What’s New in 2014

The sales and use tax on repair and maintenance of certain equipment and machinery for businesses has been repealed effective April 1, 2014.

This fact sheet explains how Sales and Use Tax applies to repair and maintenance services for businesses.

For more information, see Fact Sheet 152A, Labor - Installation, Construction, and Fabrication, and Fact Sheet 152C, Labor – Repair for Individuals.

Repair and Maintenance Services

Taxable business repair and maintenance labor includes:

- **Repair labor** – To restore an item so it can be used for its original purpose.
- **Maintenance labor** – To keep an item in good working order or ensure it keeps operating safely and efficiently.

This applies to:

- Electronic and precision equipment
- Commercial and industrial machinery and equipment

Maintenance and Warranty Contracts

Optional maintenance contracts to repair and maintain equipment and machinery are taxable. This applies to any new contracts, extensions, or renewals paid for after July 1, 2013.

Extended warranty contracts that cover future, unexpected repair costs are exempt from sales and use tax. If a warranty contract for equipment and machinery covers the entire cost of repair parts, the service provider must pay sales or use tax on their cost of the parts.

How Labor is Sourced

For tax purposes, the sale of repair and maintenance services is “sourced” to the location where the purchaser could potentially first use the item. In other words, the sale occurs where the purchaser receives the repaired machinery or equipment.

Examples of how labor is sourced:

1. A manufacturer in Iowa uses gauges at its factory to ensure its product meets specifications. It ships the gauges to a test laboratory in Minnesota to verify their accuracy.

   The lab tests and adjusts the gauges, then ships them back to the manufacturer’s location in Iowa. The sale is sourced to Iowa. The lab does not charge sales tax on the repair or maintenance service.

2. A Wisconsin contractor brings a forklift to a repair shop in Minnesota for service. The Minnesota shop repairs the forklift.

   The Wisconsin contractor returns to pick up its forklift at the Minnesota repair shop. The sale is sourced to Minnesota. The shop charges sales tax on the repair service.

3. A cleaning business located in Minnesota brings some of its vacuums to a repair shop in Wisconsin for service.

   When the repairs are complete, the cleaning company picks up the vacuums at the repair shop and brings them back to Minnesota.

   If the cleaning company did not pay Wisconsin sales tax on the service, it owes use tax to Minnesota. (If the company did pay Wisconsin tax, the amount is subtracted from the use tax it owes Minnesota.)

Capital Equipment

Minnesota’s sales tax exemption for capital equipment extends to repair parts and replacement parts. However, labor to repair or maintain capital equipment is taxable.

These labor charges are not “refundable” – that is, they are not eligible for the capital equipment refund. Charges for repair parts and labor must be separately stated on the invoice. (If they are not, the repair parts will not be eligible for the capital equipment refund.)

Optional maintenance and warranty contracts for machinery and equipment are considered a bundled transaction with the labor being de minimis. Equipment
being serviced under these contracts does qualify for capital equipment. The full amount can be refunded.

**Replacement Parts**
If a part is being replaced in order to restore the machinery or equipment to working order, you are doing a repair. The labor is subject to sales tax.

**Other Charges**

**Cleaning**
If cleaning is necessary as part of a repair or need to maintain machinery or equipment, the charge for cleaning is subject to sales tax. (For example, the cleaning of a clogged gear is subject to sales tax.)

**Inspections**
Charges for an inspection that results in the repair or maintenance of a piece of machinery or equipment are also taxable.

**Electronic and Precision Equipment**
Sales and use tax applies to labor to repair or maintain electronic and precision equipment if the purchaser can deduct the service as a business expense. This includes:

- Electronic devices, computers and computer peripherals, monitors, computer terminals, storage devices, and CD-ROM drives
- Other office equipment such as photocopying machines, printers, and facsimile machines
- Televisions, stereos, sound systems, video or digital recorders and players
- Two-way radios and other communications equipment
- Radar and sonar equipment, medical equipment, scientific instruments, and microscopes

**Examples of nontaxable electronic and precision equipment repair and maintenance:**

- HVAC systems that are part of an office building
- Irrigation system at an office building
- Light fixtures in a warehouse
- Fire suppression system

Computer software is not electronic and precision equipment. For more information, see Fact Sheet 134, Computer Software.

Motor vehicles are not electronic and precision equipment. For more information, see Fact Sheet 131, Automotive Repairs and Service.

Labor to repair electronic and precision equipment that is attached to real property is construction labor (which is not taxable). For more information, see Fact Sheet 152A, Labor – Installation, Fabrication, and Construction, and Fact Sheet 128, Contractors.

**Commercial and Industrial Machinery and Equipment**
Labor to repair or maintain commercial and industrial machinery and equipment is taxable, even when the equipment is installed into real property. This includes:

- Baggage movers
- Commercial refrigerators and freezers
- Farm equipment and machinery used in agricultural production (including grain dryers, augers, and escalators)
- Freight elevators
- Logging equipment
• Manufacturing and production equipment (including escalators used for assembly lines)

• Mechanical cleaning equipment (floor sweepers, washers/scrubbers, etc.)

• Mining equipment

• Other heavy machinery (front end loaders, cranes, bulldozers, back hoes, skid steers, forklifts, etc.)

• Restaurant equipment

• Truck scales (portable and real property)

Repair or maintenance of commercial and industrial machinery and equipment does not include:

• Motor vehicles (see below)

• Furniture and fixtures (see below)

• Ships, railroad stock, and aircraft.

Motor vehicles
Motor vehicles are self-propelled vehicles or trailers that:

• must be registered for use on public roads; or

• are designed and manufactured primarily for highway use.

This generally includes passenger cars, trucks, semi-trucks, trailers that must be registered, police cars, fire trucks, ambulances, buses, limousines, motorhomes, and motorcycles.

This does not include snowmobiles, boats, off-road vehicles, most farm machinery, and heavy operating machinery.

Furniture
Furniture is movable articles used in a commercial or industrial building; such as chairs, desks, tables, benches, stools, lamps, bookcases, cubicle partitions, cabinets, or similar items.

Fixtures
Fixtures are items that are permanently attached to a building or structure and cannot be removed without substantial damage.

This includes plumbing, vents, ducts, power outlets and switches with their electrical wiring, security systems, or similar items that are installed into a building.

This does not include production equipment regardless of size, weight, or method of attachment. It also does not include mine shafts, tunnels, and other underground openings to extract ores and minerals (or other materials used to support such openings).

Example:
Elevators, escalators, and horizontal people movers are fixtures because they are permanently attached to a building or structure, are not commercial or production equipment and cannot be removed without substantial damage. Labor to repair or maintain this equipment is not subject to sales tax.

References
Minnesota Statutes 297A.61, subd. 3 – Sale and purchase
Minnesota Statutes 297A.61, subd. 38 – Bundled transaction
Revenue Notice 06-11, Sales Price – Labor Charges
Revenue Notice 12-12, Warranty and Maintenance Contracts – Optional Contracts on Equipment

Other Fact Sheets You May Need
128, Contractors
131, Automotive Repairs and Service
134, Computer Software
152A, Labor – Installation, Fabrication and Construction
152C, Labor – Repair for Individuals
142, Sales to Government
146, Use Tax for Businesses
156, Use Tax for Individuals
164, Local Sales and Use Taxes