

Technical corrections were made to this notice on December 2, 2002 by Revenue Notice # 02-20. Please see Revenue Notice # 02-20 for the corrected language.

Minnesota revenue notice number 00-03

Sales and Use Tax – Exemptions: Materials Used or Consumed in Providing Taxable Services

Effective July 1, 1999, certain materials used or consumed in providing taxable services are exempt. This revenue notice provides guidance for applying the exemption as set out in the following statutory provisions.

Minnesota Statutes, section 297A.25, subdivision 62. **Materials used in providing taxable services.**

(a) The gross receipts from the sale of and the storage, use, or consumption of all materials used or consumed in providing a taxable service intended to be sold ultimately at retail are exempt.

(b) This exemption includes, but is not limited to:

- (1) chemicals, lubricants, packaging materials, seeds, trees, fertilizers, and herbicides, used or consumed in providing the taxable service;
- (2) chemicals used to treat waste generated as a result of providing the taxable service; and
- (3) accessory tools, equipment, and other items that are separate detachable units used in providing the service and that have an ordinary useful life of less than 12 months.

(c) This exemption does not include:

- (1) machinery, equipment, implements, tools, accessories, appliances, contrivances, furniture, and fixtures used in providing the taxable service; and
- (2) fuel, electricity, gas, and steam used for space heating or lighting.

(d) For purposes of this subdivision, "taxable services" means the services listed in *Minnesota Statutes*, section 297A.01, subdivision 3, paragraph (i).

Part of paragraph (i) of *Minnesota Statutes*, section 297A.01, subdivision 3, is set out below for ease of applying this revenue notice. The first sentence of subdivision 3 reads "A 'sale' and a 'purchase' includes, but is not limited to, each of the following transactions:". Paragraph (i) continues:

- (i) The furnishing for a consideration of services listed in this paragraph:
- (i) laundry and dry cleaning services including cleaning, pressing, repairing, altering, and storing clothes, linen services and supply, cleaning and blocking hats, and carpet, drapery, upholstery, and industrial cleaning. Laundry and dry cleaning services do not include services provided by coin-operated facilities operated by the customer;
 - (ii) motor vehicle washing, waxing, and cleaning services, including services provided by coin-operated facilities operated by the customer, and rustproofing, undercoating, and towing of motor vehicles;
 - (iii) building and residential cleaning, maintenance, and disinfecting and exterminating services;
 - (iv) detective services, security services, burglar, fire alarm, and armored car services; but not including services performed within the jurisdiction they serve by off-duty licensed peace officers as defined in *Minnesota Statutes*, section 626.84, subdivision 1, or services provided by a nonprofit organization for monitoring and electronic surveillance of persons placed on in-home detention pursuant to court order or under the direction of the Minnesota Department of Corrections;
 - (v) pet grooming services;
 - (vi) lawn care, fertilizing, mowing, spraying and sprigging services; garden planting and maintenance; tree, bush, and shrub pruning, bracing, spraying, and surgery; indoor plant care;

tree, bush, shrub and stump removal; and tree trimming for public utility lines. Services performed under a construction contract for the installation of shrubbery, plants, sod, trees, bushes, and similar items are not taxable;

(vii) massages, except when provided by a licensed health care facility or professional or upon written referral from a licensed health care facility or professional for treatment of illness, injury, or disease; and

(viii) the furnishing for consideration of lodging, board and care services for animals in kennels and other similar arrangements, but excluding veterinary and horse boarding services.

Materials purchased under this exemption must be for use in directly providing a taxable service named above. Materials used or consumed in vehicles or equipment that are used in directly providing a taxable service may be purchased exempt.

If the vehicles or equipment are "primarily used" to directly provide the taxable service, 100 percent of the materials will be treated as exempt. For vehicles, "primarily used" means 50 percent or more of the mileage accumulated in directly providing the taxable service; for equipment, "primarily used" means 50 percent or more of the operating time. If the vehicle or equipment is used less than 50 percent for directly providing the taxable service, only the percentage of materials used while actually providing the service are exempt from tax. The taxpayer is required to maintain records indicating either the exact percentage used or that at least 50 percent of the use of the vehicle or equipment was for directly providing the taxable service.

All materials intended to be used or consumed in a vehicle or equipment used to directly provide a taxable service may be purchased exempt by providing the supplier with a properly completed Certificate of Exemption, Form ST-3. The purchaser must pay use tax on the cost of any materials that were purchased exempt from sales tax, but not used to provide the taxable service. The use tax must be reported and paid in the reporting period during which the materials are put to a taxable use.

Example 1: Part of providing laundry service requires the use of a delivery vehicle to pick-up and deliver laundry at the customer's residence. At least 50 percent of the mileage is accumulated while directly providing the taxable service, i.e. in transporting soiled laundry and clean laundry between the customer's location and the laundry. One hundred percent of the grease, oil, lubricants, and antifreeze consumed in the delivery vehicle may be purchased exempt.

Example 2: Vehicles are used to transport lawn mowers and employees to the site where the taxable service of mowing lawns will be performed. Since the vehicles are not used directly in performing the taxable service, materials used or consumed in the vehicles do not qualify for the exemption. Since the lawn mowers are used 100 percent of their operating time in directly providing the taxable services, grease, oil, lubricants, and other materials used or consumed in the lawn mowers can be purchased exempt.

Example 3: A vehicle is used 30 percent of the time to directly provide taxable services and 70 percent of the time for personal purposes. The grease, oil, lubricants, and antifreeze consumed in the vehicle may be purchased exempt, but use tax must be paid on 70 percent of the cost of the materials. The use tax must be reported on the sales tax return for the period when the materials are used in the vehicle.

The exemption for materials used in providing the taxable services named above does not apply to purchasing other taxable services. A taxable service is not a "material" and consequently may not be purchased exempt from sales tax by another taxable service provider. However, taxable services can be purchased exempt for resale in certain circumstances.

Example 4: Joe's Lawn Care contracts with customers to perform lawn care services for the season. The contracts require Joe's Lawn Care to mow lawns on a weekly basis and apply fertilizer and weed killer three times during the mowing season. Joe's Lawn Care subcontracts with a separate lawn care company for the weed spraying. Joe's Lawn Care Service may

purchase the spraying service exempt for resale since the cost of the weed spraying is included in the total taxable amount charged to the customer for lawn care services.

Example 5: A laundry delivery vehicle is used as set out in Example 1, above. Vehicle washing service to clean the delivery vehicle may not be purchased exempt, nor may soap or water used to clean the vehicle be purchased exempt.

"Separate detachable units" are accessory tools or other items that are attached to machinery when being used to provide taxable services. These items are generally purchased separately from the purchase of the basic machine and do not include the basic machine and its component parts. However, if the separate detachable unit is included in the purchase price of the basic machine, and its cost is not separately stated, it is considered part of the basic machine and is taxable. Hand tools are not exempt. Attachments to hand tools are considered separate detachable units only if similarly functioning items attached to machinery would be considered separate detachable units.

"Ordinary useful life" means the life of accessory tools and other items measured by the normal use of the taxable service provider.

If a service is not one of the taxable services named above, materials used in providing the service do not qualify for this exemption.

The following are not considered materials used in providing taxable services and do not qualify for this exemption:

- Repair parts;
- Meals and lodging charges; and
- Materials used for general administrative purposes, such as office stationary or supplies.

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