

Industrial Production

145

Sales Tax
Fact Sheet

What's New in 2015

Starting July 1, 2015, the capital equipment refund is an up-front sales tax exemption.

If you pay sales tax on purchases after June 30, 2015, you may still file a refund request for tax paid in error.

This fact sheet explains how Minnesota sales and use tax applies to businesses involved in industrial production and also how to report and pay sales and use tax.

Businesses must pay tax on administrative supplies, certain machinery (see Capital equipment, page 3), accessories, furniture, fixtures, and other items used to produce a product. However, materials used or consumed to produce products for sale are exempt from sales tax.

To be eligible for this exemption, the business must produce tangible personal property intended to be sold ultimately at retail. Industrial producers include manufacturers, fabricators, miners and refiners (see the list at right for examples).

The production process includes the following activities:

- Design, research, and development for production of a product
- Removal of raw materials from stock to begin production activities
- Actual production activities that effect changes to produce the product
- Testing and quality control of the product
- Placement of the product in finished goods inventory or, if the item is not placed into inventory, the last production process before loading the product for shipment

Exempt purchases

To buy items exempt from tax, the purchaser must give a fully completed Exemption Certificate, Form ST3, to

Examples of businesses engaged in industrial production:

bakeries	mining operations
breweries	paint factories
candy factories	paper mills
chemical processing plants	photographers
clothing manufacturers	photo copy centers
concrete plants and ready mix companies	printing companies
creameries	sawmills
electric generating plants	shoe factories
equipment manufacturers	smelting mills
film processors	soft drink bottling plants
flour and feed mills	steel mills
food processing plants	tanneries
foundries	tile producers
glass making plants	tool and die shops
machinery producers	vehicle assembly lines

Examples of businesses not engaged in industrial production:

agricultural operations	law firms
accounting firms	mobile phone services
banks	movie theaters
car and truck washes	restaurants
contractors	repair shops
dry cleaners	service stations
hotels and motels	retail stores
pipeline transmission companies	telephone companies
laundries	trucking operations
	vending machine operators

the seller. The following are examples of exempt purchases:

Chemicals, materials, and supplies used in treating waste (including water) generated as a result of a production process

Chemicals used or consumed in production, including chemicals used for cleaning food processing equipment

Component parts and ingredients of a product

Crucibles, thermocouple protection sheaths and tubes, stalk tubes, refractory materials, molten metal filters, and filter boxes, degassing lances, and base blocks used in metal casting

Fuels, electricity, natural gas, water, steam, propane gas, and L. P. gas used directly in the production process. See Fact Sheet 129, Utilities Used In Production, for more information.

Industrial gases used in production, such as oxygen, acetylene, and argon

Materials that *directly affect* the product, such as grinding and polishing compounds, and sanding disks

Materials used for the original painting and cleaning of products

Materials *used once in production, not consumed, but discarded after one use*, such as key lines, typesetting, paper pans and cake liners, disposable dishes, swabs, and lab testing solutions

Petroleum products and lubricants used in production equipment, such as oil, grease, radiator antifreeze, penetrating oil, pulsar oil, and surge oil

Product identification labels, including combination labels that identify the product and price

Product packaging materials

Separate detachable tools (see below for qualifications)

Certificate of Exemption, Form ST3

To buy items exempt from tax, the producer must give the vendor a completed Certificate of Exemption, Form ST3. The reason for exemption is Industrial production to buy items that are consumed in the production process or that are ingredients or components of the final product. Use Percentage exemption to exempt a percentage of fuels or energy, based upon consumption during the production process. Use Resale exemption when the item purchased will be resold in its original form.

Special tooling

Special tooling is exempt. Special tooling means tools, dies, jigs, patterns, gauges, and other special tools that have value and use only for the buyer and use for which

they are made. A tool may be purchased exempt *if all the following conditions are met*:

1. It is not standard enough to be stocked or ordered from a catalog or other sales literature;
2. It must be produced in accordance with special requirements peculiar to the buyer; and
3. It is not commonly usable by someone else whose conditions for possible use of the material are reasonably similar.

Materials purchased to make your own special tooling are taxable, because “materials” are not “special tools” as described above.

Some accessory tools, dies, molds and other short lived items that don’t qualify as special tooling may qualify for the separate detachable unit exemption.

Separate detachable units

Accessory tools, dies, molds and other short lived items are exempt if *all three of the following requirements are met*:

1. It must be an accessory tool, equipment, or short lived item that attaches to a machine while in use. It must be purchased separately from the basic machine, or their cost must be separately stated.
2. It must be used in producing a direct effect on the product. Direct affect causes physical or chemical change on or within materials being processed, or determines shape, contour, configuration, content, or arrangement of the product.
3. Its ordinary useful life is less than twelve months when used continuously in production under normal conditions of the user. Junking, scrapping or wearing out is conclusive evidence of the end of a tool’s useful life. Retention and re-use are evidence of continued useful life.

Materials to make your own qualifying detachable tools may be purchased exempt.

Separate detachable units do not include the basic machine or any components included in the original purchase price.

Examples of separate detachable units that may qualify for exemption include:

abrasive and polishing belts	materials to make qualifying detachable tool
barrels and screws for extruder machines	molds
cutting tools	patterns
dies	polishing felt strips and buffers
drill bits	printing plates

grinding wheels (used to affect product)	reamers
hand tool attachments	sanding sheets and discs
jigs	saw blades
	stone sawing wires

Other items used in cutting or welding processes that do not physically come in contact with the product but have a direct effect on it, may qualify for exemption. Examples include:

contact tips	nozzles
copper outer cups	plastic inner cups
cutting tips	shield cups
electrodes	spray nozzles
gas diffuser items	

Examples of items which are not separate detachable units (but may qualify for the capital equipment exemption):

arbors	grinding wheels (used to sharpen tools)
batteries	
bearings	power hand tools
collets	pulleys
conveyor belts	seals
drill chucks	shafts
gears	soldering irons

Capital equipment

Capital equipment means machinery and equipment purchased or leased, and used in Minnesota by the purchaser or lessee primarily for manufacturing, fabricating, mining, or refining tangible personal property to be sold ultimately at retail if the machinery and equipment are essential to the integrated production process of manufacturing, fabricating, mining, or refining.

Examples of qualifying capital equipment include

- Production machinery, equipment, fixtures, implements
- Materials to make one's own production tools
- Tools purchased to create tools or special tooling used in the production process

See Fact Sheet 103, Capital Equipment for more detailed information.

Beginning July 1, 2015, the capital equipment exemption is allowed at the time of purchase. To purchase exempt, the purchaser must give the seller a completed exemption certificate, Form ST3.

Before July 1, 2015, you must pay sales or use tax when you buy or lease capital equipment and apply for the refund.

Packaging materials

Nonreturnable materials used to package products can be purchased exempt. Returnable containers are taxable, except when used to package food and beverages.

Examples of exempt packaging include:

Nonreturnable internal packaging materials which shape, form, stabilize and protect contents

Nonreturnable pallets and skids

Nonreusable external packaging materials or dunnage which protects, braces, pads or cushions against damage, motion, shock or breakage, such as cartons, containers, cans, boxes and bags

Packaging for food and beverage products, materials used to repair or recondition returnable food and beverage containers; and returnable packaging for food and beverage products

Product identification labels including combination labels that identify the product and price for customers

Stuffing materials such as straw, dry ice, excelsior, shredded paper, foam, cotton batting, sawdust and other similar fillers

Warranty cards, owner manuals, content lists, instruction sheets, and material safety data sheets

Wrapping materials such as paper or plastic wrap, wire, tape, staples, etc.

Examples of taxable packaging:

External and internal packaging materials returnable to the vendor

Labels that do not contain package content information for customers, including price tags, shipping tags, address labels, invoices, packing slips and envelopes

Returnable containers such as steel drums, barrels, bottles, gas cylinders, boxes, tanks, sacks, cans (*except when used to package food and beverages*)

Returnable skids and pallets including raw materials purchased to construct, repair or recondition them

Reusable materials used for handling, storing or moving materials within or between the production facilities

Warning labels that give shipping directions, such as “do not drop” or “do not stack”

Note: *Deposits* that are charged to customers as security for the return of containers are not taxable if separately stated on the invoice.

Research and development, prototypes

Quality control, testing, design, and research and development activities are part of the production process. Items used or consumed in such activities are exempt. Purchases of prototypes or materials to make prototypes for research and development activities are exempt from sales tax.

This exemption *excludes* machinery, equipment, tools (except qualifying detachable tools), general operating supplies and construction contracts. However, certain equipment may qualify for the **capital equipment** exemption.

Taxable purchases

Many items that are not used or consumed in the production process or do not qualify for the capital equipment exemption are taxable. Below is a list showing examples of items that are subject to sales or use tax.

Chemicals and cleaning agents used to clean:

- Production tools and equipment
- Areas around food processing equipment
- Buildings and structures

Computer hardware, supplies, canned or packaged software, and software maintenance agreements (unless qualifying production equipment. See Fact Sheet 134, Computer Software, for more information.

Furniture

Items used primarily to facilitate loading, unloading, handling, transportation or storage of products before the manufacturing process begins or after it ends

Janitorial cleaning materials or services. See Fact Sheet 112, Building Cleaning and Maintenance, for more information.

Materials used to construct or remodel real property

Office supplies and equipment

Protective safety clothing. See Fact Sheet 105, Clothing and Wearing Apparel, for more information.

Taxable advertising materials and point of sale displays

Training materials and supplies

Utilities for heating and lighting and other nonproduction functions

Other taxable activities

The following activities generally are not part of the production process. All materials, supplies, or equipment purchased in connection with these activities are taxable.

Administrative activities

Handling, movement, storage and preservation of finished goods

Loading product for shipment

Painting, cleaning, repairing, and maintenance of facilities

Preparation or furnishing of meals

Storage and preservation of raw materials before the production process begins

Support activities such as plant security, fire prevention, first aid, plant cleaning, scrap and waste disposal, space heating, lighting, pollution control, safety, and management measurement of production process

Taxable services *such as building cleaning, lawn care, security, and laundry and dry cleaning services, including cleaning of rags, mats, and linens*

Transportation, transmission or distribution of petroleum, liquefied gas, natural gas, steam, or water through pipelines

How to report use tax

Sales tax is generally charged by the seller at the time of sale. However, if the seller does not charge Minnesota sales tax, you must pay **use tax**. *Use tax* is due on purchases of taxable items and services *when no sales tax was charged by the seller at the time of sale*. You must pay use tax when you:

- Buy items off the Internet or by mail or phone order from a retailer outside Minnesota for use in Minnesota when sales tax is not charged by the seller.
- Buy items in another state for use in Minnesota that were taxed at a rate lower than the Minnesota rate.
- Buy items exempt for use in industrial production, but take the items out of inventory for business or personal use.
- Buy items from a Minnesota seller who does not collect the sales tax, but you put the items to a taxable use.

Report and pay the Minnesota use tax and any applicable local tax to the Department of Revenue when you electronically file your sales and use tax return. See Fact Sheet 146, Use Tax for Businesses, for more information.

Sales by manufacturers

Sales for resale. Sales to others solely for the purpose of resale are exempt from sales tax if the purchaser gives you a fully completed exemption certificate. If you sell your products to someone for their own use, you must charge sales tax on taxable items.

Installation labor is labor to set an item into position or to connect, adjust, or program it for use. Installation labor is part of the sales price of a taxable item and is taxable. Third party installation charges are taxable if the installation would have been taxable if provided by the seller of the taxable item.

Fabrication labor is labor that results in a new or changed product and is generally taxable, whether the customer or the seller provides the materials for the product. If fabrication labor is for resale it is not taxable.

Delivery charges. If the item being sold is taxable, charges by the seller to deliver it are also taxable.

Equipment sales. If you sell equipment or other items that were used in your business, the sale may be subject to sales tax. Request Fact Sheet 132, Occasional Sales of Business Equipment and Goods for more information.

Local sales and use taxes

If you are located in an area with local taxes, local sales or use tax may also be due. Local taxes are listed and explained in detail in Fact Sheet 164, Local Sales and Use Taxes.

References

M. S. 297A.68, Subd. 2. Materials consumed in industrial production
M. S. 297A.68, Subd. 6. Special tooling
Rule 8130.1100, Utilities and Residential Heating Fuels
Rule 8130.5500 Subp. 8 and 9, Materials to make Separate Detachable Tools.
Rule 8130.5550, Special Tooling

Other Fact Sheets

Capital Equipment, #103
Clothing and Wearing Apparel, #105
Building Cleaning and Maintenance, #112
Utilities Used In Production, #129
Computer Software, #134
Use Tax for Businesses, #146
Labor – Repair and Maintenance for Businesses, #152B
Local Sales and Use Taxes, #164