



Sales and Use Tax for Cannabis Manufacturing

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 **DEPARTMENT OF REVENUE**
Minnesota Business Tax Education

August 2025

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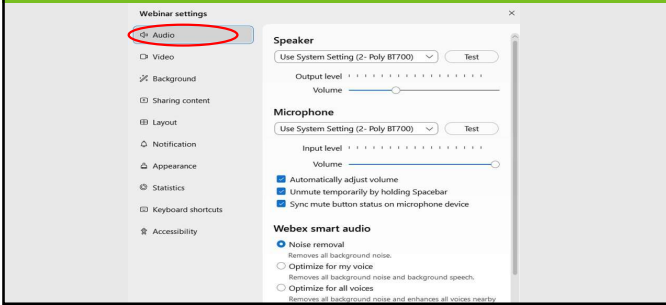
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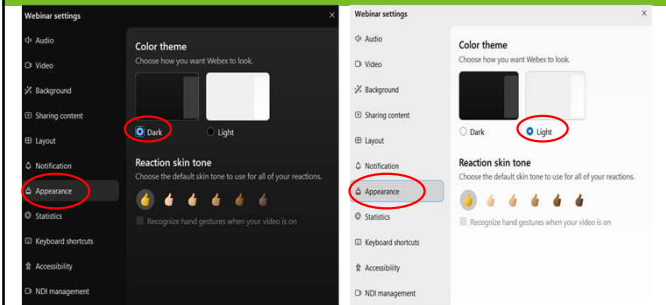
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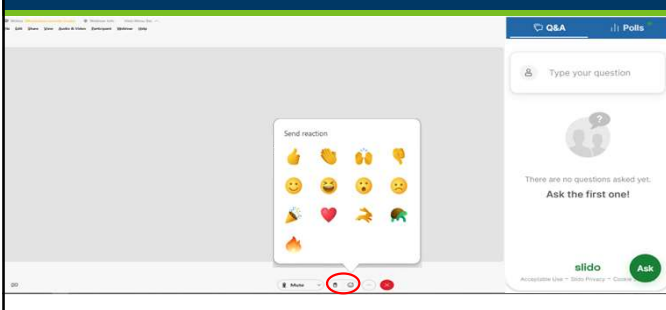
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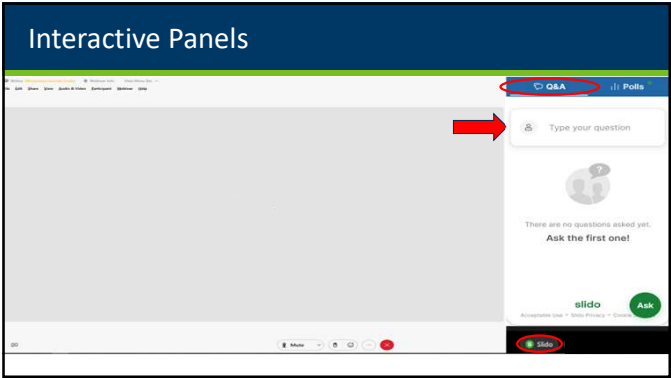


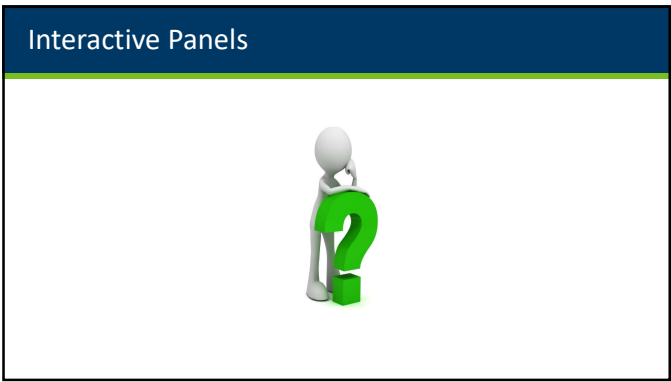
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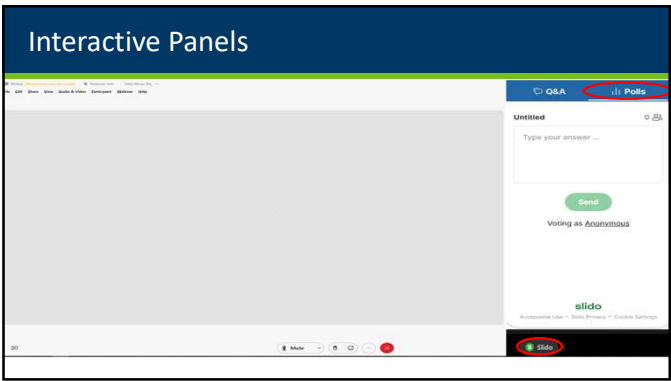


Interactive Panels









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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.

Introduction

This course is intended for businesses that make cannabis products intended to be sold ultimately at retail.

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

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

Course Objectives

As a result of this training, you will be able to:

- Apply basic sales and use tax concepts for Minnesota and its local taxing jurisdictions to your business
- Recognize the differences between the industrial production process and the integrated production process
- Distinguish how sales and use tax applies to cannabis manufacturing
- 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 sales tax?

- Tax charged by the seller
- Applies to retail sales of
 - Most tangible personal property
 - Some services
 - Some digital products
- Made in (or sourced to) Minnesota

What is Use Tax?

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

Sales and Use Tax is a Transaction Tax



Sales Tax = Transaction Tax

600 N. Robert St. St. Paul, MN 55101		Date: 10/2/2023
Item Description	Price	
Gallon 2% milk	4.00	N
24-pk soda pop	13.00	T
T-shirt	23.00	N
Subtotal: \$ 40.00		
8.875% Sales tax (on \$13.00):		1.15
Invoice Total: \$		41.15

(6.875% MN State, 0.5% Ramsey County Transit Tax, 0.5% St. Paul, 0.75% Metro Area Transportation, and 0.25% Metro Area Housing taxes)

What is the tax rate?



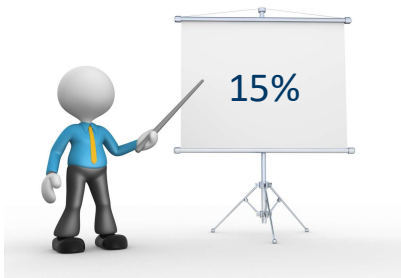
Local Taxes



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



Sourcing of Transactions

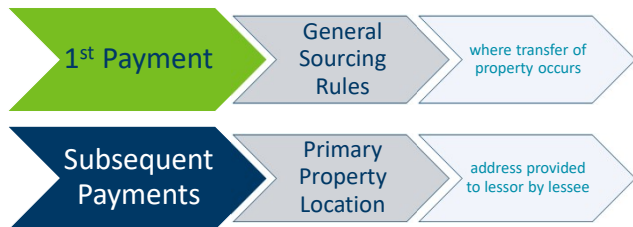
Sourcing determines where the sale takes place and which taxes are imposed on the sale.

1. Seller's Address

2. Delivery Address

3. Billing Address

Sourcing Rules for Leases or Rentals of TPP



Operating Lease vs. Capital Lease

Characteristics	Operating Lease (<i>Rental Agreement</i>)	Capital Lease (<i>Financing Agreement</i>)
What is being transferred?	<ul style="list-style-type: none"> Transfer of possession only; not title 	<ul style="list-style-type: none"> Transfer of title upon possession or at the end of the lease agreement
Who owns property at the end of the lease?	<ul style="list-style-type: none"> Lessor owns property but lessee generally has a nominal buy-out option 	<ul style="list-style-type: none"> The customer is required to buy the item at the end of the lease agreement
When is tax charged?	<ul style="list-style-type: none"> Sales tax applied to each lease payment 	<ul style="list-style-type: none"> Sales tax is due up front

When is Labor Taxed?

Types of Labor	Examples	Is it taxable?
Repair labor	<ul style="list-style-type: none"> Car repair Equipment repair Calibrating equipment Sharpening tools 	No (if separately stated)
Construction labor	<ul style="list-style-type: none"> Build an office building Kitchen remodel 	No
Fabrication labor	<ul style="list-style-type: none"> Custom sawing Bending sheet metal 	Yes
Installation labor	<ul style="list-style-type: none"> Computer equipment Modular furniture 	Yes

Labor – Installation, Fabrication, Construction, and Repair Publication

Are maintenance contracts for equipment taxed?

Types of contract	Is the contract taxable?
Optional maintenance contracts (bundled – one nonitemized price)	Yes
Optional maintenance contracts (unbundled – separate itemized prices)	No

How are extended warranty contracts taxed?

If the warranty states:	Then:
No cost to the customer for parts	The service provider pays sales or use tax on their cost of the parts
The customer is responsible for a percentage of parts and labor	The customer pays sales or use tax on the amount for parts only
The customer pays a deductible for parts or labor	The service provider pays sales or use tax on their cost of the parts. The deductible payment is not taxable.

Revenue Notice 16-03

Maintenance Agreements for Prewritten Software

Details of agreement	Taxability of agreement
Required by vendor	The entire charge is taxable
Includes only upgrades and/or enhancements	The entire charge is taxable
Optional and includes support services only	Not taxable
Optional and includes upgrades, enhancements, and support services	20% of the charge is taxable

The Industrial Production Process vs. The Integrated Production Process

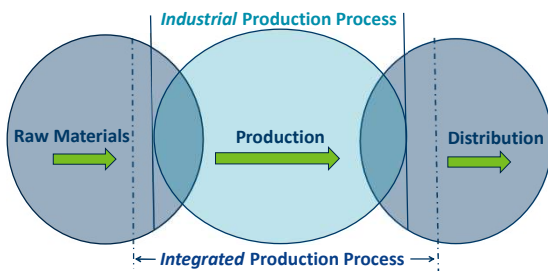
Industrial Production Process

- The process of taking raw materials out of inventory and creating a product intended to be sold ultimately at retail
- Items qualify for the Industrial Production Exemption

Integrated Production Process

- Involves a series of activities that result in making a product intended to be sold ultimately at retail
- Items qualify for the Capital Equipment Exemption

Production Flow



Research & Development (R & D)

- Items used or consumed in R & D activities
- Purchases of prototypes or materials used to make prototypes
- Machinery, equipment, and tools used primarily in R & D activities

Managing Raw Materials

- Taxable purchases include items used to:
 - Receive raw materials
 - Store or preserve raw materials before the production process begins
 - Facilitate loading, unloading, handling, transportation or storage of products before the manufacturing process begins
- Exempt purchases include:
 - Component parts and ingredients of a product (inventory)

Managing Raw Materials



Storage of Raw Materials



Where does the production activity begin?

The production activity begins with the removal of raw materials from inventory.

- This is true for both the:
 - Integrated production process
 - Industrial production process

What exemptions are available during production?

Exempt purchases include:

- Industrial production exemption (M.S. 297A.68, Subd. 2)
 - Items used or consumed in production
 - Utilities
 - Product packaging
 - Separate detachable units
- Capital equipment exemption (M.S. 297A.68, Subd. 5)
- Special tooling (M.S. 297A.68, Subd. 6)

Utilities

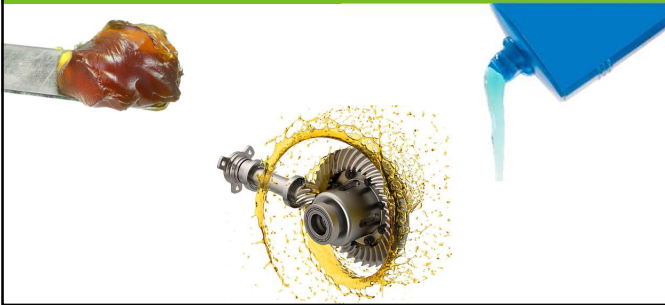


Utilities Used in Production Publication

Propane and Industrial Gases



Petroleum Products and Lubricants



Materials that Directly Affect the Product



Other Items Consumed in Production

- Chemicals used or consumed in production
- Materials used one time in production, not consumed, but discarded after one use

Separate Detachable Units

1. Accessory tool, equipment, or short-lived item that attaches to a machine while in use
2. Used in producing a direct effect on the product
3. Useful life is less than twelve months



Special Tooling Exemption

- Special tools have value and use only for the buyer and use for which they are made.
- Examples include custom-made dies, jigs, patterns, and gauges.
- Materials purchased to make your own special tooling are taxable because materials are not "special tools."

Capital Equipment Exemption

Exempt purchases include equipment and machinery that

- Are essential to producing the product
- Perform an indispensable phase/stage in production
- Are used in Minnesota
- Are used at least 50% of the time in production
- Produce a product ultimately sold at retail

Regulatory Equipment ≠ Essential Equipment

Capital Equipment ≠ Capital Assets

Storing Work-in-Progress



Industrial shelving used to store work-in-progress

Storing Work-in-Progress



Reusable items used for handling or moving materials through production

Quality Control and Product Testing



Disposable Lab Testing Supplies



Clothing Publication

Quality Control Equipment



Special Purpose Buildings

- A structure within the integrated production process
- Serve or perform a function essential to the production process, and
- Used in producing products intended to be sold ultimately at retail

Revenue Notice 97-04

Internal Product Packaging

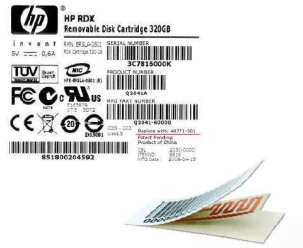
Nonreturnable packaging materials that

- Form or shape
- Protect
- Stabilize



Product Labels

- Product identification labels
- Expiration date labels



Where does the production process end?

Industrial Production Process vs. Integrated Production Process

- The process ends with the placement of the product in finished goods inventory.
- The process ends when the last process prior to loading for shipment has been completed.

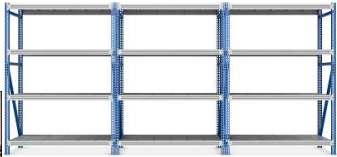
Finished Goods Inventory (or Warehousing)

Taxable Purchases

- Items used primarily to facilitate loading, unloading, handling, transportation, or storage of products after the manufacturing process ends.
- Fuel to operate the equipment after the industrial production process ends.



Finished Goods Storage



Maintaining Conditions for Finished Goods

Exempt purchases

- Equipment used to maintain conditions in finished goods

Taxable purchases

- Utilities used in the equipment that maintains the conditions in finished goods

Disposal of Waste Products

- Disposal of waste products is outside the production process.
- The equipment, machinery, and other items used to dispose of the scrap is taxable unless the scrap is:
 - Reused in the production process (i.e., "closed-loop system")
 - Used to make a different product that is ultimately sold at retail

Shipping and Distribution Exempt Purchases



Shipping and Distribution – Equipment and Supplies



Shipping and Distribution – Equipment and Supplies



Tool Room Operations

Exempt purchases

- Equipment, machinery, and tools used to construct, maintain, and repair qualifying capital equipment

Taxable purchases

- Items used or consumed in these activities do not qualify for the industrial production exemption

Tool Room Operations



Production Administrative Support

Taxable purchases include items used for:

- Internal product and production tracking (e.g. mandated tracking labels and mandated tracking equipment)
- Inventory management
- Production analysis

Protective and Safety Items

Taxable purchases include items used for:

- Protective equipment
- Clean room apparel and equipment
(reusable and disposable)



Protective and Safety Items - Examples



Fire Prevention and First Aid



Detective and Security Services Publication

General Heating, Cooling, and Lighting

Taxable purchases include utilities used to:

- Heat the manufacturing facility in the winter
- Cool the plant in the summer
- Provide overhead lighting on the production floor

Pollution Control, Prevention, and Abatement

Items that do not qualify for exemption include:

- Dust collections systems
- Emission control systems
- Welding ventilation systems

Waste Treatment

Exempt purchases

- Chemicals
- Materials
- Supplies

Taxable purchases

- Equipment
- Machinery

General Administrative Activities

Examples of administrative activities include:

- Customer service activities
- General office administration
- Managerial functions

Office Equipment



Building Cleaning and Maintenance

Taxable purchases:

- Chemicals and cleaning agents used to clean:
 - Production tools and equipment (except food processing equipment)
 - Areas around food processing equipment
 - Buildings and other structures
- Janitorial cleaning materials and services
- Materials used to construct or remodel real property

Cleaning Equipment



Communications

Taxable purchases:

- PA systems
- Telecommunications equipment and services
- Two-way radios

Sales Operations

Taxable purchases:

- Business cards
- Coffee mugs, key chains, and pens
- Order forms
- Point of sale displays

Security

Taxable purchases:

- Employee security services
- Plant security
- Security access equipment and badges
- Security system maintenance and monitoring

Use-based exemptions

The following are examples of **use-based** exemptions:

- Capital equipment
- Industrial production/manufacturing
- Utilities used in production

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

Required Elements for Exemption Certificates

- 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

- 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

Review Your Records



How far back can you request a refund?



How is the 3½ year statute of limitations calculated?

Type of tax paid	Calculation of 3½ year statute
Sales tax (paid to seller)	You have 3½ years from the 20th day of the month following the purchase invoice date .
Use tax (paid directly to state)	You have 3½ years from the original tax return due date .

[illegible][illegible]

- [illegible]

[illegible][illegible][illegible]

Items:

- 1 Sales or Use Tax.** sales tax is paid to your supplier, use tax is reported and paid by you on your Sales and Use Tax Return.
- 2 Month Paid.** for sales tax recorded the month and year your supplier receive payment, for use tax, record the month and year you remitted the tax to the Minnesota Department of Revenue.
- 3 Description of Use Tax of Replacement Equipment.** you must clearly state how the equipment or machinery being claimed is used, or for replacement equipment, you must state the type of purchase for which you are claiming the refund

Other Areas to Note:

- A** If the purchase involves a lease, you must still provide a copy of the lease with your request for refund and an invoice.
- B** The department reserves the right to request additional information as needed during the review of the refund request to verify the accuracy of the amount(s) claimed.

Amending a Return

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



How do you amend a return?

Number of periods	Process to file the amended return
One	Adjust your return in e-Services
Multiple	Send Form ST11-MPA with a worksheet detailing the adjustment for each period

Form ST11-MPA

- Multi-Period Amended Return
 - Sales tax paid in error on your returns
 - Sales tax due on your returns
 - Use tax paid in error on your returns
 - Use tax due on your returns
- Request for Sales and Use Tax Paid on Audited Periods
 - Date audit was paid
 - Was the audit paid in full?



Resources to Answer Your Questions

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)



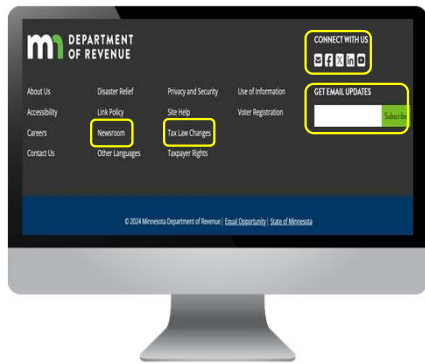
Other Division Contact Information

- 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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Sales and Use Tax Education Classes

Cannabis related webinars:

- Sales and Use Tax for Cannabis Agricultural Production
- Sales and Use Tax for Cannabis Retailers

Other helpful Webinars:

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

Business Information Updates

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

Equipment Commonly Taxed Incorrectly

Manufacturers often mistakenly claim the capital equipment exemption on these items:

- Access-required devices
- Cabinets and other storage items
- Regulatory-required equipment

Multi-Use Equipment Commonly Taxed Incorrectly

Manufacturers often mistakenly claim the capital equipment exemption on multi-use equipment.

- Computers
- Forklifts
- Hand tools



Repair Parts Commonly Taxed Incorrectly

Manufacturers often overlook claiming the capital equipment exemption for these items:

- Quality control equipment
- Repair parts
- Replacement parts

Materials consumed in production taxed incorrectly

Manufacturers often mistakenly claim the industrial production exemption on these multi-use items:

- Utilities
- Items purchased with an exemption certificate

Course Summary

During this course, we discussed...

- The basic sales and use tax concepts for Minnesota and its local taxing jurisdictions to your business
- The differences between the industrial production process and the integrated production process
- How sales and use tax applies to cannabis manufacturing
- How to use and when to accept an exemption certificate
- Several resources that answer your sales and use tax questions



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