 **DEPARTMENT OF REVENUE**


Sales and Use Tax for Taxable Service Providers

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Minnesota Business Tax Education November 2023

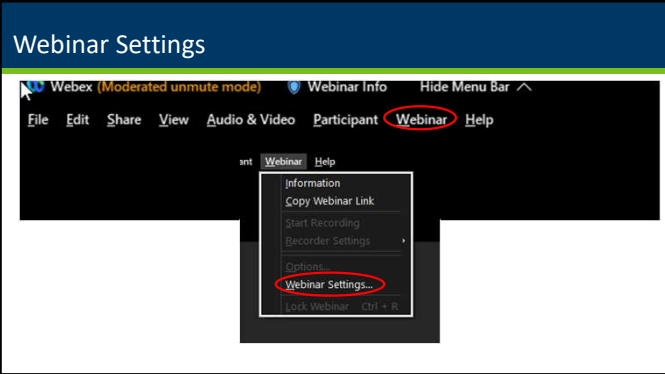
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About the Webinar



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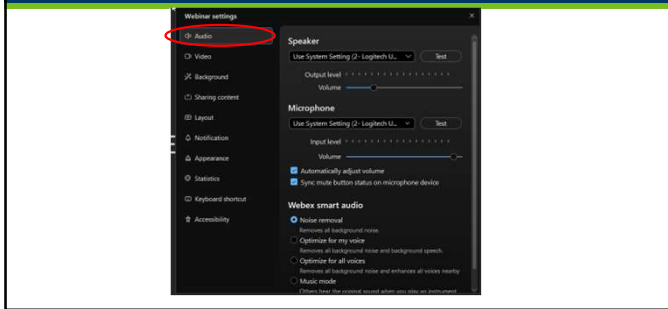
Webinar Settings



The screenshot shows a Webex interface with a menu bar: File, Edit, Share, View, Audio & Video, Participant, Webinar, Help. The 'Webinar' menu is open, showing options: Information, Copy Webinar Link, Start Recording, Recorder Settings, Options, Webinar Settings... (circled in red), and Lock Webinar (Ctrl + R).

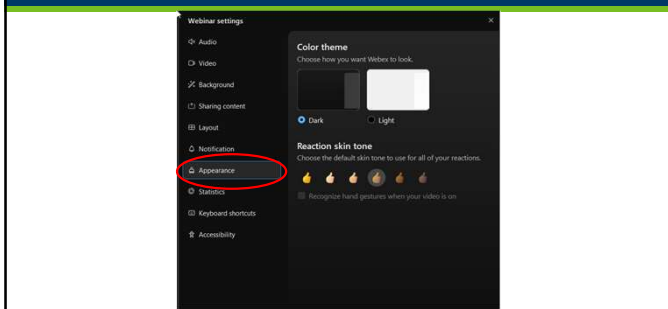
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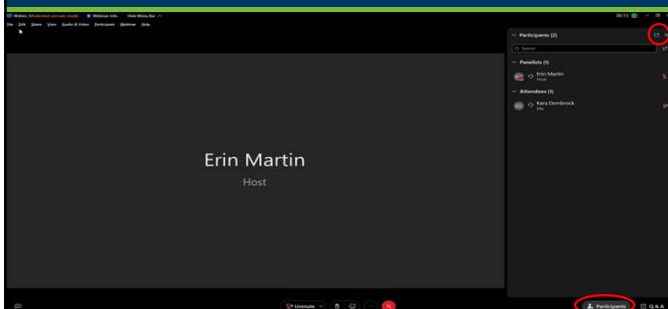
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Webinar Settings

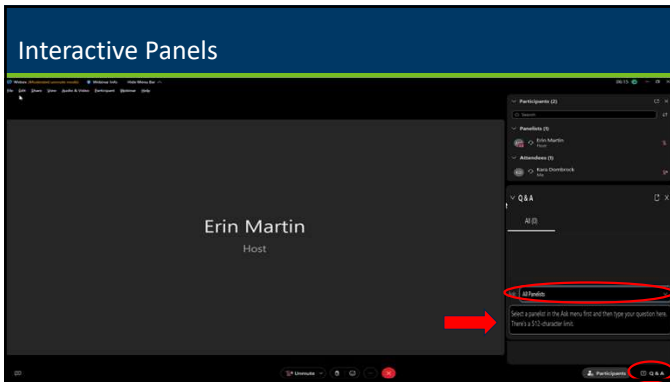


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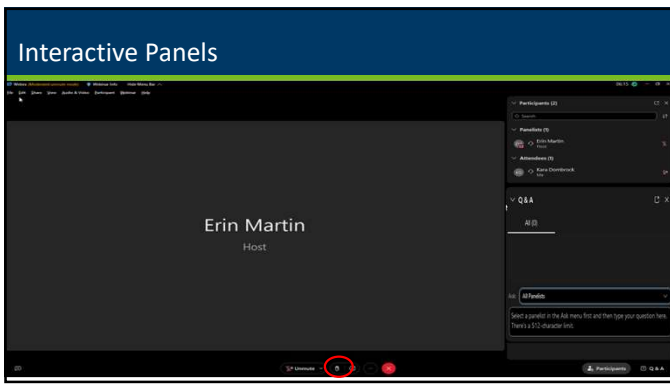
Interactive Panels



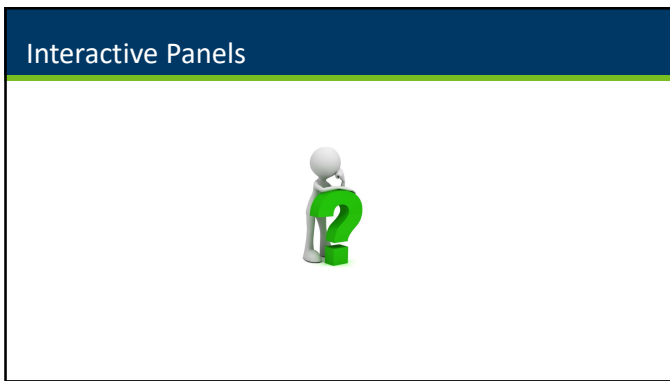
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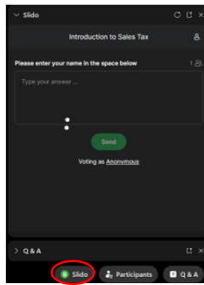


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Interactive Panels



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Disclaimer

This presentation is for educational purposes only and does not provide tax advice. It is meant to accompany an oral presentation and not to be used as a standalone document.

This presentation is based on the facts and circumstances being discussed, and on the laws in effect when it is presented. It does not supersede or alter any provisions of Minnesota laws, administrative rules, court cases, or revenue notices.

If you have any questions, contact us at salesuse.edu@state.mn.us, 651-296-6181, or 1-800-657-3777 (toll-free).



Minnesota Business Tax Education Program
Providing education opportunities about Minnesota tax laws.

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Course Description

This course covers how Minnesota Sales and Use Tax laws apply to businesses providing taxable services in Minnesota.

- What services are taxable?
- What items used in providing your service can you buy exempt from tax?
- What items do you use in your business that you need to pay sales or use tax on?

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Building Cleaning and Maintenance Services



13

Detective and Security Services



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Laundry and Dry Cleaning Services



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Lawn and Garden Maintenance Services Tree and Shrub Services



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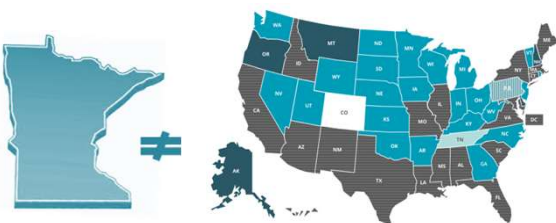
Course Objectives

After completing this course, you will be able to:

- Apply the basic sales and use tax concepts for Minnesota and its local taxing jurisdictions to your business
- Recognize the exceptions to the rule and the exemptions available
- Identify how to use and when to accept an exemption certificate
- Distinguish how sales and use tax law applies to various taxable services in Minnesota
- Use e-Services to file a sales and use tax return
- List several resources that answer your sales and use tax questions

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Sales Tax Laws Are Not the Same in Every State



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Categories of Sales



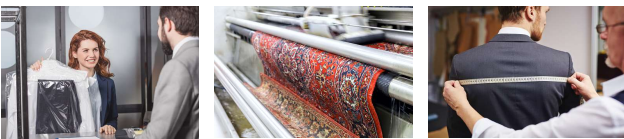
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Taxability for Taxable Service Providers

Description	Taxable	Not Taxable
Sales of services identified in statutes	X	
Product sales	X	
Business assets and office supplies	X	
Machinery and equipment used in providing the service	X	
Reusable items	X	
Consumable materials used in providing taxable services		X
Short-lived detachable items		X

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Services Performed for Resale



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Services Performed by Employee or Related Entity

If separately stated on the invoice, these services are nontaxable:

- Services performed by employees for an employer
- Services provided by one business entity for another when one of the entities owns at least 80% of the other

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Equipment Sales

Sales of equipment or other items used in your business are taxable unless an exemption applies.

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Sourcing of Transactions

Sourcing determines where the sale takes place and which taxes are imposed on the sale.

1. Seller's Address

2. Delivery Address

3. Billing Address

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Sourcing to Seller's Address



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Sourcing to Delivery Address

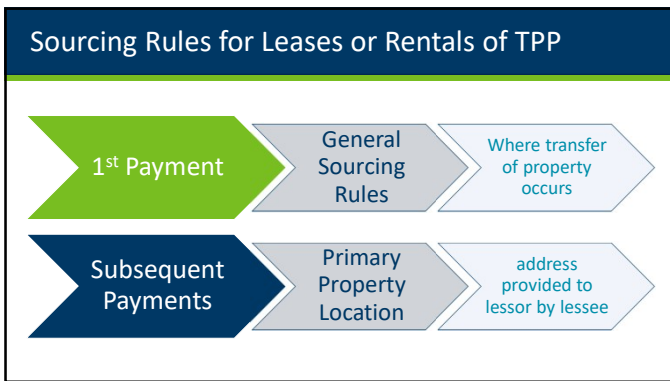


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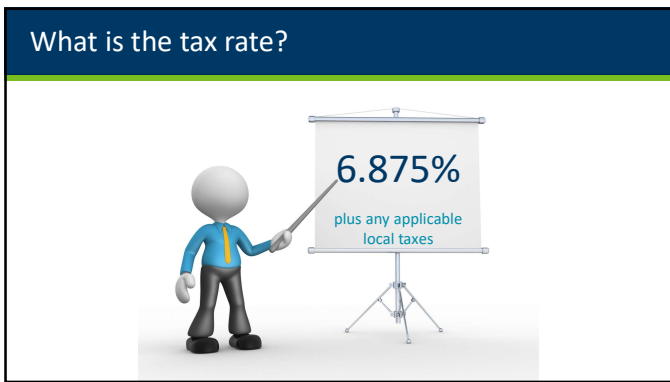
Sourcing to Billing Address



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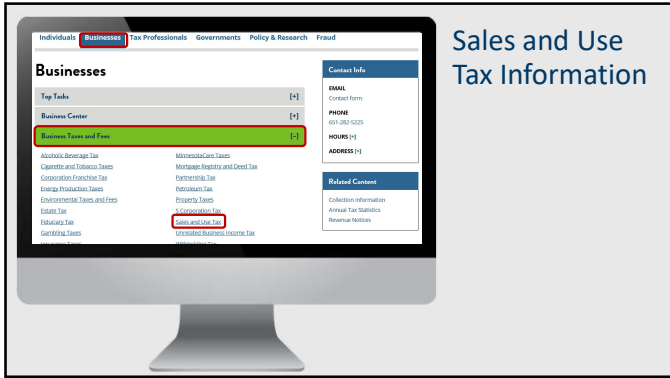
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Local Taxes

Local taxes are added to the state general sales tax rate to compute the total tax rate.

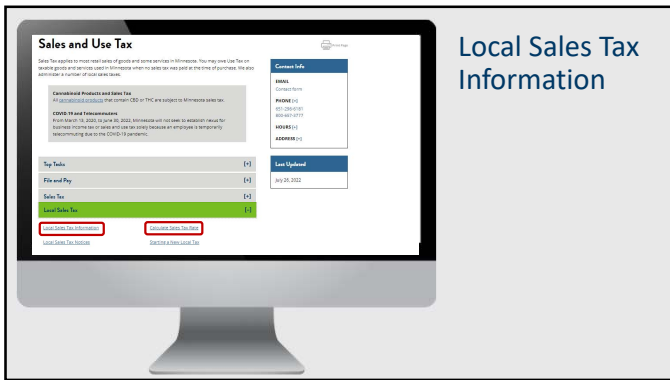
- City tax
- County tax
- Special local taxes
- Motor vehicle \$20 excise tax

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Sales and Use Tax Information

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Local Sales Tax Information

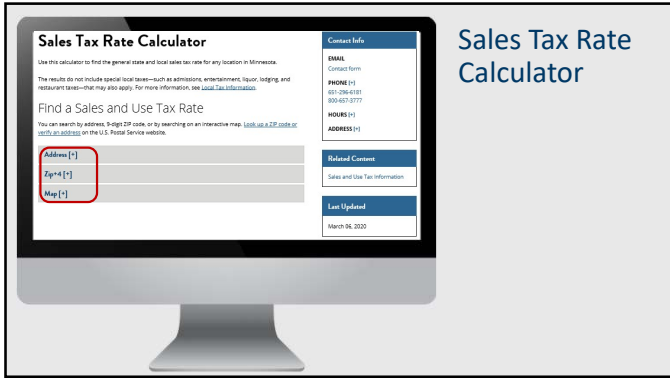
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Tools to Find Tax Rates

We offer a variety of tools including:

- Sales Tax Rate Calculator
- Sales Tax Rate Map
- Sales Tax API (Application Program Interface)
- Sales Tax Rate Spreadsheet
- Local Sales Tax Rate Guide
- Twin Cities Area Local Tax Rate Guide

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Sales Tax Rate Calculator

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Address Option

- Results: The Sales Tax rate for 600 N Robert St, St. Paul 55101-2228 is **7.875%** (Apr-Jun 2022).
- MN State = 6.875%; Ramsey County Transit = 0.500%; St. Paul = 0.500%.
- The Tax on \$2500 is **\$196.88**.

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ZIP + 4 Option

- Results: The Sales Tax Rate for 55101-2228 is **7.875%** (Apr-Jun 2022).
- MN State = 6.875%; Ramsey County Transit = 0.500%; St. Paul = 0.500%.
- The Tax on \$2500 is **\$196.88**.

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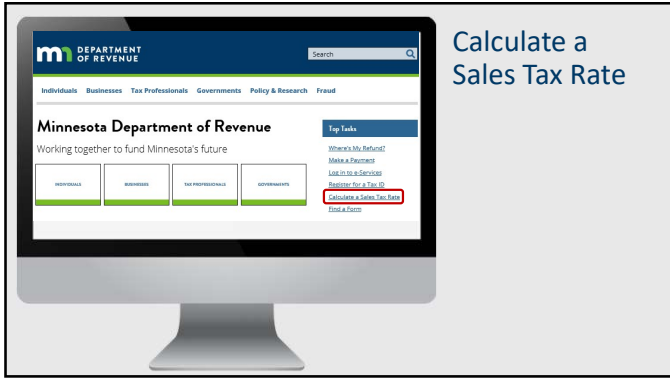
Map Option

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Map Option

- Address Search
600 Robert St N,
St. Paul 55101-2228
- Results
State Tax: 6.875%
County Tax: 0.5% Ramsey
County Transit
City Tax: 0.5% St. Paul City
Other Tax: None
Total Sales Tax Rate: 7.875%
(Apr-Jun 2022)

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Calculate a Sales Tax Rate

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Sales Tax Rate Spreadsheet

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Look Up a Minnesota Tax Rate

Use this spreadsheet to determine the tax rate for sales and purchases made in Minnesota.

ZIP Code	Applicable Local Taxes	Rate 10/01/23
55005-0001	State, Anoka Transit, Metro Area Tax for Housing, Metro Area Transportation	8.125%

How to Use This Spreadsheet
We update this spreadsheet quarterly. Be sure to use the right version for the date of the sale or purchase to find the correct sales tax rate.

1. Enter a nine-digit ZIP code in the left column (above). Do not enter any dashes. You must use a valid, nine-digit ZIP code. Find a ZIP code based on mailing address (U.S. Postal Service website).
2. Press the Return key.
3. The tool will list the local taxes that apply and resulting tax rate.

Note: You may also need to add special local taxes to this rate; see below for details.

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Sales Tax API (Application Program Interface)

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Individuals Businesses Tax Professionals Governments Policy & Research

Sales Tax API (Application Program Interface)

[Subscribe to Sales Tax API email updates.](#)

The Minnesota Department of Revenue is currently offering a beta version of our Sales Tax Application Program interface (Sales Tax API) that connects an online retailer's sales site and Minnesota's sales tax rate information, using a nine-digit ZIP code.

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Local Sales Tax Information

- Local Sales Tax Guide
- Local tax fact sheets
 - Fact Sheet 164M, Minneapolis Special Local Taxes
 - Fact Sheet 164S, Special Local Taxes
- New local taxes
- Tools to find tax rates

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Exempt Transactions

There are three ways for a sale to be exempt from sales and use tax:

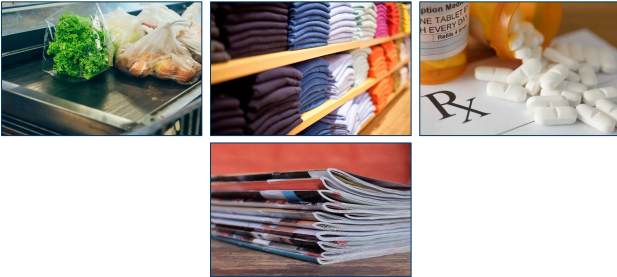
Product-based exemption

Entity-based exemption

Use-based exemption

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Product-Based Exemptions



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Entity-Based Exemptions

- Federal government agencies
- Tribal governments
- Local governments (exceptions apply)
- Nonprofit organizations

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Use-Based Exemptions

- Advertising materials shipped out of state
- Inventory purchased for resale
- Items consumed in performing a taxable service
- Items used or consumed in agricultural production
- Materials used or consumed in the manufacturing process

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Authorization Letters and Permits

- Direct Pay
- Exempt Status (nonprofit exemption)
- Motor Carrier Direct Pay
- Resource Recovery Facility

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Authorized Exemption Certificates

- Certificate of Exemption, Form ST3
- Certificate of Exemption, Form F0003
- Uniform Sales and Use Tax Certificate
- Other state's exemption certificates
- Self-prepared exemption certificate

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Seller's Responsibilities

- Review all exemption certificates
- Keep exemption certificates as part of your business records
- Do not unlawfully solicit exemption certificates

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Cleaning and Maintenance Terms

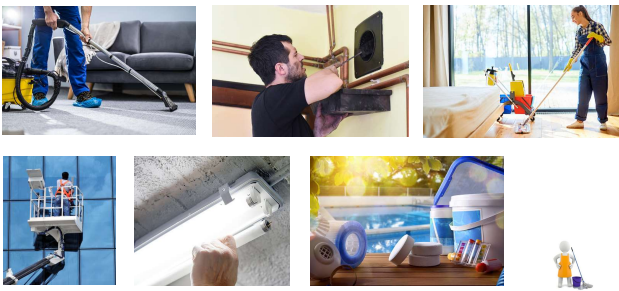
Building cleaning and maintenance, disinfecting, and exterminating services are taxable.

- Buildings and structures
- Cleaning and disinfecting
- Exterminating
- Maintenance
- Repair



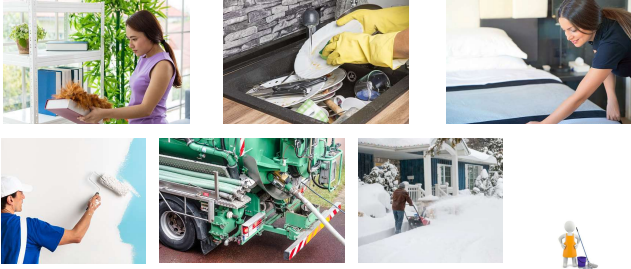
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Taxable Services



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Nontaxable Services



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Service Contracts

- Contracts for cleaning mechanical systems
- Contracts for repairing mechanical systems
- Home health care service contracts
- Combination contracts
- Lighting maintenance



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Disinfecting, Exterminating, and Pest Control

Taxable services include:

- Disinfecting
- Eradicating
- Exterminating
- Fumigating
- Preventing infestation



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Taxable Junk Removal Services

Taxable services include:

- Removal of household contents or discarded items
- Cleaning and removal of household waste
- Periodic cleaning
- Maintenance of the building



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Nontaxable Junk Removal

Nontaxable services include:

- Waste management services*
- Curbside pickup of items placed by the property owner*
- Optional removal of appliances when replaced
- Charges for the removal of dumpsters or dumpster bags

* Note: These charges may be subject to Solid Waste Management Tax



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Exempt Purchases - Consumable Materials

Examples include:

- Cleaners, disinfectants, degreasers
- Deodorizers
- Disposable rags, paper towels
- Garbage bags
- Pesticides
- Soaps, detergents, waxes, shampoos
- Window cleaner



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Exempt Purchases - Separate Detachable Units

To qualify for the exemption, the item must meet all three requirements:

1. It must be used in providing a direct effect for a taxable service.
2. It must be an accessory or other item that attaches to a machine while in use.
3. Its ordinary useful life must be less than 12 months when used continuously in normal use by the taxable service provider.



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Separate detachable units

Examples include:

- Abrasive and polishing belts
- Disposable vacuum bags, brushes, and filters
- Mop heads
- Polishing strips and buffers



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Taxable Purchases

- General items
- Taxable services
- Equipment and tools
- Utilities



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Detective and Security Services

- Detective services
- Security services
- Armored car services
- Burglar alarm services
- Fire alarm services



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Taxable Detective Services

- Investigating means to verify or confirm information through:
 - Surveillance
 - Interviews
 - Physical contacts
- Investigating does not mean to simply compile information available through public or other records.



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Nontaxable Detective Services

- An employee for an employer
- An off-duty peace officer within the jurisdiction they normally serve
- An attorney during normal job duties
- A licensed insurance adjuster, collection agency, or finance company doing investigations related to the business of the agency or company
- A person obtaining and furnishing financial or credit information or information on the personal habits of applicants for insurance, indemnity bonds, or commercial credit



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Taxable Security Services

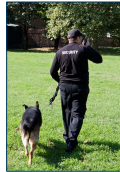
Services provided by any person in the business of:

- Protecting property from
 - Destruction
 - Theft
 - Vandalism
- Protecting individuals from
 - Harassment
 - Physical attack



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Examples of Taxable Security Services



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Examples of Nontaxable Security Services

- Coat checks (without security duties)
- Document storage
- Fire extinguisher refilling, tagging and truck charges
- Shredding paper
- Traffic and parking control (unless for funeral processions or oversized loads on public roads)



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Examples of Nontaxable Security Services

- Repair labor to restore a system to working order is not taxable
- Monitoring and electronic surveillance of persons placed on in-home detention if required by
 - a court order
 - the Minnesota Department of Corrections



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Security Systems

Security System Installation	Installation taxable?	System components taxable to whom?	Monitoring taxable?
Incorporated into real property	No	Contractor	Yes
Remains TPP after installation	Yes	Customer	Yes



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Exempt Purchases Used in Providing the Taxable Service

- Ammunition
- Audio and video tapes
- Batteries for communication equipment
- Deposition copies
- Film and film processing
- Guard dog food
- Lubricants and antifreeze for vehicles
- Mace and pepper spray
- Photocopies of documents
- Polygraph consumables
- Supplies used to prepare client reports



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Taxable Purchases

- Equipment and machinery
- Furniture and general office supplies
- Lawn care services
- Linen and laundry services
- Office cleaning
- Specialty advertising materials
- Telephone service
- Training materials and supplies
- Utilities used for space heating or lighting



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Laundry and Dry-Cleaning Services



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Taxable Laundry and Dry-Cleaning Services

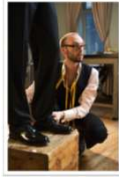
- Dry cleaning and laundering of clothing
- Dyeing
- Pillow, pillow sham, and bedspread cleaning
- Pressing
- Smoke or water damage cleaning of clothing, linens, etc.
- Storage of clothing



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Taxable Alterations, Repairing, and Storing of Clothing

- Altering clothing
- Embroidery or screen printing done on clothing provided by the customer
- Repairing or patching clothing
- Hat blocking
- Fur repairing and storing



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Nontaxable Alterations and Repairs to Clothing

Alterations that are included in the purchase price:

- Seamstress' or tailor's charges for designing and/or sewing new clothing
- Custom-made shoes
- Embroidery or screen printing done on clothing before the sale
- Shoe repair, dyeing, stretching, and shining



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Linen and Supply Service

- Bed linens
- Coats and coveralls
- Dust control treated items
- Dust covers for tools and machinery
- Flame resistant clothing
- Floor-mats and rugs
- Gowns (hospital, lab, etc.)
- Safety gloves
- Shirts
- Table linens
- Towels
- Work clothes and uniforms



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Carpet, Drapery, Blind, and Upholstery Cleaning

Examples of taxable services include:

- Applying fabric protector
- Cleaning office panels and partitions
- Cleaning and deodorizing after fire, smoke, or water damage
- Cleaning and deodorizing upholstery
- Cleaning, deodorizing, and pressing draperies
- Vacuuming, shampooing, and deodorizing carpets
- Washing venetian blinds



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Nontaxable Services – Diaper Service

Diaper services are not taxable if the charge is separately stated on the customer's invoice.



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Break Time

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Exempt Purchases - Consumables

- Claim checks, laundry tags, hangers, and plastic bags
- Detergents, fabric softeners, and starch
- Dry cleaning chemicals
- Disinfectants
- Dye
- Fire and water repellents
- Marking pens and tags
- Mat compounds
- Safety pins
- Soaps, solvents, and spotting compounds
- Utilities to operate machinery
- Water used in providing taxable services



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Exempt Purchases - Resale

Items supplied to customers as part of a supply service include:

- Carpet mats
- Mop heads
- Table linens
- Towels



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Exempt Purchases - Separate Detachable Units

Examples of separate detachable units:

- Buffer pads
- Mop heads
- Polishing belts and strips
- Sewing machine needles
- Disposable vacuum filters, bags, and belts



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Taxable Purchases

- Delivery vehicles
- Dry-cleaning machines
- Garment racks
- Irons
- Pressing tables
- Sewing machines
- Sorting bins
- Steamers
- Washers and dryers



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Special Fees

Example:

Dry cleaning	\$50.00
Environmental Fee	+ 2.00
Subtotal	52.00
Tax (6.875%)	<u>3.58</u>
Total due	\$55.58



Include taxes and fees imposed on the service provider in sales price, then calculate sales tax.



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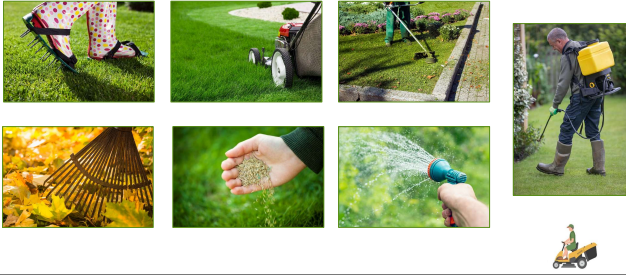
Lawn and Garden Maintenance Services

- Lawn care services
- Gardening services
- Other taxable services



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Taxable Lawn Care Services



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Taxable Gardening Services



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Other Taxable Services

- Cutting and/or arranging flowers
- Indoor and outdoor decorating when the items are provided by the decorator
- Indoor plant care
- Leasing or renting indoor plants
- Selling firewood for recreational or commercial use



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Nontaxable Services – Improvements to Real Property



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Miscellaneous Nontaxable Services



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Cemetery Maintenance



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Tree and Shrub Services

- Taxable services
- Nontaxable services
- Utility lines
- Land-clearing contracts



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Taxable Services



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Nontaxable Services

- Moving trees or shrubs from one location to another
- Optional disposal of brush
- Planting trees, bushes, or shrubs
- Stump removal services purchased for construction or maintenance of roads, trails, or firebreaks



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Utility Lines

These services are taxable under utility lines UNLESS performed in ditches along roads, freeways, and railroad right-of-ways

- Tree, brush, and shrub trimming
- Mowing, cutting, and spraying



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Land-Clearing Contracts



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Exempt Purchases

- Fertilizers
- Flowers, garden seeds, or plants
- Fuels and lubricants for equipment
- Grass seed for taxable reseeding
- Pesticides and insecticides
- Plants for indoor plant care
- Potting soil and disposable pots
- Steel-toed boots
- Work gloves (for general use)
- Weed killers



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Exempt Purchases – Separate Detachable Units

- Chain saw blades
- Lawn mower blades
- Trimmer wire or line



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Vehicles



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Taxable Purchases



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What is Use Tax?

- Applies to taxable purchases when sales tax was not charged
- Complement to sales tax
- Self-assessed
- Paid directly to the state

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Recording Use Tax

- Always self assess the tax and remit it directly to the Department of Revenue.
- Never add use tax to a vendor payment
- Record the amount of use tax accrued.



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Use Tax Basis

Use tax is based on your purchase price of taxable items or services. This is true whether you buy items:

- for your own business use without paying sales tax,
- take them out of inventory and use them in a taxable manner, or
- donate them to a charitable organization.

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Accruing Use Tax

Businesses owe use tax on items used in their business when sales tax was not charged, including:

- Administrative items
- Business equipment and supplies
- Taxable services
- Promotional items
- Utilities

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Variable Rate Credit

What is a variable rate credit?

- Minnesota allows a credit for the amount of sales tax paid to another state
- Must be legally due to the other state to receive credit

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Calculating Variable Rate

1. Calculate the applicable amount of tax due (variable rate X sales price).

2. Enter the amount as variable rate use tax on your sales and use tax return.

Minnesota sales tax rate	6.875%
Wisconsin state and local sales tax	<u>(5.500%)</u>
Variable rate tax due to Minnesota	1.375%

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Recording Use Tax

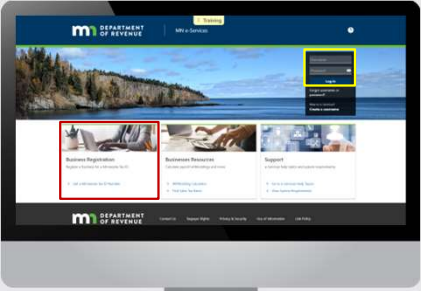
- Record this information:
 - Date of purchase
 - Invoice number
 - Vendor's name
 - Description of item
 - Taxable amount
 - Amount of state and local use taxes paid
- Keep a copy of the backup documentation.

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Recordkeeping

- Your records should include:
- Bills, receipts, invoices, cash-register tapes, and any other documents that support the entries in your books
 - Exemption certificates
 - Shipping documents
 - Worksheets used to prepare your tax returns

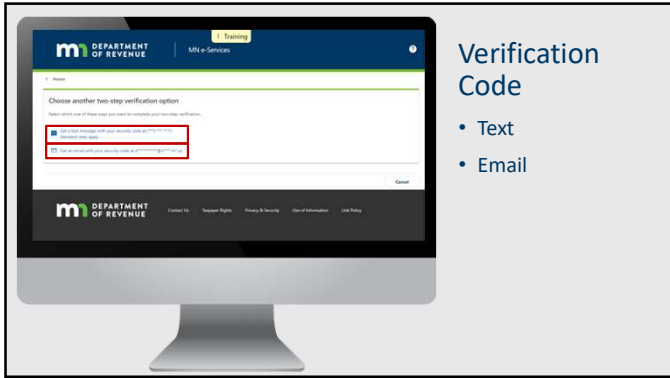
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**MN e-Services
Filing and
Payment
Instructions**

- Log In
- Registration

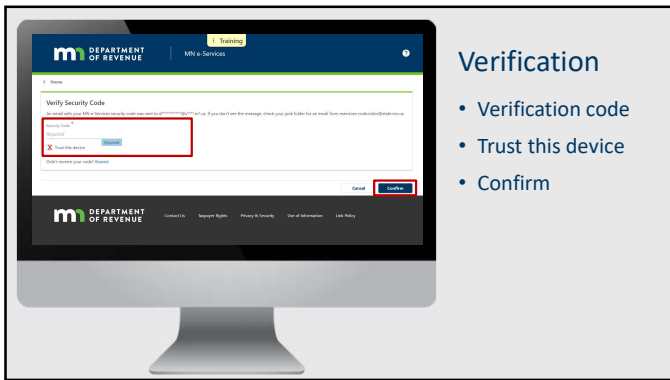
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Verification Code

- Text
- Email

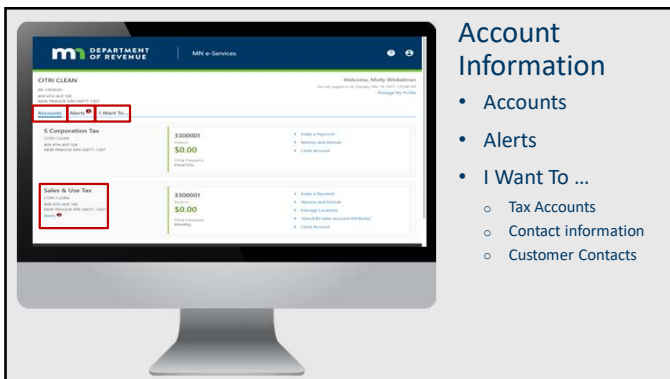
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Verification

- Verification code
- Trust this device
- Confirm

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Account Information

- Accounts
- Alerts
- I Want To ...
 - Tax Accounts
 - Contact information
 - Customer Contacts

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Amending Returns

Common reasons to amend a return:

- Reported too much or not enough tax on your return
- Reported the tax on the wrong tax line
- Charged tax incorrectly to a customer and refunded the tax to the customer
- Received a completed exemption certificate from a customer for tax you paid and now refunded back to the customer



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Filing Due Dates

Filing Frequency	Average Tax Liability	Due Date
Annual	Less than \$100 per month (less than \$1,200 per year)	February 5 of the following year
Quarterly	Less than \$500 per month (less than \$6,000 per year)	20th day of the month following the end of the quarter
Monthly	More than \$500 per month (more than \$6,000 per year)	20th day of the following month

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Late Filing and Late Payment Penalties

Days Late	Late Filing Penalty	Late Payment Penalty
1-30 days	5 percent	5 percent
31-60 days	5 percent	10 percent
60+ days	5 percent	15 percent

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Resources to Answer Your Questions

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Are you looking for additional resources?



Visit our website at revenue.state.mn.us

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Sales and Use Tax Contact Information

- Sales taxability questions
Email: salesuse.tech@state.mn.us
- Sales and Use Tax account questions
Email: salesuse.tax@state.mn.us
- Telephone assistance
Phone: 651-296-6181 or 1-800-657-3777 (toll free)



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Other Division Contact Information

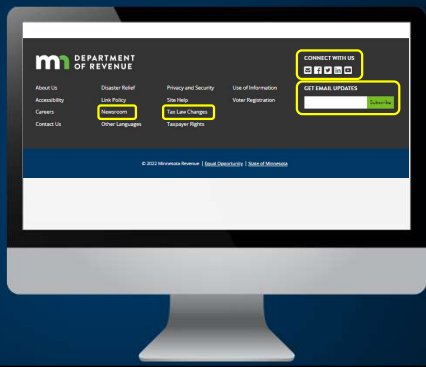
- Business Income Taxes
 - 651-556-3075
 - Email: businessincome.tax@state.mn.us
- Withholding Tax
 - 651-282-9999 or 1-800-657-3594
 - Email: withholding.tax@state.mn.us
- Business Registration
 - 651-282-5225 or 1-800-657-3605
 - Email: Business.Registration@state.mn.us



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Stay Informed

- Newsroom
- Tax Law Changes
- Social Networks
- Email Updates



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Sales and Use Tax Education Classes

- Introduction to Sales and Use Tax
- e-Services Webinar
- Sales and Use Tax for the Agricultural and Farming Industry
- Sales and Use Tax for Contractors
- Sales and Use Tax for Local Governments
- Sales and Use Tax for Manufacturers
- Sales and Use Tax for Retailers
- Sales and Use Tax for Schools
- Sourcing Sales – Apply State and Local Taxes

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GovDelivery



- Choose the updates you want, by tax and publication type
- Choose notification frequency
- Sign in directly or use the Facebook or Google links



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Course Review

During this class, we discussed how to ...

- Apply the basic sales and use tax concepts for Minnesota and its local taxing jurisdictions to your business
- Recognize the exceptions to the rule and the exemptions available
- Identify how to use and when to accept an exemption certificate
- Distinguish how sales and use tax law applies to various taxable services in Minnesota
- Use e-Services to file a sales and use tax return
- Find several resources that answer your sales and use tax questions

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Questions?

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Minnesota Business Tax Education

Thank you!

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