

Local Governments – Cities, Counties, and Townships

*Sales Tax Fact Sheet 176***What's New in 2015**

A 2015 law change delays for one year (to January 1, 2017) the sales tax exemption for special districts; instrumentalities of a statutory or home rule charter city, county, or township; and any joint powers board or organization created under M.S. 471.59.

This fact sheet explains how sales and use tax applies to local governments. Minnesota Statutes (M.S.), section 297A.70, subdivision 2, allows local

governments to buy some goods and services without paying sales and use tax.

Local Governments

Definition

For purposes of this exemption, “local governments” means statutory or home rule charter cities, counties, townships (towns), and qualifying cooperative agreements.

Cooperative agreements

Local governments acting under an agreement authorized by statute – such as the Joint Powers Act (M.S. 471.59) – may claim the exemption if:

- the agreement is limited to Minnesota cities, counties, townships, school districts, or some combination of them; and
- the city, county, or town includes financial information for the joint activities in its financial report to the State Auditor.

Note: Local governments acting under a cooperative agreement do not qualify for this exemption if the

joint activity financial information was reported to the State Auditor as a “special district” in 2012.

Other areas of government

Under a 2015 law change, the local government exemption will become available to additional areas of government.

Starting January 1, 2017, the exemption will become available to:

- Special districts, as defined in M.S. 6.465
- Any instrumentality of a statutory or home rule charter city, county, or township as defined in M.S. 471.59
- Any joint powers board or organization created under M.S. 471.59

Local Government Exemption

Purchases made by local governments (cities, counties, and towns) are generally exempt. For example, purchases to provide the following goods and services are exempt:

- Administration of housing programs
- Ambulance and public safety services
- Aquatic facilities
- Cemeteries
- Chore and homemaking services for elderly or disabled residents
- Correctional services
- Farmers markets
- Health and fitness centers
- Housing facilities
- Ice arenas

- Licensing services (i.e. deputy registrar)
- Local festivals and fairs
- Public use/Municipal airports
- Public transit
- Recreational and athletic facilities
- Road and street maintenance and lighting
- Sewer and water services
- Wastewater treatment services

To purchase inputs used to provide these services exempt from tax, the local government must provide the seller with a completed Form ST3, *Certificate of Exemption*, at the time of purchase.

Note: This exemption applies only to the purchase of inputs made by local governments in providing their goods and services. It does not apply to sales made by local governments. The exemption was first effective October 1, 2011 and was limited to certain services provided by towns. The limited exemption became effective for cities and counties in 2014. The exemption expanded starting January 1, 2015 to include all services except for those in the next section.

Examples of exempt inputs include:

- Cleaning and maintenance of buildings
- Lawn care and tree removal services
- Construction equipment that is not licensed for road use
- Most firefighting, police, and emergency equipment – including repair parts, accessories, protective gear, fuel, foam, water, etc. – except motor vehicles (see page 3)
- Office supplies, computers, software, printers, furniture, etc.
- Other vehicles that are not licensed for road use, such as aircraft, snowmobiles, and watercraft
- Road-building materials and the delivery of aggregate materials
- Utilities, chemicals, and fuels

Purchases that do not qualify for the exemption

Purchases to provide the following goods and services are taxable and do not qualify for the local government exemption:

- Gas and electric utilities
- Liquor stores
- Golf courses
- Solid waste hauling
- Solid waste recycling (certain equipment used at a “resource recovery facility” may be exempt)
- Landfills (see page 3)
- Marinas
- Campgrounds
- Cafes
- Laundromats

Purchases of the following goods and services also remain taxable:

- Construction materials and supplies purchased by a contractor or subcontractor under a lump-sum contract (see page below)
- Purchases of construction materials for buildings or facilities which are not principally used by the local government
- Purchases of lodging, prepared food, candy, soft drinks, and alcoholic beverages
- Leases of motor vehicles
- Purchases of motor vehicles (see page 3)
- Purchases subject to other taxes, such as solid waste management tax or petroleum tax
- Purchases made by an employee that are reimbursed by the local government

Note: Local governments do not pay local sales or use tax.

Local governments including cities, towns, counties, instrumentalities, political subdivisions, commissions, special districts and governmental boards are not required to pay general local sales taxes. However, *state* sales tax and *special local* taxes generally apply.

Additional information

Construction contracts

Local governments are exempt from sales tax on purchases of construction materials for their own use. However, this exemption does not apply to material purchases when the local government hires a contractor under a lump-sum contract that includes both labor and materials.

Contractors must pay sales or use tax on the cost of all materials, supplies, and equipment to complete the construction contract unless authorized to act as the local government's purchasing agent.

For more information, see: Fact Sheet 128, *Contractors*; and Revenue Notice 95-05, *Construction Contracts – Purchasing Agent Exemption*.

Correctional facilities

Local governments may be eligible for a refund of sales tax paid on construction materials and supplies used to build or improve an adult or juvenile correctional facility.

To qualify, the project must be required by state or federal law, rule, or regulation. If a contractor or builder buys materials, they must give the local government a statement that lists the cost of the materials and the sales tax paid.

To request a refund of sales tax paid, use Form ST11, *Sales and Use Tax Refund Request and Multiple Period Amended Return*.

Meals or drinks are exempt when they are furnished, prepared, or served to inmates or residents at correctional, detention, or detoxification facilities.

Hospitals and nursing homes

Hospitals and nursing homes owned and operated by a local government are exempt.

This exemption includes purchases of meals and snacks provided to patients at hospitals, sanitariums, nursing homes, or senior citizen homes as part of their routine care and included in the facility's charge.

For more information, see Fact Sheet 118, *Hospital and Nursing Home Meals*.

Motor vehicles

Generally, local governments cannot lease or purchase motor vehicles exempt under this exemption. However, state law provides other limited exemptions for motor vehicle purchased by specific government agencies. These exempt vehicles include:

- Emergency rescue vehicles, including fire trucks, pumper trucks, hook and ladder trucks, clearly marked trailers that do not have to be registered for use on public roads.
- Marked police patrol vehicles and ambulances that do not require registration for use on public roads.
- Certain road maintenance vehicles for **towns** (only). This includes snowplows, dump trucks, street sweepers and others used exclusively for road maintenance – except for automobiles, vans, or pickup trucks.
- Publicly or privately operated transit vehicles, such as city or town buses, and vehicles used to provide special transportation services for elderly or disabled residents. To qualify, the transit operator must:
 - receive financial assistance or reimbursement under M.S. 174.24 or 473.374; or
 - operate under M.S. 174.29, 473.388, or 473.405.
- Vehicles for public or private ambulance services licensed under M.S. 144E.10, including:
 - Motor vehicles used as ambulances
 - Motor vehicles equipped and specifically intended for emergency response
 - Supplies and equipment used to provide medical care
 - Repair and replacement parts for ambulances or other emergency response vehicles (as described above)

Landfills (solid waste disposal facilities)

Local governments are exempt from sales tax on machinery and equipment used directly for mixed municipal solid waste management services at the landfill. This exemption does not include motor vehicles.

Multiple-use purchases

Some local government purchases may be used to provide both qualifying and non-qualifying goods and services.

In these cases, the local government may allocate the purchase total and pay use tax on the taxable portion.

You must use a reasonable method of allocation and keep business records that clearly identify how you determined the tax.

Example

A city purchases office supplies for all of its agencies. Some of the supplies are used to provide services that qualify for the exemption, such as housing or public safety; some are used to provide services that do not qualify for the exemption, such as a city-owned liquor store or golf course.

The city may allocate the sale to determine what portion of the purchase is being used for non-qualifying services and is, therefore, taxable. The city then pays use tax on that portion.

Legal References

Minnesota Statute 297A.67, subd. 25, Maintenance of cemetery grounds

Minnesota Statute 297A.68, subd. 19, Petroleum products

Minnesota Statute 297A.70:

subd. 2, Sales to government

subd. 3, Sales of certain goods and services to governments

Minnesota Statute 297A.98, Local governments exempt from local sales taxes

Minnesota Statute 297B.03, Exemptions

Revenue Notices

95-05, Construction Contracts – Purchasing Agent Exemption

12-08, Exemption for Towns

Other Fact Sheets

121A, *Lawn and Garden Maintenance, Tree and Shrub Services*

123, *Admissions and Amusement Devices*

128, *Contractors*

142, *Sales to Governments*