meals, incidentals)
- Integrated Cards – that combine two or more of the above functions into one card

**How are federal credit cards identified?**
The following 4-digit prefixes identify credit cards issued by the federal government. The prefix is the first group of numbers on the card.

- Visa – 4486, 4614, or 4716 (fleet only)
- MasterCard – 5565 or 5568
- Voyager (fleet only) – 8699
- Wright Express (fleet only) – 5565

**When to charge tax on federal credit card purchases**
To determine if a purchase is taxable, sellers must consider the type of federal credit card and, in some cases, what is being purchased.

- Travel Card – look at the sixth digit of the card; if the sixth digit is:
  - 1, 2, 3, or 4, you must charge sales tax
  - 6, 7, 8, 9, or 0, do not charge sales tax
- Integrated Card – follow the above guidelines for fleet, general, and travel purchases, depending on what is being purchased

**Tribal governments and members**
All short-term lodging of tribal officials on the reservation is exempt if:

- it is for tribal officials acting in their government capacity; and
- they are billed to and paid for by a tribal government

Off-reservation short-term lodging and related services for tribal officials are exempt only if the tribal government has a tax agreement with the Minnesota Department of Revenue that exempts purchases off the reservation by the tribal government solely for its own use. All Minnesota tribal governments have such an agreement, except for the Prairie Island Mdewakanton Community.

**Note:** This exemption does not apply to rooms rented by the tribal government to be used by others as part of a promotional package or for a similar business use.

**State government**
Lodging sold to state government agencies is taxable. This includes the state of Minnesota and all other states. State agencies must pay state and any applicable local taxes.

**Note:** Minnesota state agencies cannot use their direct pay authorization to buy lodging exempt from sales tax.

**Local government**
Lodging sold to local government agencies is taxable. Local governments include Minnesota and non-Minnesota counties, cities, municipalities, townships, political subdivisions, commissions, special districts, and government boards.

Local governments must pay state sales and use tax, but are not required to pay local general sales and use taxes. However, local governments are required to pay other special local taxes such as lodging, restaurant, and liquor taxes imposed by local governments.

For more information, see Fact Sheet 164S, *Special Local Taxes*.

**Foreign Officials**
The U.S. Department of State’s Office of Foreign Missions and the American Institute of Taiwan issue tax exemption cards to eligible foreign missions, their accredited members, and dependents.

There are restrictions on the use of these cards for hotel stays.
• If an individual is using a personal tax exemption card, the room must be in their name.

• When using a mission tax exemption card, hotel stays may not be for leisure, tourism, or medical treatment.

Ask to see the consular official’s ID card. Make sure the purchase qualifies for the exemption by checking the information on the card. For example, some cards will state that the official must pay sales tax on charges for hotel rooms or on purchases under a certain amount.

If the official qualifies for the exemption, write the individual tax exemption number found on the card on the billing or sales invoice. Keep this in your file as proof of exemption.

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**Taxable purchases**

Equipment used to provide lodging accommodations is taxable. If the seller does not collect Minnesota sales tax, you must report the use tax when you file your return.

*Examples:*

- beds and mattresses
- building cleaning and maintenance services including carpet, drapery, and upholstery cleaning
- cleaning products and supplies
- draperies and bedspreads
- exercise equipment
- furniture and pictures
- kitchen appliances and coffee makers
- laundry and dry cleaning services including cleaning of linens and uniforms
- lawn care and landscaping supplies
- lawn care services
- linens and towels
- office supplies and forms
- paper cups, tissue, and supplies
- pool supplies and chemicals
- postcards, stationery, envelopes, and pens
- security services
- snow removal equipment
- soap, shampoo, and complimentary personal items
- specialty advertising materials
- telephones, radios, TVs, VCRs, and DVD players
- utilities

Supplies to repair or redecorate are taxable when they are purchased without installation.

*Examples*

- air conditioning units
- carpet
- electrical supplies
- fabric
- light fixtures
- lumber and hardware
- paint
- plumbing fixtures and supplies
- wallpaper

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**Nontaxable purchases**

**Items for resale**

Items may be purchased exempt if:

- you resell or held exclusively for lease or rental to the customer, and
- bill separately from the lodging accommodations, may be purchased exempt from tax.

To purchase items exempt for resale, give your seller a completed Form ST3, Certificate of Exemption.

*Examples of items that can be purchased exempt for resale or rental include:*

- guest laundry services
- paper cups, napkins, etc. sold as part of a meal or drink
- pop, candy, and other items that will be sold over the counter or in vending machines

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recreational equipment to be rented separately

**Coin-operated entertainment and amusement devices**
Starting July 1, 2014, retailers may buy these devices exempt from tax if they sell admissions to or use of amusement devices.

Examples of coin-operated entertainment and amusement devices include fortune-telling machines, pool tables, batting cages, and jukeboxes. Vending machines, lottery devices, or gaming devices do not qualify for this exemption.

For more information, see Minnesota Statutes 297A.61, subd. 3(g)(1).

**Miscellaneous**

**Coupons**
When customers use a coupon for a discount or free lodging, charge sales tax only on the amount the customer actually pays, unless the facility will be reimbursed by a third party.

For more information, see Fact Sheet 167, *Coupons, Discounts, and Other Forms of Payment.*

**Direct Pay authorization**
Businesses that have Direct Pay authorization numbers cannot use them to buy lodging, meals, or other services exempt from tax.

**Use Tax**
Generally, you pay sales tax at the time of purchase. But if the seller does not charge Minnesota sales tax on equipment, supplies, or other taxable items for your business, you owe use tax on the purchase price.

Report state and local tax when you file your sales and use tax return. For more information, see Fact Sheet 146, *Use Tax for Businesses.*

**Local Sales and Use Taxes**
If you are located in an area with a local tax, local sales or use tax may also be due.

For more information, see Fact Sheet 164, *Local Sales and Use Taxes.*

Several cities impose special local taxes on sales of specific items such as food, liquor, lodging, and entertainment which the Department of Revenue administers.

For more information, see:
- Fact Sheet 164S, *Special Local Taxes*  
- Revenue Notice 05-11: Local Lodging, Restaurant and Liquor Taxes.

**Other lodging taxes**
Some cities and localities administer their own lodging tax. For more information on these taxes, contact each city directly.

**How to report sales and use taxes**
You can report state, local, and use taxes electronically at www.revenue.state.mn.us. If you do not have Internet access, you can file by phone at 1-800-570-3329. For more information on how to file:

1. Go to our website
2. Click Sales and Use Tax
3. Under “I need to file Sales and Use Tax…”, click Electronically or Phone.
### Legal references
Minnesota Statutes 297A.61, Definitions:
- subd. 3(g)(2), Lodging
- subd. 7, Sales price
- subd. 34, Taxable food sold through vending machines

Minnesota Statutes 297A.68, Business Exemptions:
- subd. 3a, Coin-operated entertainment and amusement devices

Minnesota Statutes 297A.70, Exemptions for governments and nonprofit groups:
- subd. 2(b)(4), Sales to government
- subd. 4(b)(3), Sales to nonprofit groups

Minnesota Statutes 469.190, Local lodging tax

### Revenue Notices
05-11, Local Lodging, Restaurant and Liquor Taxes
17-06, Lodging and Related Services – Residential Short-Term Rentals

### Other Fact Sheets
102A, *Food and Food Ingredients*
102B, *Candy*
102C, *Soft Drinks and Other Beverages*
102D, *Prepared Food*

### Other Fact Sheets (continued)
102E, *Dietary Supplements*
105, *Clothing*
117A, *Drugs*
117B, *Durable Medical Equipment*
117C, *Mobility Enhancing Equipment*
117D, *Prosthetic Devices*
117E, *Health Product Exemptions*
117F, *Grooming and Hygiene Products*
123, *Athletic Facilities, Recreational Areas, Resorts and Campgrounds*
132, *Isolated and Occasional Sales*
137, *Restaurants and Bars*
142, *Sales to Governments*
146, *Use Tax for Businesses*
158, *Vending Machines and Other Coin-Operated Devices*
164, *Local Sales and Use Taxes*
164M, *Minneapolis Special Local Taxes*
167, *Coupons, Discounts, and Other Forms of Payment*