

# Minnesota Department of Revenue

## Revenue Notice #21-04: Sales and Use Tax – Charitable Organization Exemption – Clarification of Qualifications for Exempt Status

### Introduction

This Revenue Notice clarifies the factors that must be satisfied for an organization to qualify for sales tax exempt status as a charitable organization under *Minnesota Statutes*, section 297A.70, subdivision 4.

In *Under the Rainbow Child Care Center, Inc. v. Goodhue*, 741 N.W.2d 880 (Minn. 2007) (hereafter, “*Under the Rainbow*”), the Minnesota Supreme Court clarified that the third and sixth factors that the Court discussed in *North Star Research Institute v. County of Hennepin*, 236 N.W.2d 754 (Minn. 1975), are required in order for an organization to qualify for sales tax exempt status as a charitable organization. Those factors are under *Minnesota Rules* 8130.6200, subpart 2, Items C and F, respectively.

### Department Position

Consistent with *Under the Rainbow*, *Minnesota Rules* 8130.6200, subpart 2, Item C, requires that the organization do more than serve a benevolent purpose on a nonprofit basis. The organization must provide a substantial portion of its goods and services for free or at considerably reduced rates. And Item F requires that upon dissolution, dividends and assets, in form or in substance, cannot be made available to private interests. Thus, an organization must satisfy all the following factors to qualify for sales tax exempt status as a charitable organization under Minnesota law:

1. The organization is exempt under section 501(c)(3) of the Internal Revenue Code, as provided under *Minnesota Rules* 8130.6200, subpart 5.
2. The organization is “charitable” as described in the first two sentences of *Minnesota Rules* 8130.6200, subpart 2.
3. The organization provides a substantial portion of its goods and services for free or considerably reduced rates under *Minnesota Rules* 8130.6200, subpart 2, Item C.
4. Dividends, in form or substance, or assets must not be available to private interests upon dissolution of the organization under *Minnesota Rules* 8130.6200, subpart 2, Item F.
5. The organization satisfies at least one of the four factors provided under *Minnesota Rules* 8130.6200, subpart 2, Items A, B, D, and E.
6. The organization satisfies the organizational and operational tests provided under *Minnesota Rules* 8130.6200, subpart 5.



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