

Minnesota revenue notice

Revenue Notice # 92-06 Sales and Use Tax - Detective and Security Services

Detective and security services, burglar and fire alarm services, and armored car services are taxable under Minn. Stat. § 297A.01, subd. 3, paragraph (j), clause (iv). If the service is performed partly in Minnesota and partly outside of Minnesota, sales tax must be charged if the greater part of the cost is for services performed within Minnesota. The services described below are taxable whether or not the person providing the service is a licensed private detective or protective agent.

Security Services

Taxable security services are those provided by any person who is in the business of protecting property from theft, vandalism or destruction, or of protecting individuals from physical attack or harassment. The services of a peace officer engaged privately in security work are also taxable unless the services are performed within the jurisdiction the peace officer serves.

Examples of taxable security services:

- Armored car
- Badge checking
- Body guard
- Burglar alarm monitoring and maintenance, both electronic signal and visual devices
- Consulting or inspections which result in the sale of a taxable service or product
- Fire alarm maintenance and monitoring
- Employee security
- Guard dog lease or rental
- Passenger security
- Patrol services, both mobile and foot
- Security guards, plain clothes and uniformed guards, and ushers and ticket takers, if they have security duties
- Testing of fire and burglar alarm systems
- Smoke detector maintenance
- Charges for programming and maintenance of hand-activated electronic communication devices that are specifically programmed to an individual's needs (medical, safety, security, etc.)

Security Systems

The sale and installation of a security or alarm system that becomes real property when installed is considered to be a construction contract and not subject to the sales tax. The person installing the system must pay tax on the cost of all materials, supplies, and equipment used to install the system. The sale of a system that does not become real property, or peripheral equipment that can be easily removed, such as a TV monitor, is considered to be the sale of tangible personal property and is subject to sales tax.

Monitoring of fire or burglar alarm systems located in Minnesota is considered a service performed in Minnesota, even if the monitoring is provided from a location outside of Minnesota, since the customer receives the benefit of the service in Minnesota.

Detective Services

Taxable detective services are those provided by any person who is in the business of investigating to obtain information for others, including but not limited to:

- Background investigations
- Business crimes, shoplifting apprehension, theft investigations

- Computer fraud
- Consulting that results in the sale of a taxable service or product
- Credibility of witnesses
- Determining the origin and responsibility of accidents, damage or injury to property
- Electronic surveillance
- Employee theft investigations
- Employee and pre-employment investigations
- Obtaining evidence to be used in a trial or criminal case or before a board of arbitration
- Executive protection
- Honesty test evaluations (paper/pencil type)
- Identifying people, their character, conduct, or location
- Insurance claim investigations
- Investigations of crimes committed or threatened
- Investigative services for attorneys or others
- Lie detection services, such as polygraph examinations
- Litigation support for attorneys
- Location or recovery of lost or stolen property
- Public record checks
- Surveillance
- Undercover investigations

The services of a peace officer privately engaged to provide detective services are taxable, unless the services are performed within the jurisdiction the peace officer serves.

Sales tax must be charged on the total cost for providing taxable services performed in Minnesota. The taxable cost includes expenses that are directly reimbursed by the client, such as mileage and other travel expenses, lodging and meal expenses, and fees paid for copies of public records. Purchases of record copies, meals, lodging and other taxable items used in providing these services are also taxable.

Insurance Claim Investigations

Investigations that are part of an insurance claim settlement may be taxable as detective services. When a person or company performs detective or investigative services in conjunction with the negotiation and settlement of an insurance claim, the detective services are taxable when the costs for those detective services are more than one-third of the total charge for resolving the claim.

Follow these guidelines when you perform detective (investigative) services along with negotiating and settling an insurance claim:

- Each of your sales must be looked at individually to determine the costs of taxable and nontaxable services. All costs related to detective or investigative services performed must be considered in calculating the percentage of the total sales price. These costs include not only the directly related expenses such as time, travel, and fees paid for copies of public records, but also indirect expenses such as administrative costs of typing reports involved with the investigative work.
- Detective services do not include damage appraisals and negotiation for settlement of an insurance claim.
- Adequate records must be maintained to establish the breakdown between taxable and nontaxable services.

Charge sales tax on insurance investigation services if:

- Detective services and related expenses are billed separately from nontaxable charges on the invoice (separately stated detective services are taxable regardless of the amount charged), or
- The costs for performing detective services are in excess of one-third of the total billing. In this case, the total amount billed to the customer for resolving an insurance claim is taxable unless the detective services are separately stated.

Do not charge sales tax on insurance investigation services if:

- The total charge for detective services performed in Minnesota is one-third or less of the entire charge for resolving an insurance claim, and the client is billed a lump sum amount for the total service provided, or
- The detective service is performed partly in Minnesota and partly outside of Minnesota, and the greater part of the cost of performing the detective service is for services performed outside of Minnesota.

If you do not itemize your billings, you may not know until each case is closed whether or not to charge sales tax. If you accept retainer fees or bill for services on a monthly basis, do not charge sales tax until your final billing.

Nontaxable Services

Nontaxable services include wages paid to part or full-time employees in connection with their employment, and investigations and adjustments by an employee of an insurance company.

If the following are charged to customers separately from taxable items or services, they are not taxable:

- Service of notice or any other document to a party, witness or any other person in connection with any criminal, civil or administrative litigation, including filing court documents;
- Soliciting any debtor to pay or collecting payment for any debt;
- Recovering collateral being repossessed by banks and lending institutions;
- Providing training on security or detection matters;
- Finger printing;
- Hostess, usher, or ticket taker services, unless the job includes security duties;
- Traffic and parking control;
- Financial or credit rating checks; or
- Refilling of fire extinguishers, tagging charges (charges to check the extinguisher and tag it), and truck charges (service charge for coming to customer to check and tag)

Michael E. Boekhaus
Director, Appeals & Legal Services

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