

# Minnesota Department of Revenue

## Revenue Notice # 22-04: Sales and Use Tax – Sales Price – Services Necessary to Complete the Sale; Revocation and Replacement of Revenue Notice # 06-06

### Introduction

This revenue notice sets out the department's position on when the charge for a service must be included in the sales price of a taxable good or service, as a service necessary to complete the sale of the taxable good or service.

Retail sales of taxable goods and services in Minnesota are subject to Minnesota sales tax. Sales price, as defined by Minnesota Statutes, section 297A.61, subdivision 7, is the amount subject to sales tax. Minnesota Statutes, section 297A.61, subdivision 7, paragraph (a), clause (3), provides that "charges by the seller for any services necessary to complete the sale, other than delivery and installation charges" are not deducted when determining sales price.

This revenue notice revokes and replaces Revenue Notice # 06-06, published on May 30, 2006. Revenue Notice # 06-06 pertained only to interior design services. This revenue notice provides a broad clarification of the department's position, as opposed to an industry-specific clarification. By revoking Revenue Notice # 06-06, the department is removing the one-year lookback period for interior design services, which provided that interior design services are clearly tied to the sale of a taxable good or service, and therefore also taxable, if the taxable good or service is purchased within one year of receiving related interior design services. The department has determined that separate sales of taxable goods or services that relate to interior design services, just as with all industries, may occur after one year, especially for large or complex projects. Services necessary to complete the sale, regardless of the time that has lapsed between the service necessary to complete the sale and the sale of the taxable goods or services, are subject to sales tax.

### Department Position

The department takes the following positions on "services necessary to complete the sale":

1. A service that is not otherwise subject to sales tax under Chapter 297A is included in the sales price of a taxable good or service if the service is necessary to complete the sale of the taxable good or service;
2. A service is necessary to complete the sale of a taxable good or service if it is an essential part of the transaction such that purchase of the service results in the sale of taxable goods or services from the same retailer. A service is necessary to complete the sale if any one of the following conditions is met:
  - a) The retailer, in conjunction with the sale of taxable goods or services, requires or otherwise does not permit the purchaser to opt out of the service; or
  - b) The purchaser receives credit for the purchase of the service against a purchase of taxable goods or services from the same retailer; and

3. Contracting for or stating the service separately from the sale of taxable goods or services does not control whether a service is necessary to complete the sale.

### Examples

1. A computer software company provides prewritten computer software and related services. If the company requires its purchaser to purchase certain services (e.g., software configuration services) as a condition of its sale of prewritten computer software, those services are taxable as services necessary to complete the sale of the software and are included in the sales price of the software, even though the services are not otherwise taxable under Chapter 297A and regardless of whether the services are separately stated.
2. A design studio provides interior design services to a client at an hourly rate in addition to the price of the furniture sold. The client pays \$500 for the service and later orders the furniture. The price of the furniture is \$5,000 and the studio gives the client credit for the \$500 payment that was made for the interior design services. The tax is imposed on the full \$5,000. Since the studio gives the client credit for the interior design services, the interior design services are necessary to complete the sale of the furniture and are included in the sales price of the furniture, even though the services are not otherwise taxable under Chapter 297A and regardless of whether the services are separately stated.
3. An engineering company designs and builds various control systems. The engineering services are for creating and designing the systems, programming the control systems after they are installed, and training if needed. The company does not make sales of equipment without engineering services. Because the company requires the purchase of the engineering service to purchase the equipment, the engineering service is necessary to complete the sale of the equipment and is included in the sales price of the equipment, even though the service is not otherwise taxable under Chapter 297A and regardless of whether the service is separately stated.

### Revocation of Previous Revenue Notice and Effective Date

This revenue notice revokes and replaces Revenue Notice # 06-06, effective for sales and purchases made after the publication date of this revenue notice, except that revocation of the Notice's one-year lookback period is effective for purchases of interior design services made after March 31, 2023.

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Appeals, Legal Services, and Disclosure Division