

MINNESOTA DEPARTMENT OF REVENUE

Revenue Notice # 06-10: Sales and Use Tax – Fabrication Labor – Prefinishing Woodwork

Introduction

This Revenue Notice sets out the department's position on charges to prefinish woodwork. In this context, woodwork refers to wooden interior fittings in a house or building, such as doors, mantles, moldings, staircases, trims, and windowsills; prefinishing refers to finishing that is done prior to installation of the woodwork in real property. Typically, prefinishing involves at least staining and sealing the surfaces of the wood that will be visible after installation. Minnesota Statutes, section 297A.61, subdivision 3(c), provides that for Minnesota sales and use tax purposes, "sale" includes the gross receipts from, and the sales price of, the "...fabrication... of tangible personal property for a consideration for consumers who furnish either directly or indirectly the materials used in the ...fabrication... [process]."

Department Position

Amounts paid for labor or automated services to prefinish woodwork constitute taxable receipts derived from the fabrication of the woodwork in the following situation. If a general contractor pays a subcontractor to prefinish woodwork as part of a project the general contractor is doing for a customer, the gross amount paid by the general contractor to the subcontractor for that prefinishing is subject to sales tax, regardless of whether the unfinished woodwork was purchased by the general contractor or the customer.

This position does not apply to contractors or employees of contractors who prefinish woodwork themselves and also install it, or to owners of real property who buy unfinished woodwork for their real property and prefinish it prior to installation.

Please refer to Sales Tax Fact Sheet 128 ("Contractors") and Sales Tax Fact Sheet 152 ("Labor") for information on how the sales tax applies to other situations involving this particular type of fabrication labor.

Effective Date

The Department of Revenue will begin to enforce this Revenue Notice for sales and purchases made on or after January 1, 2006. This Revenue Notice does not reflect a change in the department's position as to how prefinishing woodwork should have been taxed prior to January 1, 2006, therefore no refunds will be issued for sales taxes collected and remitted on prefinishing woodwork prior to January 1, 2006.

JOHN H. MANSUN, Assistant Commissioner
for Tax Policy and External Relations
Publication Date: September 11, 2006