

m1 DEPARTMENT OF REVENUE


Sales and Use Tax for Retailers

Working together to fund the future for all of Minnesota | www.revenue.state.mn.us

Minnesota Business Tax Education October 2023

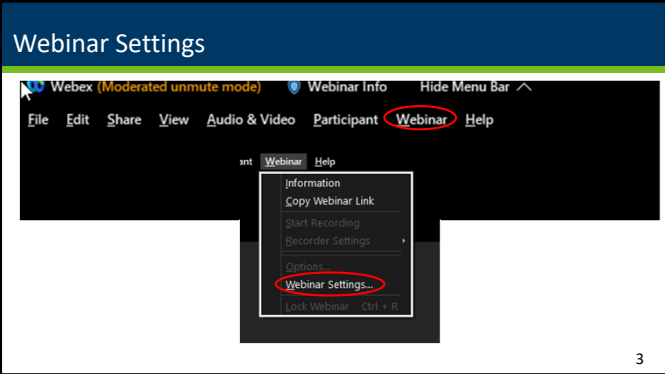
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About the Webinar



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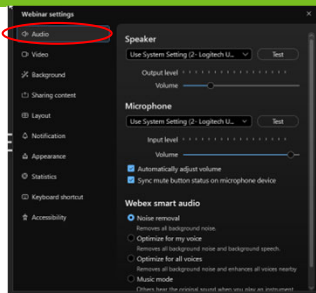
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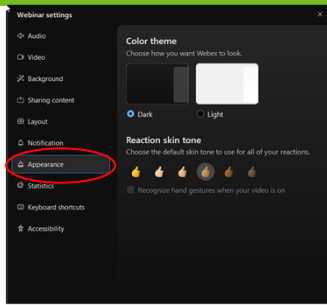
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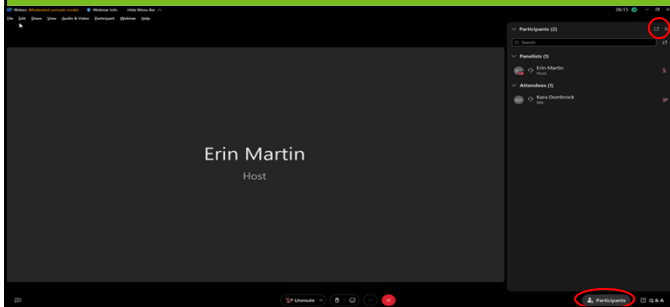
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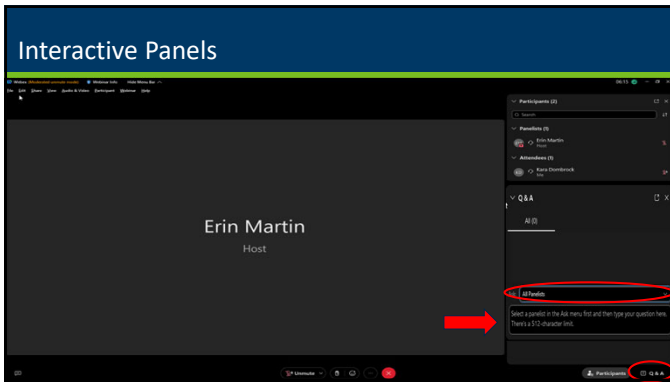
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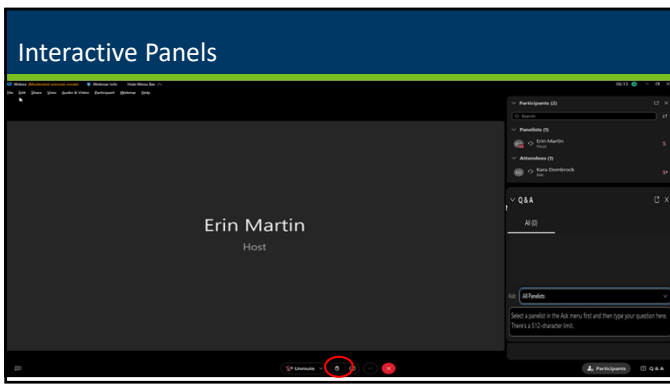
Interactive Panels



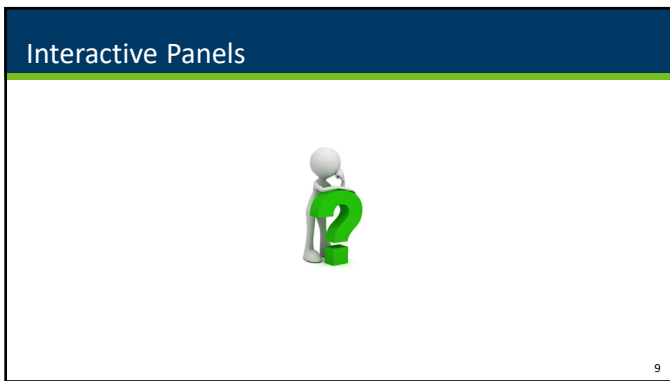
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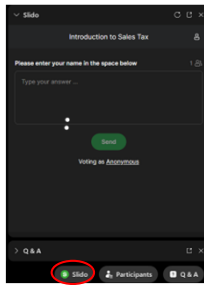


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Interactive Panels



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Disclaimer

This presentation is for educational purposes only and does not provide tax advice. It is meant to accompany an oral presentation and not to be used as a standalone document.

This presentation is based on the facts and circumstances being discussed, and on the laws in effect when it is presented. It does not supersede or alter any provisions of Minnesota laws, administrative rules, court cases, or revenue notices.

If you have any questions, contact us at salesuse.edu@state.mn.us, 651-296-6181, or 1-800-657-3777 (toll-free), or consult a tax professional.



Minnesota Business Tax Education Program

Providing education opportunities about Minnesota tax laws.

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Course Objectives

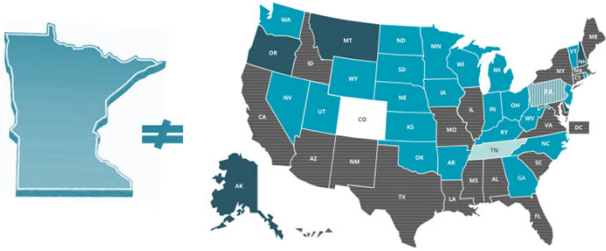
After completing this course retailers will be able to:

- Apply the basic sales and use tax concepts for Minnesota and its local taxing jurisdictions to their business.
- Recognize the exceptions to the rule and the exemptions available.
- Identify how to use and when to accept an exemption certificate.
- Distinguish how sales and use tax law applies to retail businesses.
- Use e-Services to file a sales and use tax return
- List several resources that answer their sales and use tax questions.

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Sales Tax Laws Are Not The Same In Every State



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Categories of Sales

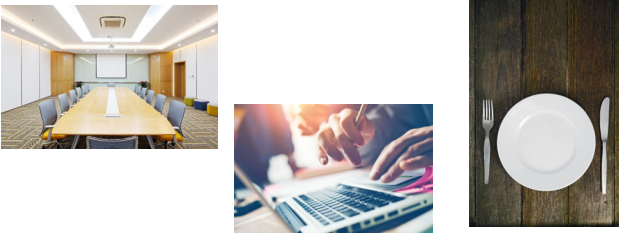


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Tangible Personal Property

Subject to sales and use tax unless an exemption applies



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Retailer vs Wholesaler

- Retailers sell goods or services to the final customer
- Wholesalers sell goods to a retailer



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Do I need to collect Minnesota sales tax?

Sellers must collect Minnesota sales tax on goods sourced to Minnesota, unless:

- An exemption applies, or
- They meet the small seller exception

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Sourcing of Transactions

Sourcing determines where the sale takes place and which taxes are imposed on the sale.

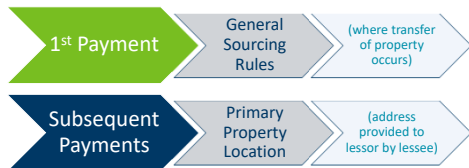
1. Seller's Address

2. Delivery Address

3. Billing Address

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Sourcing Rules for Leases or Rentals of TPP



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Remote Sellers

A **remote seller** is any business that sells products into a state without having a physical presence in that state.

Examples:

- Internet Sellers
- Mail order/catalog companies
- Sales over the telephone

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Small Seller Exception

The **Small Seller Exception** applies to remote sellers who do NOT meet either of the following thresholds in the previous 12 months:

- 200 or more retail sales shipped into Minnesota
- Retail sales shipped into Minnesota that total more than \$100,000

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Sales Tax Charged by the Seller

Sales tax applies to retail sales of:

- Most tangible personal property
- Some services
- Some digital products

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Use Tax

- Applies to taxable purchases when sales tax was not charged
- Complements sales tax
- Self-assessed
- Paid directly to the state

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What is the tax rate?



*Local taxes may apply

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Sales Tax is a Transaction Tax

Look at each transaction to determine its taxability



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Sales Tax is a Transaction Tax

ABC Retail Store	
111 Main St. St. Paul, MN 55106 Phone: 651-555-5555	
3/14/2020 11:37	
General Merchandise	
Candy	4.40 T
Coloring Book	1.99 T
Grocery	
Salsed Dressing	3.49 F
Coffee	13.18 F
2@6.59	
Meat	
Ground Beef	4.99 F
Subtotal	28.14
Tax on 6.48	0.51
Total	28.65

ABC Retail Store	
111 Main St. St. Paul, MN 55106 Phone: 651-555-5555	
3/14/2020 11:37	
General Merchandise	
Candy	4.40 T
Coloring Book	1.99 T
Grocery	
Salsed Dressing	3.49 N
Coffee	13.18 N
2@6.59	
Meat	
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Subtotal	28.14
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Total	28.65

ABC Retail Store	
111 Main St. St. Paul, MN 55106 Phone: 651-555-5555	
3/14/2020 11:37	
General Merchandise	
Candy	4.40 T
Coloring Book	1.99 T
Grocery	
Salsed Dressing	3.49 N
Coffee	13.18 N
2@6.59	
Meat	
Ground Beef	4.99 N
Subtotal	28.14
Tax on 6.48	0.51
Total	28.65

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Itemized Transactions

List taxable and nontaxable items on separate lines of an invoice.

- Car repair
 - repair labor is not taxable
 - parts are taxable
- Computer setup and repair
 - support services are not taxable
 - software or parts are taxable

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Bundled Transactions

Bundled transactions are two or more items included for one non-itemized price.

- Taxable when any of the included items are taxable.
- Bundles containing food are taxable if more than 50% of the items included are taxable.

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Taxable Sales

Sellers must collect Minnesota sales tax on goods they sell unless an exemption applies.

Examples of taxable sales:

- Equipment sales or rentals
- Office supplies
- Pet food and medications
- Protective equipment
- Sports equipment

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Sales Price

Sales price is the total of all charges that are part of the sale. If the item or service is taxable, these items are also taxable.

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Sales Price Includes

- All items required as a condition of the sale
- Delivery or handling charges
- Fabrication labor
- Installation charges
- Layaway fees
- Retail price of the product or service
- Service charges (trip charge, fuel surcharge, processing charges, etc.)
- Taxes that are the obligation of the seller

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Sales Price Does NOT Include

- Credit allowed for TPP taken in trade (trade-in allowance must be in-kind)
- Discounts or coupons
- Interest
- Finance charges
- Taxes legally imposed on the consumer, if separately state on the invoice

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Retailer's Coupon

Subtract the coupon from the price of the item, then apply sales tax.

Computer	\$400.00
Less coupon	<u>50.00</u>
Subtotal	350.00
Tax (6.875%)	<u>24.06</u>
Total due	\$374.06

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Manufacturer's Coupon

Apply sales tax to the price of the item, then subtract the coupon.

Computer	\$400.00
Tax (6.875%)	<u>27.50</u>
Subtotal	427.50
Less coupon	<u>50.00</u>
Total due	\$377.50

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Daily Deal Website Vouchers and Coupons

Discount vouchers and group coupons are purchased online and brought to the retailer for the discount.

- Purchase of a discount voucher is not taxable.
- If the item or service is taxable, charge sales tax when the voucher or coupon is redeemed.

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How are vouchers taxed?

Is the amount paid for the voucher known?	Charge Sales Tax on:
Yes	Tax amount paid for the discount voucher.
No	Tax the face value of the discount voucher.

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Voucher Example - Massage Services



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Voucher Example - Car Detailing Services



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Voucher Example - Candy



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Rewards Programs

Rewards programs are incentives to encourage customer loyalty. They include:

- Checks
- Coupons
- Discounts
- Points
- Rebates

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When is a rewards program considered a discount?

A reward is considered a discount when it:

- Is not purchased
- Is not provided in exchange for services
- Cannot be redeemed for cash
- Is not reimbursed by a third party

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Retailer Rewards

Retailer rewards are taxable if they:

- Require a customer to pay cash for the reward
- Require the customer to provide services in exchange for the reward
- Are reimbursed by a third party
- Can be redeemed for cash

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Rewards Program – Punch Card

Punch card at a coffeeshop

- For every purchase you get one punch
- 10 punches gets you a free drink
- No tax is due

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Rewards Program – Restaurant Loyalty Card

Loyalty card sold by a restaurant for \$50

- The customer gets 20% off purchases for a year
- Tax charged on full price of meal before discount is applied

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Rewards Program – Bookstore Loyalty Card

Loyalty card sold by a bookstore for \$20

- The customer gets 10% off purchases for a year
- Tax charged on full price of items sold before discount is applied

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Returns

- Refund purchase price and sales tax
- Amend sales and use tax return after refunding the amount to the customer

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Nontaxable Sales

Examples include:

- Clothing
- Food for human consumption
- Gift certificates and gift cards
- Items shipped out of state
- Prescription medications for humans
- Restocking fees

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Local Taxes

Local taxes are added to the state general sales tax rate to compute the total tax rate.

- City tax
- County tax
- Special local tax(es)
- Motor vehicle \$20 excise tax



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Local Sales Tax Information

- Local Sales and Use Tax Guide
- Local tax fact sheets
 - Fact Sheet 164M, Minneapolis Special Local Taxes
 - Fact Sheet 164S, Special Local Taxes
- New local taxes
- Tools to find tax rates

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Tools to Find Tax Rates

We offer a variety of tools including:

- Sales Tax Rate Calculator
- Sales Tax Rate Map
- Sales Tax API (Application Program Interface)
- Sales Tax Rate Spreadsheet
- Local Sales Tax Rate Guide
- Twin Cities Area Local Tax Rate Guide

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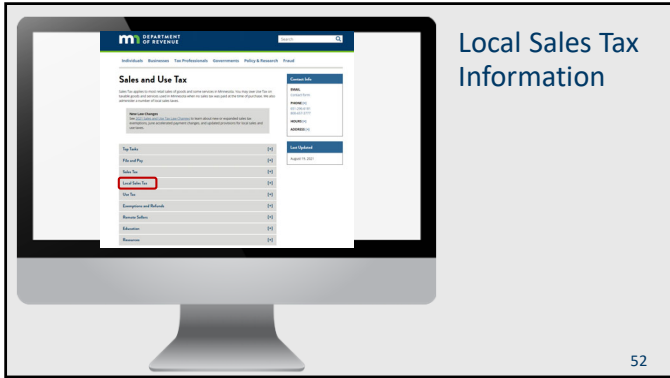
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The screenshot shows the Minnesota Department of Revenue website. The main heading is 'Sales and Use Tax Information'. Below this, there are sections for 'Businesses' and 'Key Dates'. The 'Businesses' section lists various tax-related services and links. The 'Key Dates' section provides information on important dates for businesses. A red box highlights a link in the 'Businesses' section.

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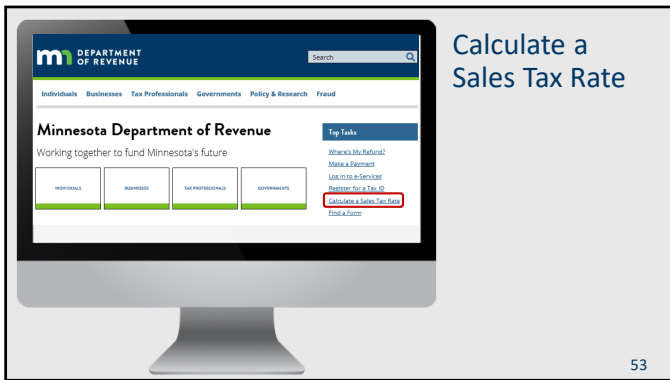
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Local Sales Tax Information

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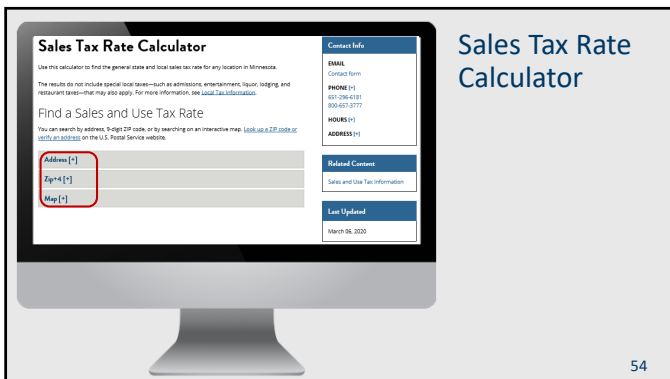
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Calculate a Sales Tax Rate

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Sales Tax Rate Calculator

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ZIP + 4 Option

- Results: The Sales Tax Rate for 55101-2228 is **7.875%** (Apr-Jun 2022).
- MN State = 6.875%; Ramsey County Transit = 0.500%; St. Paul = 0.500%.
- The Tax on \$2500 is **\$196.88**.

Zip+4 [-]

Enter a nine-digit ZIP code.

ZIP CODE*

55101 2228

EFFECTIVE PERIOD

Apr-Jun 2022

DOLLAR AMOUNT

2500

Submit

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Address Option

- Results: The Sales Tax rate for 600 N Robert St, St. Paul 55101-2228 is **7.875%** (Apr-Jun 2022).
- MN State = 6.875%; Ramsey County Transit = 0.500%; St. Paul = 0.500%.
- The Tax on \$2500 is **\$196.88**.

Address [-]

Enter an address.

ADDRESS*

600 N Robert St

ADDRESS 2

Apartment/Other

CITY*

St. Paul

STATE: MN

EFFECTIVE PERIOD

Apr-Jun 2022

DOLLAR AMOUNT

2500

Submit Print

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Find a Sales and Use Tax Rate

You can search by address, 9-digit ZIP code, or by searching on an interactive map. [Look verify an address](#) on the U.S. Postal Service website.

Address [+]

Zip+4 [+]

Map [-]

Select the sales tax location on [the Sales Tax Rate Map](#).

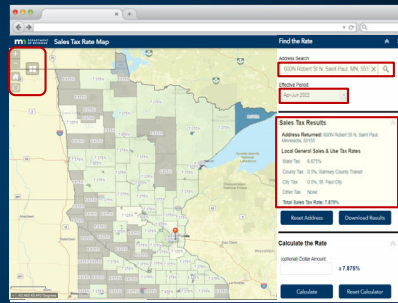
Map Option

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Map Option

- Address Search
600 Robert St N,
St. Paul 55101-2228
- Results
State Tax: 6.875%
County Tax: 0.5% Ramsey
County Transit
City Tax: 0.5% St. Paul City
Other Tax: None
Total Sales Tax Rate: 7.875%
(Apr-Jun 2022)

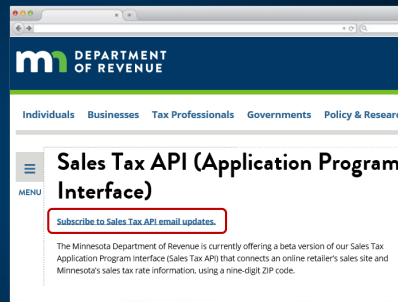


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Sales Tax API

(Application
Program Interface)



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Break Time

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Exemption Certificates

Sellers must collect Minnesota Sales Tax on taxable goods and services, unless they have a completed exemption certificate on file. Some reasons for exemption include:

- Agricultural production
- Capital equipment or industrial production
- Direct Pay Authorization
- Exempt entity
- Resale

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Sales Transactions

Three ways a sale may be exempt from sales and use tax:

Product-based exemption

Entity-based exemption

Use-based exemption

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Product-Based Exemptions

- Food (grocery items) for human consumption
- Clothing for general use
- Prescription and over-the-counter drugs for humans
- Publications sold by subscription

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Entity-Based Exemptions

- Federal government agencies
- Tribal governments
- State and local governments (exceptions apply)
- Exempt organizations

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Entity-Based Exemptions

- Paid for directly by the exempt entity
- The sales tax exemption for entity-based organizations does not apply to:
 - lodging
 - prepared food, candy, soft drinks or alcoholic beverages
 - purchases, leases, or rentals of most motor vehicles
 - waste collection and disposal services

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Use-Based Exemptions

- Advertising materials shipped out-of-state
- Inventory purchased for resale
- Items consumed in performing a taxable service
- Items used or consumed in agricultural production
- Materials used or consumed in the manufacturing process

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Authorization Letters and Permits

Businesses claiming these exemptions must complete an exemption certificate:

- Direct Pay
- Exempt Status (nonprofit exemption)
- Motor Carrier Direct Pay
- Resource Recovery Facility

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Authorized Exemption Certificates

- Form ST3, Certificate of Exemption
- Form F0003, Certificate of Exemption
- Uniform Sales and Use Tax Certificate
- Other state's exemption certificates*
- Self-prepared exemption certificate *

*If all required elements are included

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Required Elements for Exemption Certificates

The screenshot shows a tax exemption certificate form with several sections highlighted in red:

- Purchaser Name and Address:** The top section containing fields for name, address, city, state, and zip code.
- Purchaser's Minnesota Tax ID Number:** A field for the purchaser's tax ID number.
- Reason for Exemption:** A large section with multiple checkboxes for different exemption categories such as 'Agriculture products', 'Manufacturing', 'Wholesale trade', etc.
- Purchaser's Signature:** A field at the bottom for the purchaser's signature and date.

- Purchaser's name and address
- Purchaser's Minnesota tax ID number
- Purchaser's type of business
- Reason for exemption
- Purchaser's signature (if a paper certificate is used)

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Other Fields on the Exemption Certificate

m DEPARTMENT OF REVENUE
Form ST3, Certificate of Exemption

Buyer: Complete this certificate and give it to the seller.
Seller: If this certificate is not completed, you must charge sales tax. Keep this certificate as part of your records.
 This is a blanket certificate, unless one of the boxes below is checked. This certificate remains in force as long as the purchaser continues making purchases or until otherwise cancelled by the purchaser.

Check if this certificate is for a single purchase and enter the related invoice/purchase order # _____

If you are a contractor and have a purchasing agent agreement with an exempt organization, check the box to make purchases for a specific job. Enter the exempt entity name and specific project: _____

Exempt entity name	Product description
Name of purchaser ABC Retail	
Name address 123 Main Street	City: Paul State: MN ZIP code: 55101
Purchaser for purchase 1234567	State of purchase Minnesota
Buyer's name John Doe	Seller's name (use tax ID number) ABC Company
Name of purchaser when you are purchasing, selling or leasing ABC Wholesale Company	
Name address 987 First Avenue	City: Minneapolis State: MN ZIP code: 55404

- One-time exemption on a purchase
- Purchasing agent buying materials for an exempt job
- Seller's name and address

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Purchaser's Responsibilities

- Know if you qualify to claim an exemption
- Complete an exemption certificate
- Give it to the seller at the time of purchase
- Pay any use tax, penalty, or interest if used incorrectly

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Seller's Responsibilities

- Review all exemption certificates
- Keep exemption certificates as part of your business records
- Do not unlawfully solicit exemption certificates

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Review Your Invoices



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What should I look for?

- Review every invoice.
- Determine if items on the invoice are taxable.
- Look for taxable items purchased with an exemption certificate.
- Look for vendor changes.

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Recording Use Tax

- Always self assess the tax and remit it directly to the Department of Revenue.
- Never add use tax to a vendor payment
- Record the amount of use tax accrued on the actual invoice.

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Use Tax Basis

Use tax is based on your purchase price of taxable items or services. This is true whether you buy items:

- for your own business use without paying sales tax,
- take them out of inventory and use them in a taxable manner, or
- donate them to a charitable organization.

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Accruing Use Tax

Retailers owe use tax on items used in their business when sales tax was not charged, including:

- General items
- Retail equipment and supplies
- Taxable services
- Promotional items
- Utilities

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Exempt Items

Some items may be purchased exempt depending on their use, or they are exempt by law, including:

- Clothing for general use
- Nonreturnable packaging

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Variable Rate Credit

- Minnesota allows a credit for the amount of sales tax paid to another state
- Must be legally due to the other state to receive credit

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Calculating Variable Rate

1. Calculate the applicable amount of tax due (variable rate X sales price).

2. Enter the amount as variable rate use tax on your sales and use tax return.

Minnesota sales tax rate	6.875%
Wisconsin state and local sales tax	(5.500%)
Variable rate tax due to Minnesota	1.375%

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Recording Use Tax

- Record this information:
 - Date of purchase
 - Invoice number
 - Vendor's name and description of item
 - Taxable amount
 - Amount of state and local use taxes paid
- Keep a copy of the backup documentation.

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Recordkeeping Basics

Use a record-keeping system that:

- Incorporates Generally Accepted Accounting Principles (GAAP)
- Tracks the data you need
- Easy to maintain
- Works for your business

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Fundamentals of a Recordkeeping System

Make sure that you:

- Record each transaction the same
- Do not mix personal and business transactions
- Do not mix business records, if you have more than one business
- Use the appropriate accounting method (cash or accrual)

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Sales Tax Documents

You should retain sales tax documents that detail the following:

- Description of the item
- Sales price
- Where the item was sourced
- Any sales tax collected

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Accounting Methods

Cash Basis

- Record income when you receive payment
- Report sales tax when you receive payment
- Report use tax when you pay the invoice

Accrual Basis

- Record income when you make the sale
- Report sales tax when you make the sale
- Report use tax based on the invoice date

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Filing and Paying



You must do two things to avoid late filing and late payment penalties:

1. File your return by the due date.

2. Pay your sales and use tax liability on or before the due date.

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Filing Due Dates

Filing Frequency	Average Tax Liability	Due Date
Annual filers	Less than \$100 per month (less than \$1,200 per year)	February 5 of the following year
Quarterly filers	Less than \$500 per month (less than \$6,000 per year)	20th day of the month following the end of the quarter
Monthly filers	More than \$500 per month (more than \$6,000 per year)	20th day of the following month

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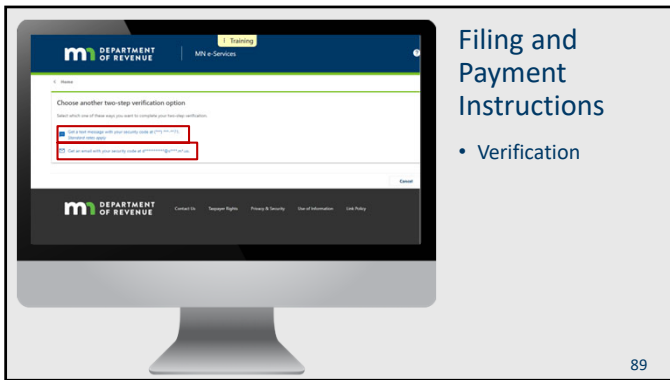


MN e-Services Filing and Payment Instructions

- Log In
- Registration

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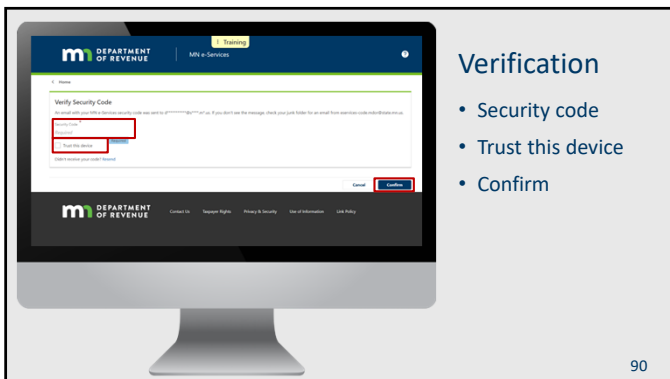


Filing and Payment Instructions

- Verification

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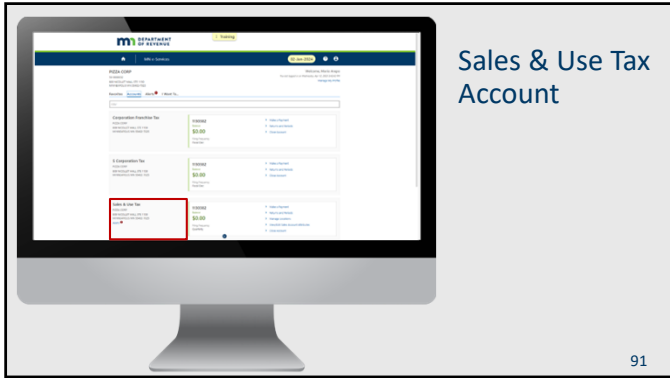


Verification

- Security code
- Trust this device
- Confirm

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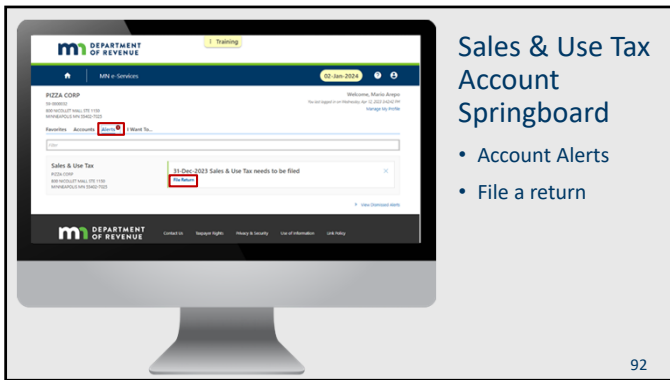
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Sales & Use Tax Account

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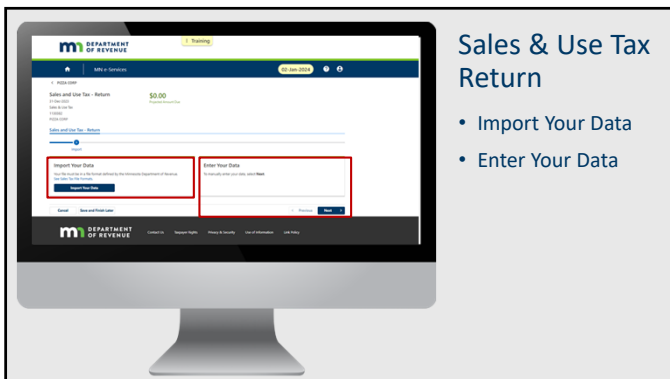


Sales & Use Tax Account Springboard

- Account Alerts
- File a return

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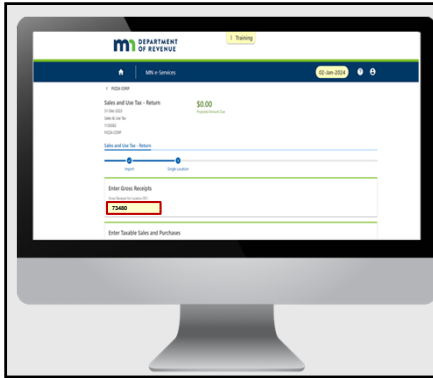


Sales & Use Tax Return

- Import Your Data
- Enter Your Data

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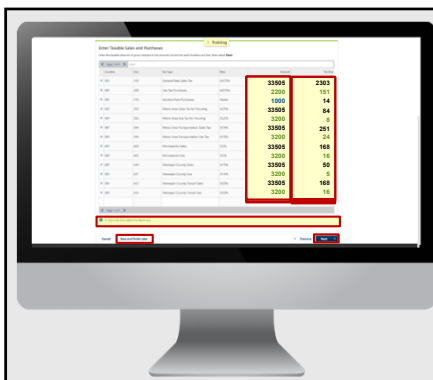


Sales & Use Tax Return

- Gross Receipts

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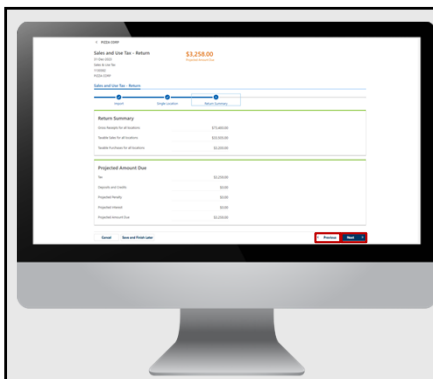


Sales & Use Tax Return

- Taxable sales
- Taxable purchases
- Variable rate purchases
- Purchases subject to local taxes
- Add a tax line
- Save and finish later

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Sales & Use Tax Return Summary

- Gross receipts
- Taxable sales
- Taxable purchases
- Projected amount due

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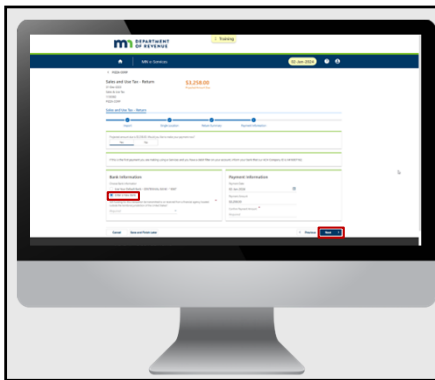
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Projected Amount Due

- Would you like to make your payment?

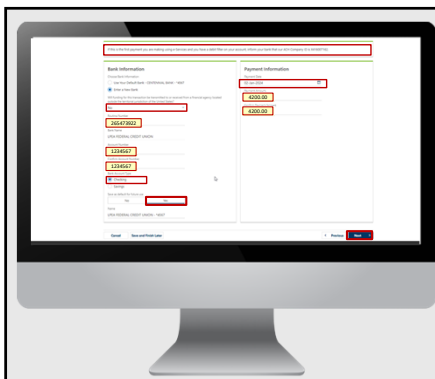
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New Bank Account

- Enter information for your new bank

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Payment Instructions

- Bank Information
- Payment Information

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Submission Summary

- Projected Amount Due
- Payment Information

Reported Amount Due	
Tax	\$3,258.00
Credits and Credits	\$0.00
Payment Penalty	\$0.00
Total Amount Due	\$3,258.00

Payment Information	
Total Amount Due	\$3,258.00
Payment Method	\$0.00

100

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Confirmation Screen

- Confirmation Summary
- Return Summary
- Payment Summary
- Review filing history
- Print or email return

Item	Amount	Status
Sales and Use Tax	\$3,258.00	Submitted

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Amending Returns

Common reasons for amending a return:

- Reported too much or not enough tax on your return
- Reported the tax on the wrong tax line
- Charged tax incorrectly to a customer and refunded the tax to the customer
- Received a completed exemption certificate from a customer for tax you paid and now refunded back to the customer



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Resources to Answer Your Questions

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Are you looking for additional resources?



Visit our website at revenue.state.mn.us

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Sales and Use Tax Contact Information

- Sales taxability questions
Email: salesuse.tech@state.mn.us
- Sales and Use Tax account questions
Email: salesuse.tax@state.mn.us
- Telephone assistance
Phone: 651-296-6181 or 1-800-657-3777 (toll free)



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Other Division Contact Information

- Business Income Taxes
 - 651-556-3075
 - Email: businessincome.tax@state.mn.us
- Withholding Tax
 - 651-282-9999 or 1-800-657-3594
 - Email: withholding.tax@state.mn.us
- Business Registration
 - 651-282-5225 or 1-800-657-3605
 - Email: Business.Registration@state.mn.us

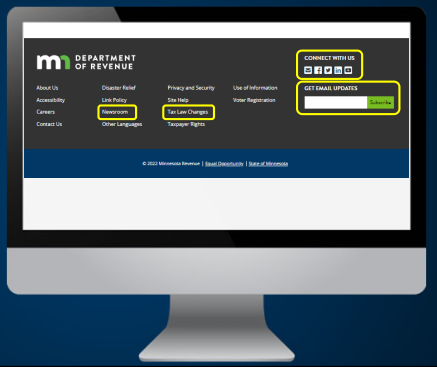


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Stay Informed

- Newsroom
- Tax Law Changes
- Social Networks
- Email Updates



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Email Updates with GovDelivery



- Choose the updates you want, by tax and publication type
- Choose notification frequency
- Sign in directly or use the Facebook or Google links



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Minnesota Revenue Social Media Accounts

Keep up with the latest news from the Minnesota Department of Revenue on:

 twitter.com/MNRevenue

 facebook.com/MNRevenue

 linkedin.com/company/MNRevenue

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Notification of Changes

It is your responsibility to ensure the following information is correct:

- Business location(s)
- Contact information
- Legal organization
- Mailing address(es)
- NAICS code
- Owners and/or officers

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Letters or Bills

Did you receive a letter or a bill from us?



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Late Filing and Late Payment Penalties

Days Late	Late Filing Penalty	Late Payment Penalty
1-30 days	5 percent	5 percent
31-60 days	5 percent	10 percent
60+ days	5 percent	15 percent

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Interest Rates



2023	5%
2021 – 2022	3%
2019 – 2020	5%
2017 – 2018	4%

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Course Review

During this class, we discussed ...

- The basic sales and use tax concepts for Minnesota and its local taxing jurisdictions.
- The difference between taxable goods and services and those that are nontaxable or exempt.
- The different types of users and how tax applies to retail businesses.
- How to use and when to accept an exemption certificate.
- The documentation necessary for sales and use tax records and returns.
- e-Services and how to file a sales and use tax return
- Where to find information to help you answer your questions.

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Thank you!

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