



Sales and Use Tax for Taxable Service Providers

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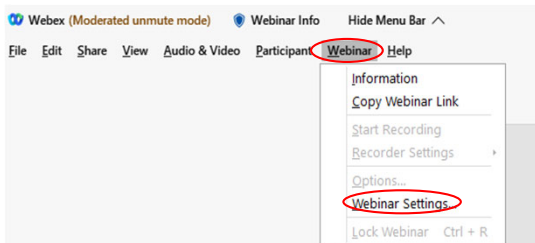
Minnesota Business Tax Education

November 2024

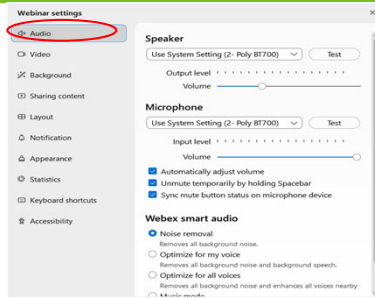
About the Webinar



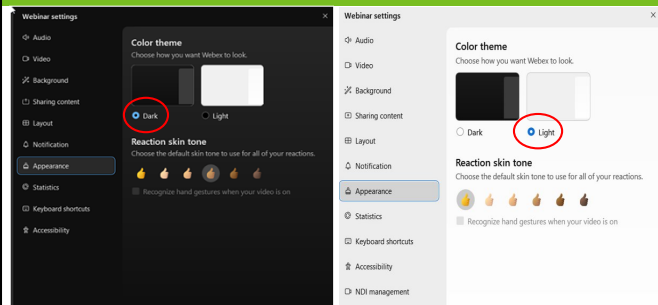
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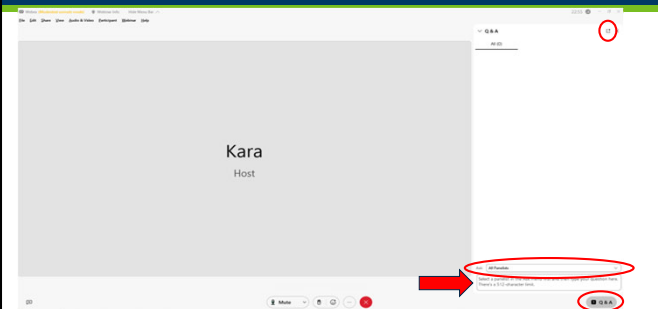
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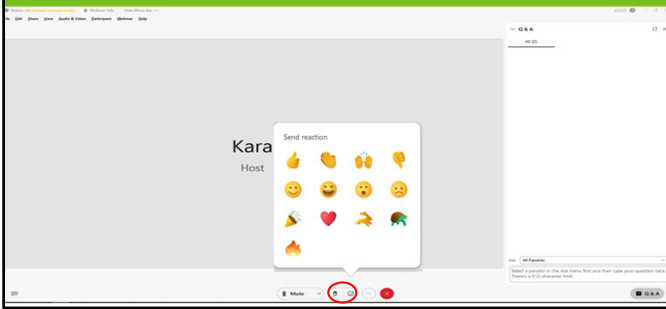
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Interactive Panels



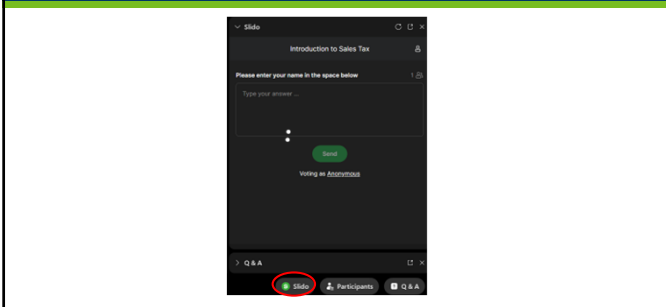
Interactive Panels



Interactive Panels



Interactive Panels



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).



Minnesota Business Tax Education Program
Providing education opportunities about Minnesota tax laws.

Course Description

This course covers how Minnesota Sales and Use Tax laws apply to businesses providing taxable services in Minnesota.

- What services are taxable?
- What items used in providing your service can you buy exempt from tax?
- What items do you use in your business that you need to pay sales or use tax on?

Building Cleaning and Maintenance Services



Detective and Security Services



Laundry and Dry-Cleaning Services



Lawn and Garden Maintenance Services Tree and Shrub Services

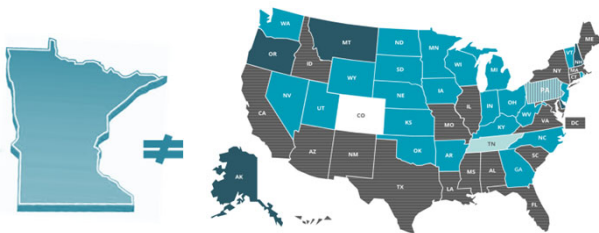


Course Objectives

After completing this course, you will be able to:

- Apply the basic sales and use tax concepts for Minnesota and its local taxing jurisdictions to your 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 various taxable services in Minnesota
- Use e-Services to file a sales and use tax return
- List several resources that answer your sales and use tax questions

Sales Tax Laws Are Not the Same in Every State



Categories of Sales



Taxability for Taxable Service Providers

Description	Taxable	Not Taxable
Sales of services identified in statutes	X	
Product sales	X	
Business assets and office supplies	X	
Machinery and equipment used in providing the service	X	
Reusable items	X	
Consumable materials used in providing taxable services		X
Short-lived detachable items		X

Services Performed for Resale



Services Performed by Employee or Related Entity

If separately stated on the invoice, these services are nontaxable:

- Services performed by employees for an employer
- Services provided by one business entity for another when one of the entities owns at least 80% of the other

Equipment Sales

Sales of equipment or other items used in your business are taxable unless an exemption applies.

*See Fact Sheet 132 – Isolated and Occasional Sales

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

Sourcing to Seller's Address



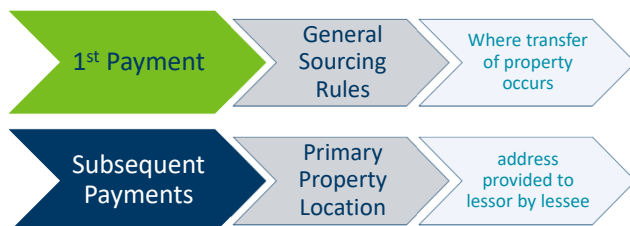
Sourcing to Delivery Address



Sourcing to Billing Address



Sourcing Rules for Leases or Rentals of TPP



What is the tax rate?



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 taxes
- Motor vehicle \$20 excise tax

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

Sales and Use Tax Information

- Businesses
- Business Taxes and Fees
- Sales and Use Tax

Local Sales Tax Information

Calculate a Sales Tax Rate

Map Option

Address Search

600 Robert St N,
St. Paul 55101-2228

Results

State Tax: 6.875%
Ramsey County Transit: 0.5%
St. Paul City: 1.5%
Metro Area Transportation: 0.75%
Metro Area Housing: 0.25%
Total Sales Tax Rate: 9.875%
(Apr-Jun 2024)

Tax	Rate
State Tax	6.875%
Ramsey County Transit	0.5%
St. Paul City	1.5%
Metro Area Transportation	0.75%
Metro Area Housing	0.25%
Total Sales Tax Rate	9.875%

Sales Tax Rate Spreadsheet

ZIP Code	Applicable Local Taxes	Rate 10/01/23
55005-0001	State, Anoka Transit, Metro Area Tax for Housing, Metro Area Transportation	8.125%

How to Use This Spreadsheet
We update this spreadsheet quarterly. Be sure to use the right version for the date of the sale or purchase to find the correct sales tax rate.

1. Enter a nine-digit ZIP code in the left column (above). Do not enter any dashes. You must use a valid, nine-digit ZIP code. Find a ZIP code based on mailing address (U.S. Postal Service website).
2. Press the Return key.
3. The tool will list the local taxes that apply and resulting tax rate.

Note: You may also need to add special local taxes to this rate; see below for details.

Sales Tax API

(Application
Program Interface)

SALES TAX API (Application Program Interface)

[Subscribe to Sales Tax API email updates.](#)

The Minnesota Department of Revenue is currently offering a beta version of our Sales Tax Application Program Interface (Sales Tax API) that connects an online retailer's sales site and Minnesota's sales tax rate information, using a nine-digit ZIP code.

Exempt Transactions

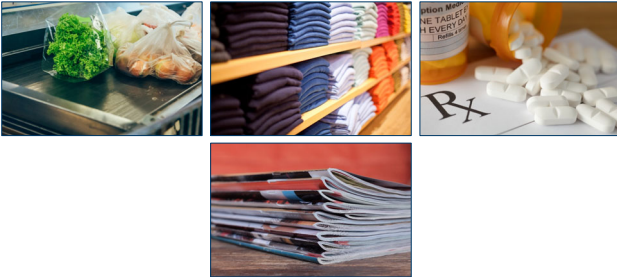
There are three ways for a sale to be exempt from sales and use tax:

Product-based exemption

Entity-based exemption

Use-based exemption

Product-Based Exemptions



Entity-Based Exemptions

- Federal government agencies
- Tribal governments
- Local governments (exceptions apply)
- Nonprofit organizations

Authorization Letters and Permits

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

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

Authorized Exemption Certificates

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

Exemption Certificate Requirements

Name of Purchaser Citri Clean																							
Address (Street, Apt. #, etc.) 409 415 Ave. SW		City Stow, Minnesota	State SD																				
Zip Code 56071-1307		Sales Tax ID 0000000000																					
Purchaser's Business Name ABC Wholesale																							
Business Address 123 First Avenue		City Minneapolis, MN	State SD																				
Zip Code 55404		Sales Tax ID 0000000000																					
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Signature of Purchaser: John Jones Date: April 1, 2021																							

- Purchaser's name and address
- Purchaser's Minnesota tax ID number
- Purchaser's type of business
- Reason for exemption
- Purchaser's signature (unless online order form or shopping cart)

Other Fields on the Exemption Certificate

DEPARTMENT OF REVENUE Form ST3, Certificate of Exemption			
Purchaser: 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.			
<input type="checkbox"/> Check if this certificate is for a single purchase and enter the related invoice/purchase order # _____ <input type="checkbox"/> If you are a contractor and have a purchasing agent agreement with an exempt organization, check the box to make purchases for a specific use. Enter the exempt entity name and specific project: _____ Exempt entity name: _____ Project description: _____			
Name of Purchaser Citri Clean		City Stow, Minnesota	
Address (Street, Apt. #, etc.) 409 415 Ave. SW		State SD	
Zip Code 56071-1307		Sales Tax ID 0000000000	
Purchaser's Business Name ABC Wholesale			
Business Address 123 First Avenue		City Minneapolis, MN	State SD
Zip Code 55404		Sales Tax ID 0000000000	

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

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, and/or interest if used incorrectly

Seller's Responsibilities

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



Building Cleaning and Maintenance Services

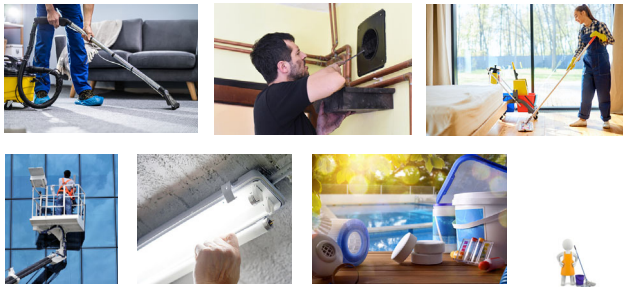
Cleaning and Maintenance Terms

Building cleaning and maintenance, disinfecting, and exterminating services are taxable.

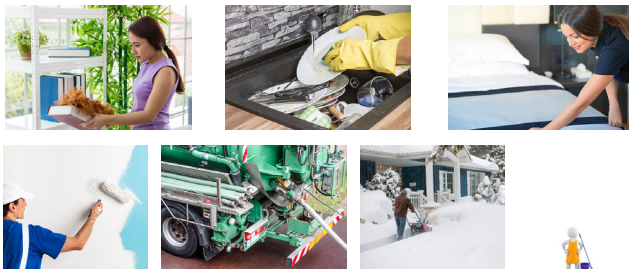
- Buildings and structures
- Cleaning and disinfecting
- Exterminating
- Maintenance
- Repair



Taxable Services



Nontaxable Services



Service Contracts

- Contracts for cleaning mechanical systems
- Contracts for repairing mechanical systems
- Home health care service contracts
- Combination contracts
- Lighting maintenance



Disinfecting, Exterminating, and Pest Control

Taxable services include:

- Disinfecting
- Eradicating
- Exterminating
- Fumigating
- Preventing infestation



Taxable Junk Removal Services

Taxable services include:

- Removal of household contents or discarded items
- Cleaning and removal of household waste
- Periodic cleaning
- Maintenance of the building



Nontaxable Junk Removal

Nontaxable services include:

- Waste management services*
- Curbside pickup of items placed by the property owner*
- Optional removal of appliances when replaced
- Charges for the removal of dumpsters or dumpster bags

* Note: These charges may be subject to Solid Waste Management Tax



Exempt Purchases - Consumable Materials

Examples include:

- Cleaners, disinfectants, degreasers
- Deodorizers
- Disposable rags, paper towels
- Garbage bags
- Pesticides
- Soaps, detergents, waxes, shampoos
- Window cleaner



Exempt Purchases - Separate Detachable Units

To qualify for the exemption, the item must meet all three requirements:

1. It must be used in providing a direct effect for a taxable service.
2. It must be an accessory or other item that attaches to a machine while in use.
3. Its ordinary useful life must be less than 12 months when used continuously in normal use by the taxable service provider.



Separate detachable units

Examples include:

- Abrasive and polishing belts
- Disposable vacuum bags, brushes, and filters
- Mop heads
- Polishing strips and buffers



Taxable Purchases

- General items
- Taxable services
- Equipment and tools
- Utilities





Detective and Security Services

Detective and Security Services

- Detective services
- Security services
- Armored car services
- Burglar alarm services
- Fire alarm services



Taxable Detective Services

- Investigating means to verify or confirm information through:
 - Surveillance
 - Interviews
 - Physical contacts
- Investigating does not mean to simply compile information available through public or other records.



Nontaxable Detective Services

- An employee for an employer
- An off-duty peace officer within the jurisdiction they normally serve
- An attorney during normal job duties
- A licensed insurance adjuster, collection agency, or finance company doing investigations related to the business of the agency or company
- A person obtaining and furnishing financial or credit information or information on the personal habits of applicants for insurance, indemnity bonds, or commercial credit



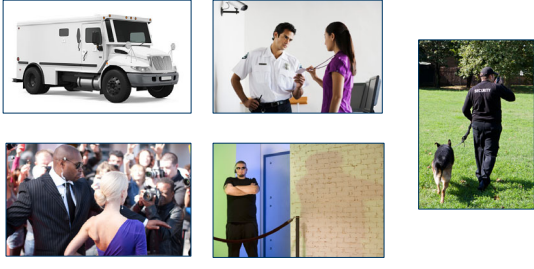
Taxable Security Services

Services provided by any person in the business of:

- Protecting property from
 - Theft
 - Vandalism
 - Destruction
- Protecting individuals from
 - Physical attack
 - Harassment



Examples of Taxable Security Services



Examples of Nontaxable Security Services

- Coat checks (without security duties)
- Document storage
- Fire extinguisher refilling, tagging and truck charges
- Shredding paper
- Traffic and parking control (unless for funeral processions or oversized loads on public roads)



Examples of Nontaxable Security Services

- Repair labor to restore a system to working order is not taxable
- Monitoring and electronic surveillance of persons placed on in-home detention if required by
 - a court order
 - the Minnesota Department of Corrections



Security Systems

Security System Installation	Installation taxable?	System components taxable to whom?	Monitoring taxable?
Incorporated into real property	No	Contractor	Yes
Remains TPP after installation	Yes	Customer	Yes



Exempt Purchases Used in Providing the Taxable Service

- Ammunition
- Audio and video tapes
- Batteries for communication equipment
- Deposition copies
- Film and film processing
- Guard dog food
- Lubricants and antifreeze for vehicles
- Mace and pepper spray
- Photocopies of documents
- Polygraph consumables
- Supplies used to prepare client reports



Taxable Purchases

- Equipment and machinery
- Furniture and general office supplies
- Lawn care services
- Linen and laundry services
- Office cleaning
- Specialty advertising materials
- Telephone service
- Training materials and supplies
- Utilities used for space heating or lighting





Laundry and Dry-Cleaning Services

Laundry and Dry-Cleaning Services



Taxable Laundry and Dry-Cleaning Services

- Dry cleaning and laundering of clothing
- Dyeing
- Pillow, pillow sham, and bedspread cleaning
- Pressing
- Smoke or water damage cleaning of clothing, linens, etc.
- Storage of clothing



Taxable Alterations, Repairing, and Storing of Clothing

- Altering clothing
- Embroidery or screen printing done on clothing provided by the customer
- Repairing or patching clothing
- Hat blocking
- Fur repairing and storing



Nontaxable Alterations and Repairs to Clothing

Alterations that are included in the purchase price:

- Seamstress' or tailor's charges for designing and/or sewing new clothing
- Custom-made shoes
- Embroidery or screen printing done on clothing before the sale
- Shoe repair, dyeing, stretching, and shining



Linen and Supply Service

- | | |
|---------------------------------------|-------------------------------|
| • Bed linens | • Gowns (hospital, lab, etc.) |
| • Coats and coveralls | • Safety gloves |
| • Dust control treated items | • Shirts |
| • Dust covers for tools and machinery | • Table linens |
| • Flame resistant clothing | • Towels |
| • Floor-mats and rugs | • Work clothes and uniforms |



Carpet, Drapery, Blind, and Upholstery Cleaning

Examples of taxable services include:

- Applying fabric protector
- Cleaning office panels and partitions
- Cleaning and deodorizing after fire, smoke, or water damage
- Cleaning and deodorizing upholstery
- Cleaning, deodorizing, and pressing draperies
- Vacuuming, shampooing, and deodorizing carpets
- Washing venetian blinds



Nontaxable Services – Diaper Service

Diaper services are not taxable if the charge is separately stated on the customer's invoice.



Exempt Purchases - Consumables

- | | |
|---|--|
| • Claim checks, laundry tags, hangers, and plastic bags | • Marking pens and tags |
| • Detergents, fabric softeners, and starch | • Mat compounds |
| • Dry cleaning chemicals | • Safety pins |
| • Disinfectants | • Soaps, solvents, and spotting compounds |
| • Dye | • Utilities to operate machinery |
| • Fire and water repellents | • Water used in providing taxable services |



Exempt Purchases - Resale

Items supplied to customers as part of a supply service include:

- Carpet mats
- Mop heads
- Table linens
- Towels



Exempt Purchases - Separate Detachable Units

Examples of separate detachable units:

- Buffer pads
- Mop heads
- Polishing belts and strips
- Sewing machine needles
- Disposable vacuum filters, bags, and belts



Taxable Purchases

- | | |
|-------------------------|----------------------|
| • Delivery vehicles | • Sewing machines |
| • Dry-cleaning machines | • Sorting bins |
| • Garment racks | • Steamers |
| • Irons | • Washers and dryers |
| • Pressing tables | |



Special Fees

Example:

Dry cleaning	\$50.00
Environmental Fee	+ 2.00
Subtotal	52.00
Tax (6.875%)	<u>3.58</u>
Total due	\$55.58



Include taxes and fees imposed on the service provider in sales price, then calculate sales tax.





Lawn and Garden Maintenance, Tree and Shrub Services

Lawn and Garden Maintenance Services

- Lawn care services
- Gardening services
- Other taxable services



Taxable Lawn Care Services



Taxable Gardening Services

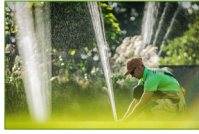
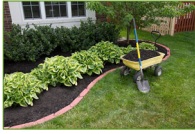


Other Taxable Services

- Cutting and/or arranging flowers
- Indoor and outdoor decorating when the items are provided by the decorator
- Indoor plant care
- Leasing or renting indoor plants
- Selling firewood for recreational or commercial use



Nontaxable Services – Improvements to Real Property



Miscellaneous Nontaxable Services



Cemetery Maintenance



Tree and Shrub Services

- Taxable services
- Nontaxable services
- Utility lines
- Land-clearing contracts



Taxable Services



Nontaxable Services

- Moving trees or shrubs from one location to another
- Optional disposal of brush
- Planting trees, bushes, or shrubs
- Stump removal services purchased for construction or maintenance of roads, trails, or firebreaks



Land-Clearing Contracts



Exempt Purchases

- Fertilizers
- Flowers, garden seeds, or plants
- Fuels and lubricants for equipment
- Grass seed for taxable reseeding
- Pesticides and insecticides
- Plants for indoor plant care
- Potting soil and disposable pots
- Steel-toed boots
- Work gloves (for general use)
- Weed killers



Exempt Purchases – Separate Detachable Units

- Chain saw blades
- Lawn mower blades
- Trimmer wire or line



Vehicles



Taxable Purchases



What is Use Tax?

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

Review Your Invoices

- Determine if items on the invoice are taxable
- Look for taxable items purchased with an exemption certificate
- Look for vendor changes
- Watch for remote sellers that are not required to charge sales tax



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



Variable Rate Credit

What is a variable rate credit?

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

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	<u>(5.500%)</u>
Variable rate tax due to Minnesota	1.375%

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

Sales Documentation

You should retain sales documents that detail the following:

- Date of the transaction
- Description of the item or service
- Sales price
- Where the sale was sourced
- Any sales tax collected

Purchase Documentation

- Record this information:
 - Date of purchase
 - Invoice number
 - Vendor's name
 - Description of the item(s)
 - Taxable amount
 - Amount of state and local sales/use tax paid
- Keep a copy of the backup documentation

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)

*Minnesota Rule 8130.7501

Filing and Paying



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

1. File your return by the due date.

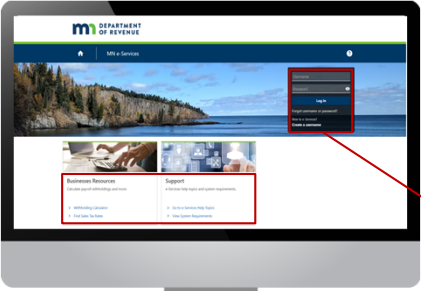
2. Pay your sales and use tax liability on or before the due date.

Filing Due Dates

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

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



MN e-Services

- Log In
- Forgot Username or Password?
- Create a Username

Training

MN e-Services

Filing and Payment Instructions

- Verification

Home

Choose another two-step verification option

Select which one of these ways you want to complete your two-step verification.

Get a text message with your security code at (763) 333-3773.
Standard rates apply.

Get an email with your security code at *****@mnr.state.mn.us.

Training

MN e-Services

Verification

- Security code
- Trust this device
- Confirm

Home

Verify Security Code

An email with your MN e-Services security code was sent to *****@mnr.state.mn.us. If you don't see the message, check your junk folder for an email from services-codes@mnr.state.mn.us.

Security Code

Original

Trust This Device

Didn't receive your code? Resend

MN e-Services

Account Information

- Accounts
- Alerts
- I Want To ...
 - Tax Accounts
 - Contact information
 - Customer Contacts

CITRI CLEAN

481-5288822

400 4TH AVE SW

MINNEAPOLIS MN 55417-1307

Welcome, Molly Winkelman

You last logged in on Tuesday, Mar 16, 2017 12:04 PM

Manage My Profile

Accounts Alerts I Want To ...

S Corporation Tax

33000001

Balance

\$0.00

Make a Payment

Review and Revoke

Close Account

Sales & Use Tax

33000001

Balance

\$0.00

Make a Payment

Review and Revoke

Manage Locations

View/Get Sales Account Attributes

Close Account

39

Amending Returns

Common reasons to amend 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





Resources to Answer Your Questions

Are you looking for additional resources?



Visit our website at revenue.state.mn.us

References

Industry Guides	Fact Sheets
Minnesota Sales and Use Tax Business Guide	102A – Food and Food Ingredients
Agricultural and Farming Guide	103 – Capital Equipment
Contractors and Other Property Installers Guide	105 – Clothing
Local Sales and Use Tax Guide	117A – Drugs
Motor Vehicle Guide	132 – Isolated and Occasional Sales
Twin Cities Area Local Tax Rate Guide	133 – Advertising
	145 – Industrial Production
	146 – Use Tax for Businesses
	165 – Funeral Homes, Mortuaries, Crematories, and Cemeteries

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)



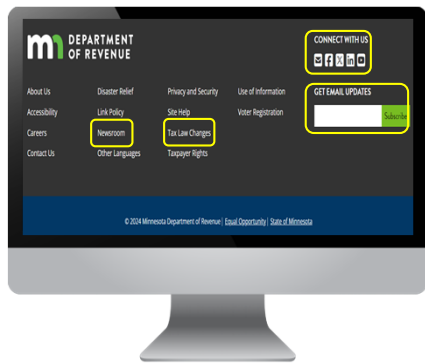
Other Division Contact Information

- 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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Course Review

During this class, we discussed how to ...

- Apply the basic sales and use tax concepts for Minnesota and its local taxing jurisdictions to your 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 various taxable services in Minnesota
- Use e-Services to file a sales and use tax return
- Find several resources that answer your sales and use tax questions

Thank you!

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