DEPARTMENT OF REVENUE

Sales and Use Tax for Cannabis Agricultural Production

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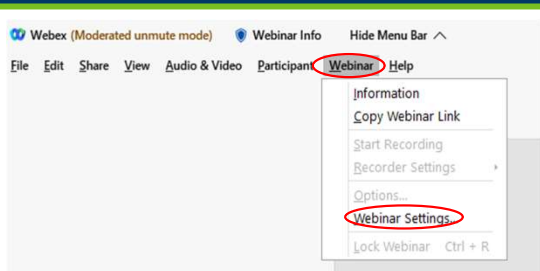
Minnesota Business Tax Education

August 2025

About the Webinar

Webinar Settings



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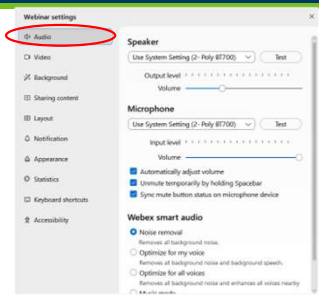

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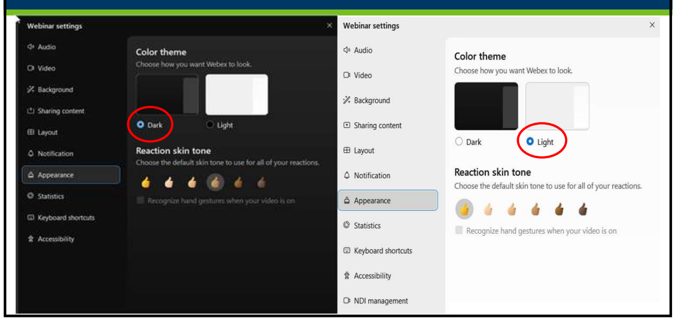
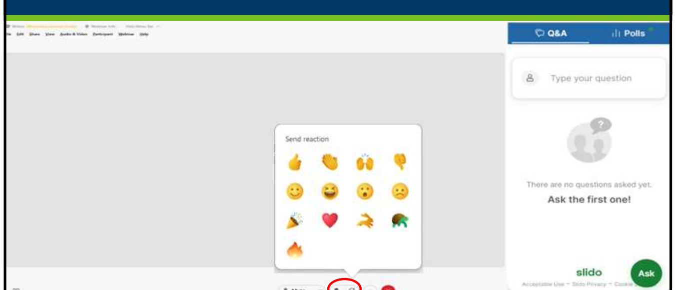
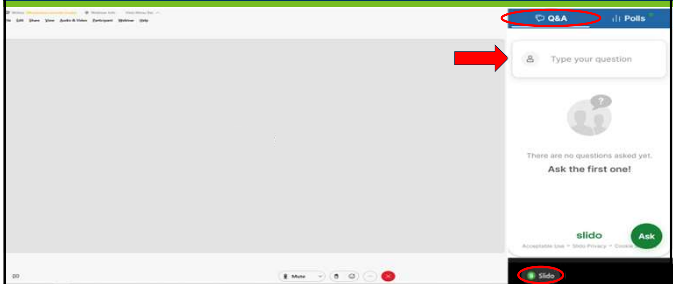


Interactive Panels



Interactive Panels



Interactive Panels

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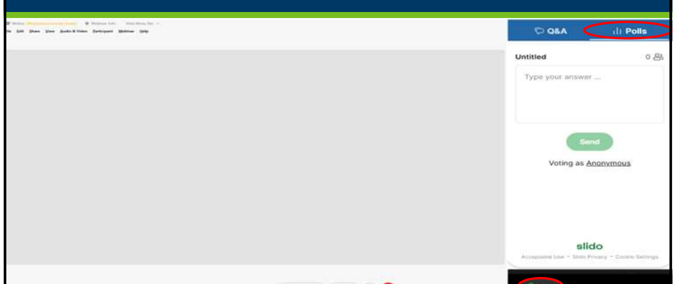


Disclaimer

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).

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 the agricultural production of cannabis.

The taxability of items and services depends on their exact use in each situation.

- What items are exempt?
- What items are taxable?

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
- Distinguish how Minnesota sales and use tax applies to cannabis production
- Identify how to use and when to accept an exemption certificate
- List several resources that answer your sales and use tax questions

Minnesota Office of Cannabis Management

For People Interested in Starting a Business:

- Social Equity Applicants
- Grant Programs
- Hosting Cannabis Events
- General Licenses
- Hemp-Derived Cannabinoid Products

What is agricultural production?

A series of activities that result in a product that will ultimately be sold at retail. The process

- **Begins** when you prepare the soil for planting crops.
- **Ends** when you place the crops into finished goods inventory.

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

1st Payment → General Sourcing Rules → Where transfer of property occurs

Subsequent Payments → Primary Property Location → address provided to lessor by lessee

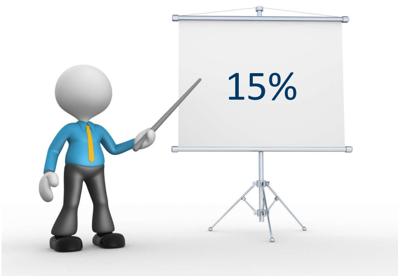
What is the tax rate?

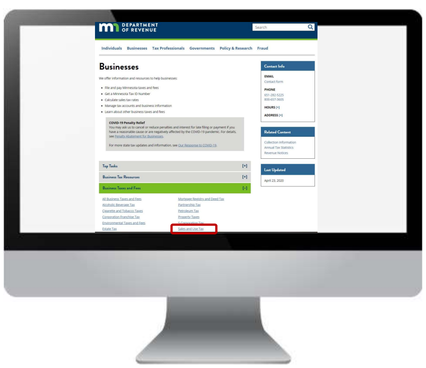
Local Taxes

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

Cannabis Tax





Sales and Use Tax Information

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 Publication
- Twin Cities Area Local Tax Rate Publication

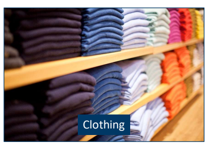
Exempt Transactions

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


Food and Food Ingredients


Clothing


Drugs


Printing Industry

Entity-Based Exemptions

- Federal government agencies (Federal Government Publication)
- Tribal governments (Tribal Governments and Members Publication)
- Minnesota government agencies (State Agencies Publication)
- Local governments (exceptions apply) (Local Government Publication)
- Nonprofit organizations (Nonprofit Organizations Publication)

Use-Based Exemptions

- Advertising materials shipped out of state (Advertising Publication)
- Inventory purchased for resale (Retailers and Wholesalers Publication)
- Items consumed in performing a taxable service
- Items used or consumed in agricultural production (Agriculture and Farming Publication)
- Materials used or consumed in the manufacturing process (Industrial Production Publication)

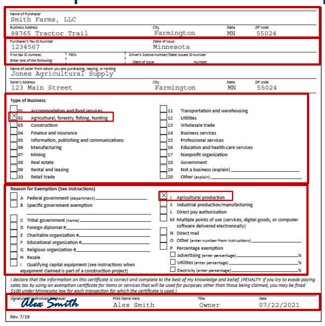
Authorization Letters and Permits

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

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
Smith Farms, LLC
Business Address: 98765 Tractor Trail | City: Farmington | State: MN | ZIP code: 55024
Purchaser's Tax ID Number: 1234567 | State of Issue: Minnesota
If no tax ID number, Enter one of the following: | FEIN | Driver's license number/State issued ID number | State of Issue | Number
Name of seller from whom you are purchasing, leasing, or renting
Jones Agricultural Supply
Seller's Address: 123 Main Street | City: Farmington | State: MN | ZIP code: 55024

Type of Business
- [ ] 01 Accommodation and food services
- [x] 02 Agricultural, forestry, fishing, hunting
- [ ] 03 Construction
- [ ] 04 Finance and insurance
- [ ] 05 Information, publishing and communications
- [ ] 06 Manufacturing
- [ ] 07 Mining
- [ ] 08 Real estate
- [ ] 09 Rental and leasing
- [ ] 10 Retail trade
- [ ] 11 Transportation and warehousing
- [ ] 12 Utilities
- [ ] 13 Wholesale trade
- [ ] 14 Business services
- [ ] 15 Professional services
- [ ] 16 Education and health-care services
- [ ] 17 Nonprofit organization
- [ ] 18 Government
- [ ] 19 Not a business (explain) ______
- [ ] 20 Other (explain) ______

Reason for Exemption (See Instructions)
- [ ] A Federal government (department) ______
- [ ] B Specific government exemption ______
- [ ] C Tribal government (name) ______
- [ ] D Foreign diplomat # ______
- [ ] E Charitable organization # ______
- [ ] F Educational organization # ______
- [ ] G Religious organization # ______
- [ ] H Resale
- [ ] I Qualifying capital equipment (see instructions when equipment claimed is part of a construction project)
- [x] J Agricultural production
- [ ] K Industrial production/manufacturing
- [ ] L Direct pay authorization
- [ ] M Multiple points of use (services, digital goods, or computer software delivered electronically)
- [ ] N Direct mail
- [ ] O Other (enter number from instructions) ______
- [ ] P Percentage exemption
  - [ ] Advertising (enter percentage) ______%
  - [ ] Utilities (enter percentage) ______%
  - [ ] Electricity (enter percentage) ______%

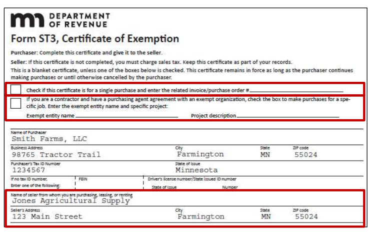
I declare that the information on this certificate is correct and complete to the best of my knowledge and belief. (PENALTY: If you try to evade paying sales tax by using an exemption certificate for items or services that will be used for purposes other than those being claimed, you may be fined $100 under Minnesota law for each transaction for which the certificate is used.)

Signature of Authorized Purchaser: Alex Smith | Print Name Here: Alex Smith | Title: Owner | Date: 07/22/2021

Rev. 7/19

- 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)

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.

- [ ] 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 ______ Project description ______

Name of Purchaser
Smith Farms, LLC
Business Address: 98765 Tractor Trail | City: Farmington | State: MN | ZIP code: 55024
Purchaser's Tax ID Number: 1234567 | State of Issue: Minnesota
If no tax ID number, Enter one of the following: | FEIN | Driver's license number/State issued ID number | State of Issue | Number
Name of seller from whom you are purchasing, leasing, or renting
Jones Agricultural Supply
Seller's Address: 123 Main Street | City: Farmington | State: MN | ZIP code: 55024

- 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

Sales

Examples of Sales

- Nontaxable sales
  - Agricultural product for resale
- Taxable sales
  - Sales to friends, family members, or employees
  - Waste product sales

Materials Consumed in Agricultural Production

Nontaxable Chemicals

You may buy chemicals exempt if they are used to:

- Fertilize cannabis plants,
- Clone cannabis plants, or
- Control weeds, disease, and/or insect infestation

Taxable Chemicals

You must pay tax on chemicals if they are used to:

- Control odor
- Control weeds and disease for home garden and lawn
- Control insect infestation for home garden and lawn
- Fertilize home garden and lawn

Nontaxable Utilities Used in Production

Fuel, electricity, gas, and steam are nontaxable when used for:

- Heating and cooling in the agricultural growing process
- Lighting for growing space
- Ventilating facilities where cannabis is grown
- Drying cannabis

Claiming the Utilities Exemption

Reason for Exemption (See Instructions)

- [ ] A Federal government (department) ____
- [ ] B Specific government exemption ____
- [ ] C Tribal government (name) ____
- [ ] D Foreign diplomat # ____
- [ ] E Charitable organization # ____
- [ ] F Educational organization # ____
- [ ] G Religious organization # ____
- [ ] H Resale
- [ ] I Qualifying capital equipment (see instructions when equipment claimed is part of a construction project)
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- [ ] N Direct mail
- [ ] O Other (enter number from instructions) ____
- [x] P Percentage exemption
  - [ ] Advertising (enter percentage) ____%
  - [ ] Utilities (enter percentage) ____%
  - [x] Electricity (enter percentage) 97%

I declare that the information on this certificate is correct and complete to the best of my knowledge and belief. (PENALTY: If you try to evade paying sales tax by using an exemption certificate for items or services that will be used for purposes other than those being claimed, you may be fined $100 under Minnesota law for each transaction for which the certificate is used.)

Signature of Authorized Purchaser	Print Name Here	Title	Date
Alex Smith	Alex Smith	Owner	July 31, 2021

Rev. 7/19

Utilities Used in Production Publication

Taxable Utilities

Electricity, fuels, and gas are taxable when used for:

- General space heating and lighting for buildings that are not used in cannabis production
- Illuminating a yard light

Packaging Materials

- Nonreturnable packaging materials are not taxable.
- Returnable containers used to package food products are not taxable.
- Returnable containers used to package non-food items are taxable.

Nontaxable Plants and Seeds

Plants and seeds used in agricultural production are not taxable.

- Cannabis plants
- Cannabis seeds

Taxable Tracking Equipment

Taxable purchases for mandated tracking production

- Plant Identification/Tracking Supplies
- Scanners
- Software

Waste Treatment

When treating waste generated as a result of the agricultural production process, there is an exemption for:

- Chemicals
- Materials
- Supplies

Machinery and Equipment

Overview of Equipment Purchases

Type of Equipment	Qualify for Exemption?
Qualifying “Farm Machinery”	Yes
Fencing	No
Hand Tools	No
Lawnmower	No

Rentals and Leases of Farm Machinery

If you rent or lease **farm machinery** to use in agricultural production

- Payments are not taxable
- Provide lessor with a completed exemption certificate

Farm Machinery Exemption

To qualify for the Farm Machinery Exemption, the item must be:

- New or used machinery, equipment, implements, accessories, or contrivances;
- Used directly in cannabis agricultural production; **and**
- Used 50% or more of its operating time in agricultural production of tangible personal property intended to be sold ultimately at retail

What does farm machinery include?

Farm machinery includes:

- Machinery for the preparation, seeding, or cultivation of soil for growing cannabis crops
- Irrigation equipment sold exclusively for agricultural use

Repair and Replacement Parts

Repair and replacement parts for farm machinery are exempt from tax, including:

- Genuine manufacturer's parts (OEM parts)
- Generic or aftermarket parts

Exception: Replacement tires for qualifying farm machinery are taxable.

Claiming The Farm Machinery Exemption

Reason for Exemption (See Instructions)

- ☐ A Federal government (department) ______
- ☐ B Specific government exemption ______
- ☐ C Tribal government (name) ______
- ☐ D Foreign diplomat # ______
- ☐ E Charitable organization # ______
- ☐ F Educational organization # ______
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- ☐ H Resale
- ☐ I Qualifying capital equipment (see instructions when equipment claimed is part of a construction project)
- ☐ J Agricultural production
- ☐ K Industrial production/manufacturing
- ☐ L Direct pay authorization
- ☐ M Multiple points of use (services, digital goods, or computer software delivered electronically)
- ☐ ~~N Direct mail~~
- ☒ O Other (enter number from instructions) #9 - Farm Machinery
- ☐ P Percentage exemption
  - ☐ Advertising (enter percentage) ______%
  - ☐ Utilities (enter percentage) ______%
  - ☐ Electricity (enter percentage) ______%

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Signature of Authorized Purchaser	Print Name Here	Title	Date
Alex Smith	Alex Smith	Owner	July 22, 2021

Rev. 7/19

Accessory Tools and Equipment

To be exempt, accessory tools and equipment must:

- Be separate detachable units,
- Produce a direct effect on the agricultural product, **and**
- Have a useful life of less than 12 months

Generators

Generators are exempt if they are used to generate electricity to:

- Operate farm machinery
- Provide light that is essential to agricultural production
- Provide space heating that is essential to agricultural production

Exempt Dryer Systems

Cannabis drying equipment used in agricultural production is exempt, including:

- Dryers
- Drying system components
- Similar types of equipment

Custom Farm Work

- Custom farm work performed for others is a nontaxable service. Examples include:
  - Custom combining
  - Harvesting
  - Planting
  - Spraying
- Machinery and equipment used to perform these nontaxable services qualify for the Farm Machinery Exemption.

Exempt Machinery

Crop Handling

Examples of exempt items include:

- Bucking machines
- Cultivators
- Harvesters, and
- Rototillers

Field Equipment – Planting, Cultivating, Harvesting

Examples of exempt items include:

- GPS Systems
- Planters
- Loaders and unloaders
- Tractors

Nursery and Greenhouse

Examples of exempt items include:

- Capillary water mats
- Flat and pot fillers
- Grow lights
- Soil mixers

Nursery and Greenhouse, cont.

More examples of exempt items include:

- Fans
- Heaters
- Water wands

Installation Into Real Property

Farm Machinery Installed Into Real Property

- Farm Machinery installed into real property qualifies for an exemption.
  - Feeding systems
  - Grain dryers
  - Irrigation equipment
- Repair and replacement parts for exempt equipment qualify for an exemption.
- Provide supplier with a completed exemption certificate.

Taxable Purchases

General Items

- Computer hardware and software
- Furniture and fixtures
- Office equipment and supplies
- Tree seedlings for windbreaks

Machinery and Equipment

- Lawnmowers
- Snow blowers
- Snowmobiles
- Tires
- Tools and shop equipment

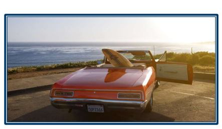
Taxable Services

- Building cleaning and maintenance
- Detective and security services
- Lawn and garden care

Taxable Services in Minnesota | Minnesota Department of Revenue

Miscellaneous Taxable Items

- All-terrain vehicles (ATVs)
- Drain tile
- Motor vehicles



Taxable Items Used in Agricultural Production

Taxable Items Use in Cannabis Production

Examples of taxable items include:

- Barns and pole barns
- Machine sheds
- Cellphones
- Radio equipment
- Telephone equipment

Equipment Not Used Directly and Principally in Production

Examples of taxable items include:

- Backhoes
- Electric pest controllers
- Service tank pumps
- Storage tanks
- Water well heaters

Fencing Materials

Examples of taxable items include:

- Fence posts
- Fencing materials
- Gate closers

Miscellaneous Equipment

Examples of taxable items include:

- Conveyors, carts, and trailers used in retail areas
- Drain tile
- Tarps (canvas, plastic, etc.)
- Watering cans

Safety Equipment

Examples of taxable items include:

- Gas masks
- Goggles
- Respirators

Shop Equipment

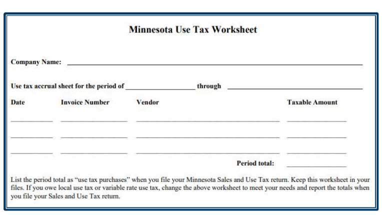
Examples of taxable items include:

- Fuel storage tanks
- Hoists
- Welding equipment

Tools

Examples of taxable items include:

- Hand tools
- Pitch forks
- Shovels and spades



Minnesota Use Tax Worksheet

Company Name: ______________________

Use tax accrual sheet for the period of __________ **through** __________

Date	Invoice Number	Vendor	Taxable Amount
		Period total:	

List the period total as "use tax purchases" when you file your Minnesota Sales and Use Tax return. Keep this worksheet in your files. If you owe local use tax or variable rate use tax, change the above worksheet to meet your needs and report the totals when you file your Sales and Use Tax return.

Use Tax

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

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

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.

Accruing Use Tax

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

- Administrative items
- Business equipment and supplies
- Taxable services
- Promotional items
- Utilities

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	(5.500%)
Variable rate tax due to Minnesota	1.375%

Recording Use Tax

- Record this information for each transaction:
  - Date of purchase
  - Invoice number
  - Vendor's name
  - Description of item
  - Taxable amount
  - Amount of sales and use tax paid
- Keep a copy of the backup documentation

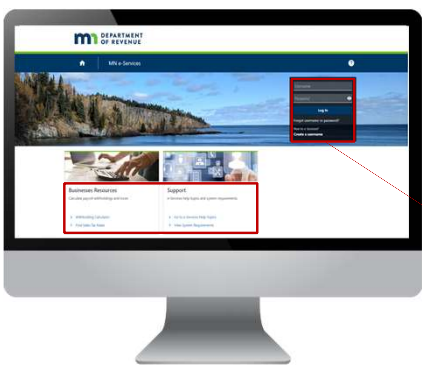
Recordkeeping Basics

Recordkeeping

Your records should include:

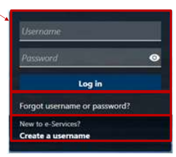
- Bills, receipts, invoices, cash-register tapes, and any other documents that support the entries in your books
- Exemption certificates
- Shipping documents
- Worksheets used to prepare your tax returns

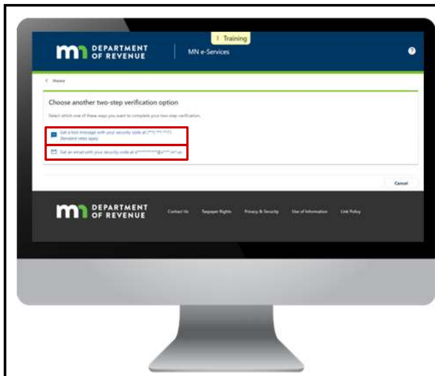
Filing and Payment Information



MN e-Services

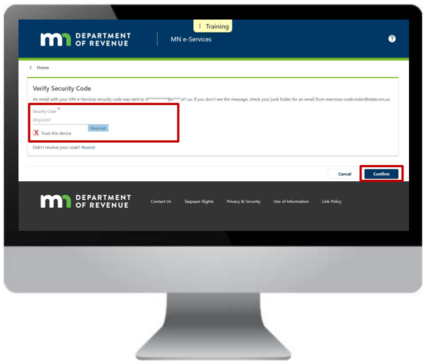
- Log In
- Forgot Username or Password?
- Create a Username





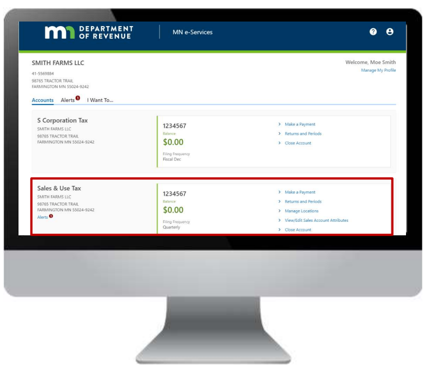
Verification Code

- Text
- Email



Verification

- Verification code
- Trust this device
- Confirm



Sales & Use Tax Account Hyperlink

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

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

Resources to Answer Your Questions

Are you looking for additional resources?

For general questions visit our website at revenue.state.mn.us

For cannabis specific questions visit the Minnesota Office of Cannabis Management

Sales and Use Tax Contact Information

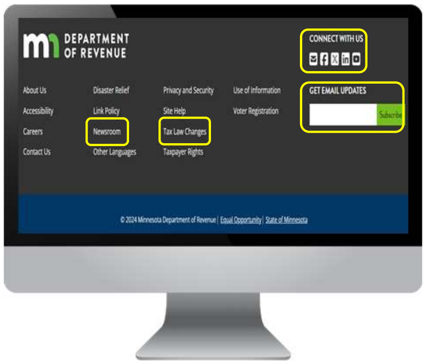
- Sales taxability questions
  Email: salesuse.tech@state.mn.us
- Sales and Use Tax account questions
  Email: salesuse.tax@state.mn.us
- Telephone assistance
  Phone: 651-296-6181 or 1-800-657-3777 (toll free)

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

Stay Informed

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



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

Minnesota Revenue Social Media Accounts

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

- x.com/MNrevenue
- facebook.com/MNrevenue
- linkedin.com/company/MNrevenue

Sales and Use Tax Education Classes

Cannabis related webinars:

- Sales and Use Tax for Cannabis Manufacturing
- Sales and Use Tax for Cannabis Retailers

Other helpful Webinars:

- Introduction to Sales and Uses Tax
- Sales and Use Tax for e-Services

Business Information Updates

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

Course Review

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
- Distinguish how Minnesota sales and use tax applies to hemp and cannabis production
- Identify how to use and when to accept an exemption certificate
- Find several resources that answer your sales and use tax questions

DEPARTMENT OF REVENUE
Minnesota Business Tax Education

Thank you!

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