

This Revenue Notice was revoked and replaced on December 19, 2022, by publication of Revenue Notice 22-04.

MINNESOTA DEPARTMENT OF REVENUE

Revenue Notice # 06-06: Sales and Use Tax – Sales Price – Interior Design Services

Introduction

This Revenue Notice clarifies the tax implications when interior designers or decorators (“designers”) provide consultation or design services, as well as sell taxable goods or services.

Under Minnesota Statutes, section 297A.61, subdivision 7(a), sales price means: “the measure subject to sales tax, and means the total amount of consideration, including cash, credit, personal property, and services, for which personal property or services are sold, leased, or rented, valued in money, whether received in money or otherwise, without any deduction for the following: (1) the seller's cost of the property sold; (2) the cost of materials used, labor or service cost, interest, losses, all costs of transportation to the seller, all taxes imposed on the seller, and any other expenses of the seller; (3) charges by the seller for any services necessary to complete the sale, other than delivery and installation charges; (4) delivery charges; (5) installation charges; and (6) the value of exempt property given to the purchaser when taxable and exempt personal property have been bundled together and sold by the seller as a single product or piece of merchandise.”

Department Position

Interior design services are taxable if they result in the sale of taxable goods or services from the same business that provides the interior design service, even if the design service fee is separately stated from the sale of the taxable item or service. This means that when a business provides a client with design services and subsequently that business sells a taxable item or service to the client, then the business must charge sales tax on the entire sales price of the item or service, including the interior design service, if the interior design services are clearly tied to the sale of the items or service. Interior design services are clearly tied to the sale of taxable goods or services if one of the following conditions is met:

- 1) The client orders the tangible personal property or taxable service within a year of receiving related design services; or
- 2) The client receives credit against the purchase of tangible personal property or taxable service for the design services that are paid for separately.

Examples

1. A designer charges a client for specifying and selecting home furnishings. Fees for these services are itemized separately from the price of the home furnishings on the invoice.

All charges by the designer that are related to the sale of the home furnishings, including fees for specifying and selecting home furnishings, are taxable.
2. A home furnishings store provides design services at no charge when clients purchase furniture. If the client does not purchase furniture, the store bills the client for the consultation.

If the client does not buy furniture and pays only for the consultation, the payment is not subject to tax.
3. A designer provides design services that are related to the purchase of draperies by the client. The designer purchases the draperies and sells them to the client at cost within a year of providing related design services.

The total amount received by the designer is taxable because the designer buys the draperies exempt for resale and the sale of the draperies is clearly tied to the interior design service.
4. A commercial designer specifies merchandise for a project planned by a restaurant. The restaurant purchases the items at a different business.

Only the sale of the items is subject to tax. The interior design services are not taxable because they are not tied to the sale of tangible personal property by the designer.
5. A design studio provides interior design services to a client at an hourly fee in addition to the price of the furniture sold. The client pays \$500 for the service and later orders the furniture. The price of the furniture is \$5,000 and the studio gives the client credit for the \$500 payment that was made for the interior design services.

The tax is imposed on the full \$5,000. Since the studio gives the client credit for the interior design services, there is a clear connection between the interior design services and the sale of the furniture.
6. A design studio provides interior design services. The studio sells furniture (taxable) and installs carpeting (the sale of installed carpeting is an improvement to real property and thus is not subject to sales tax to the final consumer; the design studio owes sales or use tax on the cost of the materials purchased).

This Revenue Notice was revoked and replaced on December 19, 2022, by publication of Revenue Notice 22-04.

If the studio states the cost of consulting for the furniture separately from the cost of consulting for the carpeting, only the cost of consulting for the furniture is subject to tax. If the consulting services for the nontaxable items are not itemized separately, the whole service is subject to tax.

7. A designer provides design services to a client and orders taxable merchandise from a showroom. The showroom opens an account for the client, bills the client, and the client pays the showroom directly. The designer bills the client only for the design services.

The showroom must collect the sales tax for the taxable merchandise from the client. Since the client purchases the interior design service from a separate entity, that service is not subject to tax.

8. Over a period of a few months, a designer shows a client various pieces of furniture for the client's living room. The client rejects many suggestions before finally making a selection of an item. The designer bills the client for the total time spent looking for the pieces.

All charges related to the sale of the furniture are taxable, including the charges for the time spent researching and showing the rejected pieces.

9. A designer starts showing the client samples of floor treatment in January of 2005 and continues showing more samples over a period of 18 months. In January of 2007 the client orders a number of rugs and the designer bills the client for the design service as well as the rugs.

The designer must collect the sales tax from the client on the amount received for the rugs and the design services provided starting in January of 2006. The design services provided before January 2006 are not subject to tax since they were not provided within a year of ordering the rugs.

Effective Date

The provision dealing with the one year limit is effective for design services provided on or after the date of publication.

JOHN H. MANSUN, Assistant Commissioner
for Tax Policy and External Relations
Publication Date: May 30, 2006