Use Tax for Businesses

Sales Tax Fact Sheet 146

What’s New
We’ve made general updates to this fact sheet.

Minnesota Use Tax applies when you buy, lease, or rent taxable items or services for your business and the seller does not charge Minnesota Sales Tax. Use tax complements and is similar to sales tax. Use tax and sales tax rates are identical.

You may owe use tax if you bring items into Minnesota or when you take them out of inventory for a taxable use. Use tax is based on your cost of taxable purchases.

Local use tax may also be due. For more information, see the Local Sales and Use Taxes Fact Sheet.

Use Tax Examples

Online Purchases
If the seller ships items to you in Minnesota and does not collect Minnesota Sales Tax, you owe Minnesota Use Tax.

Common examples of taxable online purchases:

- computer hardware and software
- office supplies and equipment
- business furniture, fixtures, and accessories

Capital Equipment
The capital equipment exemption is allowed at the time of purchase. To claim this exemption, give the seller a completed Form ST3, Certificate of Exemption.

Before July 1, 2015, you had to pay use tax if you didn’t pay sales tax when you bought the equipment. You could apply for a refund of tax paid if the items qualified as capital equipment, but the use tax had to be paid before the refund was allowed.

For more information, see the Capital Equipment Fact Sheet.

Items Taken Out of Inventory
If you take an item out of inventory for use in your business, use tax is due on your cost of that item.

Example

- An office supply store buys cash register tapes exempt for resale. An employee takes a roll of cash register tape off the shelf to use in the store register. The office supply store must accrue use tax on the store’s cost of the roll of cash register tape.
**Donations of Taxable Items**
If you didn’t pay sales tax when you bought the donated items, you owe use tax, even if the recipient is a tax exempt organization.

**Taxable Items Given as Gifts**
If you took possession of the gifts in Minnesota but didn’t pay sales tax when you bought them, you owe use tax, even if you send the gifts out of Minnesota.

If the gifts are sent out of state by the seller, no use tax is due to Minnesota. You may owe use tax in the state to which the gifts are shipped.

**Construction Materials**
Materials used by a contractor on a construction contract in Minnesota are subject to use tax if sales tax was not paid. For more information, see the Contractors and Other Property Installers Industry Guide.

**Non-Highway Use Fuel**
Fuel for non-highway use is subject to use tax when both of the following are true:
- no sales tax was paid
- petroleum tax either was not charged or was refunded

For more information, see the Petroleum Products Fact Sheet.

**Interstate Motor Carriers**
Interstate motor carriers authorized to pay use tax directly to the Minnesota Department of Revenue must pay use tax on a percentage of the cost of parts and accessories and leased equipment.

For more information, see the Transportation Service Providers Industry Guide.

**Bundled Sales**
A bundled transaction is the retail sale of two or more distinct and identifiable products for one non-itemized price. Generally, a bundled transaction is taxable when one of the products included in the sale is a taxable item.

Use tax may be due on your cost of taxable items that are included in a nontaxable bundled transaction.

Sales that otherwise meet the definition of a bundled transaction are not taxable if the transaction meets certain tests. In those cases, you owe use tax on the taxable items included in the transaction if your purchaser price of the taxable items is more than $100.

**Occasional Sale Exemption**
Generally, sales of new or used business equipment are taxable. However, when a business sells its own equipment, the occasional sale exemption may apply.

If you buy items that are exempt from sales tax as occasional sales, use tax is not due. To document a nontaxable purchase, ask the seller to give you a statement indicating the reason the sale is tax exempt.

For more information, see the Isolated and Occasional Sales Fact Sheet.

**Example**
- Purchases at a garage sale are generally nontaxable occasional sales because the sellers are not considered to be “a business” and are not required to collect sales tax. Since the seller is not required to charge sales tax, the purchaser is not required to pay use tax.
**Tax Paid to Another State**

If you purchase items while in another state, pay the other state’s sales tax that is legally due, and bring the item back to Minnesota, a credit is allowed for the total sales tax paid (state and local).

You owe use tax if the total tax paid to the other state is less than Minnesota’s general sales and use tax rate. If the other state’s sales tax rate is higher than Minnesota’s general sales and use tax rate, no credits are allowed.

**Example**

A business in Red Wing, Minnesota purchases office supplies in LaCrosse, Wisconsin. The office supply store charges 5.5% sales tax (5% Wisconsin state sales tax and 0.5% LaCrosse county sales tax). The business brings the supplies back to Red Wing for use.

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate</th>
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</thead>
<tbody>
<tr>
<td>Minnesota sales tax rate (current rate)</td>
<td>6.875%</td>
</tr>
<tr>
<td>Wisconsin state and local sales tax</td>
<td>- (5.5%)</td>
</tr>
<tr>
<td>Variable rate tax due to Minnesota</td>
<td>1.375%</td>
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Record the 1.375% use tax as variable rate use tax when you electronically file your Minnesota Sales and Use Tax return.

**How to Accrue Use Tax**

Businesses are required to set up a system to record and pay use tax. This may be a use tax accrual account or a file folder with copies of invoices subject to use tax.

Record on the invoice or somewhere in your records when the use tax is reported and paid.

For a sample, see the Minnesota Use Tax Worksheet on page 6. You may need to edit the Minnesota Use Tax Worksheet any local use taxes.

**Helpful Hints**

**Review Your Vendors**

Regular purchases from a certain vendor or of a certain product will be taxable.

If you were audited, the audit schedules may help you determine which purchases are taxable. This can help you determine which vendors may not charge sales tax.

**Review Fact Sheets and Industry Guides**

Review fact sheets and industry guides for topics that relate to your business. These documents can help you identify purchases subject to use tax.

See our website at www.revenue.state.mn.us for a list of fact sheets and industry guides.

**Using a Spreadsheet**

Use a spreadsheet or a general ledger accrual account to summarize purchases subject to use tax. Record each invoice subject to use tax in the spreadsheet or ledger.

At the end of your filing cycle, total the taxable amount and report it as use tax on your sales and use tax return.

Keep the spreadsheet or ledger detail as a backup to your return.

**Record Use Tax on the Invoice**

You can also record the month and year that use tax was accrued.
If use tax is posted to a general ledger accrual account, indicate the account number on the invoice.

**Review Each Invoice**
Review each invoice as you approve it for payment. If the seller did not charge sales tax and the item or service is taxable, report and pay use tax. Do not add sales tax to the seller’s invoice.

Items to look for when reviewing invoices:

- Delivery and handling charges for taxable items. See the Delivery Charges Fact Sheet.
- Computer hardware, canned software, and software maintenance agreements. See the Computer Software Fact Sheet.
- Fabrication labor to make taxable goods. See the Labor - Installation, Fabrication, Construction, and Repair Fact Sheet.
- Installation labor if it is part of the sales price of taxable goods. Repair labor is not taxable if it is separately stated. See the Labor - Installation, Fabrication, Construction, and Repair Fact Sheet.
- Tangible items for your own use, including fixed assets and equipment.
- You gave an exemption certificate to a vendor to purchase items for resale. However, you purchased a taxable item with your inventory order. Use tax is due on your cost of the item used in your business.
- Taxable services performed in Minnesota but sales tax was not charged. The following is a list of taxable services:
  - Building cleaning and maintenance
  - Detective, security, and alarm services
  - Laundry, dry cleaning, and alternations services
  - Lawn, garden, tree, and bush services
  - Motor vehicle towing, washing, waxing, rustproofing, and cleaning services
  - Massages
  - Parking services
  - Pet grooming, boarding, and care services

**Reporting Minnesota Use Tax**

Report state and local use tax when you file your Minnesota Sales and Use Tax return.

**Local Sales and Use Tax**

If you are located in or make sales into an area with a local tax, you may owe local sales or use. For more information, see the Local Sales and Use Taxes Fact Sheet.
Legal References
Minnesota Statutes 289A.60, subd. 25, Penalty for failure to properly complete sales and use tax return.
Minnesota Statutes 297A.61, subd. 38, Bundled transactions.
Minnesota Statutes 297A.63, Use taxes imposed; rates.
Minnesota Statutes 297A.66, Computation of sales and use taxes.
Minnesota Statutes 297A.77, Collection of sales and use taxes.
Minnesota Statutes 297A.78, Liability for use tax; receipt as evidence.
Minnesota Statutes 297A.80, Taxes in other states; offset against use tax.
Minnesota Statutes 297A.95, Coordination of state and local sales tax rates.
Minnesota Statutes 297A.99, Local sales taxes.
Minnesota Statutes 297A.995, Uniform sales and use tax administration act.

Other Fact Sheets
Capital Equipment
Computer Software
Delivery Charges
Detective and Security Services
Isolated and Occasional Sales
Items for Business Use Outside Minnesota
Labor - Installation, Fabrication, Construction, and Repair
Laundry and Cleaning Services
Lawn and Garden Care, Tree and Bush Service
Local Sales and Use Taxes
Petroleum Products

Industry Guides
Building Cleaning and Maintenance
Contractors and Other Property Installers
Motor Vehicle
Parking Service Providers
Personal Services
Pets and Pet Services
Transportation Service Providers
Minnesota Use Tax Worksheet

Company Name:  

Use tax accrual sheet for the period of ______________ through ________________

<table>
<thead>
<tr>
<th>Date</th>
<th>Invoice Number</th>
<th>Vendor</th>
<th>Taxable Amount</th>
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Period total: __________________

List the period total as “use tax purchases” when you file your Minnesota Sales and Use Tax return. Keep this worksheet in your files. If you owe local use tax or variable rate use tax, change the above worksheet to meet your needs and report the totals when you file your Sales and Use Tax return.