

Labor – Installation, Fabrication, Construction, and Repair

*Sales Tax Fact Sheet 152***What's New in 2016**

We updated this fact sheet to combine three labor fact sheets into one (152A, 152B, and 152C). We also updated the layout to make this fact sheet easier to read.

This fact sheet describes the different kinds of labor and how Minnesota sales and use tax applies to each. It includes:

- Installation labor
- Fabrication labor
- Construction labor
- Repair labor
- Taxable services

Installation Labor

Installation labor occurs when you set an item into position, or to connect, adjust, or program it for use. If the item being sold is taxable, charges to install it are also taxable. Installation charges are part of the sales price of the item, even if separately stated.

Installation charges by a third party are a taxable service if the installation would be taxable when provided by the seller of the taxable item.

Charges for installing nontaxable items are not taxable.

Capital Equipment

If the item qualifies as capital equipment, the installation charges also qualify for the capital equipment exemption.

Installation into Real Property

Labor to install tangible personal property into real property is not taxable. See “Construction labor” on page 3.

Installation Labor versus Repair Labor

Installation labor adds something new or different to an item. Repair labor restores an item to its original condition.

For example, charges to install a trailer hitch on a vehicle doesn't have one is installation labor, while charges to fix a broken trailer hitch is repair labor.

Examples

- A department store sells drapes and charges to install them. The drapes and the installation charge are taxable.
- A department store sells blinds. The blinds are installed by an independent contractor who bills the customer directly for the installation. The installation charge is taxable because the blinds are taxable.
- A store sells and installs modular workstations. Two contracts are drawn up—one for the sale of modular workstations, one for installation. Both the sale and the installation are taxable. Separate invoices do not make the installation exempt.
- An installer is hired to rearrange the modular workstations. Moving the workstations is not taxable.
- A software developer sells and installs custom software. Custom software is not taxable, so the installation charges are also not taxable.

- A software developer sells, and installs, custom software and computer equipment. If there is one installation charge for both the taxable hardware and the exempt custom software, the entire charge is taxable. If there is a separate installation charge for each, only installation of the hardware is taxable.
- Labor to install indoor or outdoor decorations, provided by the seller, is taxable (holiday decorating, stringing lights, hanging wreaths or garlands, home staging). However, setting up decorations owned by the customer is not taxable.

Fabrication Labor

Fabrication labor makes or creates a product or alters an existing product into a new or changed product. Fabrication labor is taxable, even if the customer provides the materials for the products that will be created or altered.

Fabrication labor includes, but is not limited to:

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|---------------|------------|
| • Assembling | • Grinding |
| • Boring | • Heating |
| • Combining | • Printing |
| • Cooling | • Sawing |
| • Cutting | • Sewing |
| • Dehydrating | |

Taxable Fabrication Labor

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| • Bending, cutting, and drilling holes in steel, aluminum, plastic, glass, or other materials | • Laminating identification cards |
| • Bookbinding | • Matting and framing artwork |
| • Collating and assembling by stapling or a similar process to join items together | • Painting of tangible items |
| • Converting a vehicle into a stretch limousine | • Photocopying and printing |
| • Crushing and screening gravel and aggregates | • Photography and videotaping |
| • Cutting and milling and custom sawing wood | • Pipe cutting or threading |
| • Drilling holes in bowling balls | • Producing sound recordings or motion pictures |
| • Electroplating or heat treating | • Taxidermy |
| • Firing ceramics or china | • Welding additions onto tangible personal property |
| • Making curtains, drapes, pillows, slipcovers, rugs, towels, quilts, or other household furnishings | |

Fabrication Labor for Resale

Fabrication labor may be purchased exempt if the purchaser gives the seller a completed Form ST3, *Certificate of Exemption*.

Example

- A furniture manufacturer hires a lumber yard to custom saw some lumber. The manufacturer uses the sawed lumber to make tables that will be sold to retail stores. The sawing (fabrication labor) may be purchased exempt if the manufacturer gives the lumber yard a completed Form ST3, *Certificate of Exemption*.

Engraving

Engraving that is billed along with or included in the sales price of a product is taxable. If the customer provides the item, the engraving is not taxable.

Construction Labor

Labor to permanently attach an item to real property is construction labor, which is not taxable because it is an improvement to real property. Usually, the items stay with the building when it is sold to another party.

Examples include:

- Carpet
- Deck
- Doors
- Furnace
- Garage door
- Gutters
- Hot water heater
- Roof
- Windows

Repair

Labor to repair items attached to real property is construction labor. For more information, see the Contractors and Other Property Installers Industry Guide.

Repair Labor

Repair labor restores an item so it can be used for its original purpose. Repair labor is not taxable as long as the labor charges are separately stated from parts or materials on the customer bill or invoice.

Examples of Nontaxable Repair Labor

- Changing a safe combination or lock tumblers by a locksmith
- Removing dents from a vehicle
- Repairing an engine
- Replacing a heat element in an appliance

Listing Repair Labor Separately

List parts or materials separately from any repair labor charges. Charge sales tax on the parts or materials.

What if Parts and Labor are not Listed Separately?

When repair labor and taxable parts are not listed separately on the customer's bill or invoice, the total charge may be taxable.

How does the parts cost compare to the total charge?	Is the total charge taxable?
Insignificant	No. The repairer must pay sales or use tax on the cost of the taxable part used in the repair.
Significant	Yes. The repairer must charge sales tax on the total charge.

Examples

- A repairer charges \$400 to reupholster a sofa. This includes \$200 materials and \$200 labor.

If the material and labor charges are combined, the entire \$400 is taxable. The cost of the taxable materials is a significant part of the total charge.

If the labor and materials costs are listed separately on the invoice, only the \$200 materials cost is taxable.

Note: If the customer provides the material for the sofa, the charge for the repair labor is not taxable.

- A jeweler uses a \$1 spring to repair a watch and charges the customer \$10 for the repair.

If the part and labor charges are combined, the \$10 is not taxable. The cost of the spring is insignificant. The jeweler must pay sales or use tax on their cost of the spring.

If the part and labor charges are listed separately on the invoice, the charge for the spring is taxable.

Mileage or Travel Charges

Mileage and travel charges are not taxable when separately stated on the invoice to the customer when they are directly related to the nontaxable repair charges.

Taxable Services

Certain services are taxable. Many of these services have labor components. For more information, see:

- Building Cleaning and Maintenance Industry Guide
- Detective and Security Services Fact Sheet
- Laundry and Cleaning Services Fact Sheet
- Lawn and Garden Maintenance, Tree and Shrub Services Fact Sheet
- Pets and Pet Services Industry Guide
- Personal Services Industry Guide
- Parking Service Providers Industry Guide

Legal References

Minnesota Statutes 297A.61:

- subd. 3(c), Definitions
- subd. 7, Sales price
- subd. 38, Bundled transactions

Revenue Notices

- 06-11, Sales Price – Labor Charges
- 16-03, Optional Warranty and Maintenance Contracts on Equipment

Other Fact Sheets

- Local Sales and Use Taxes
- Use Tax for Businesses
- Use Tax for Individuals

Industry Guides

- Contractors and Other Property Installers