




Sales and Use Tax for Manufacturers Webinar

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

 **DEPARTMENT OF REVENUE**
Minnesota Business Tax Education

March 2024

About the Webinar



Webinar Settings

Webex (Moderated unmute mode) Webinar Info Hide Menu Bar ^

File Edit Share View Audio & Video Participant Webinar Help

Information

Copy Webinar Link

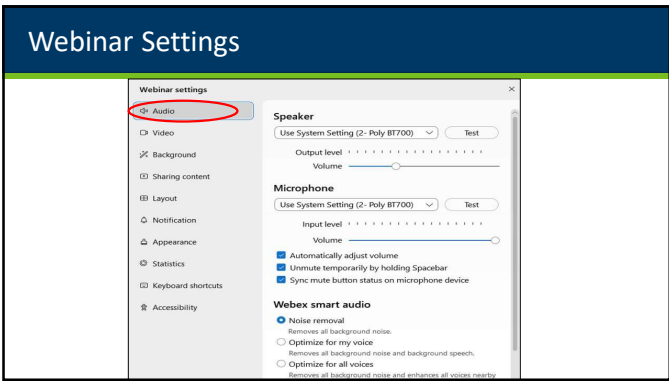
Start Recording

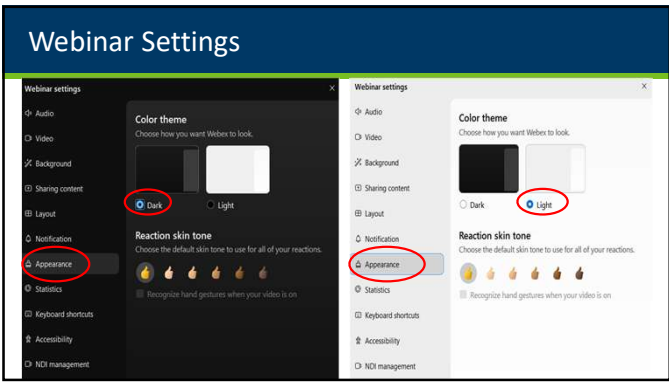
Recorder Settings ^

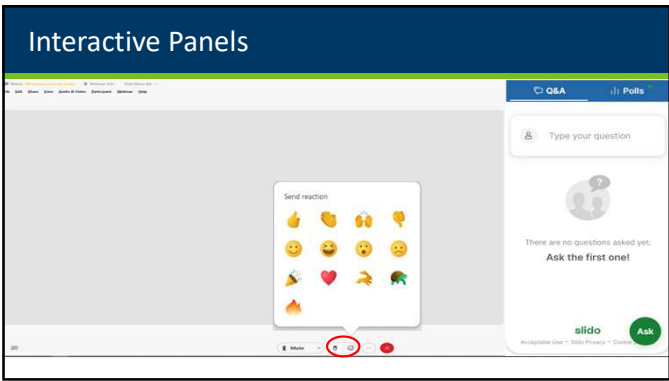
Options...

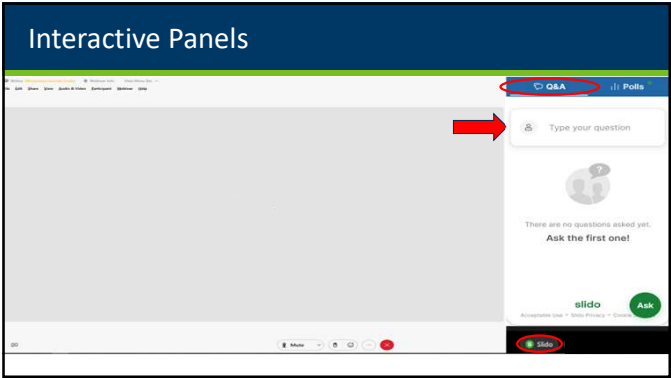
Webinar Settings...

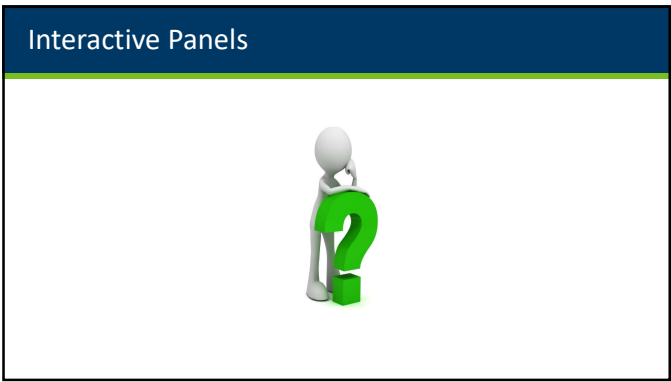
Lock Webinar Ctrl + R

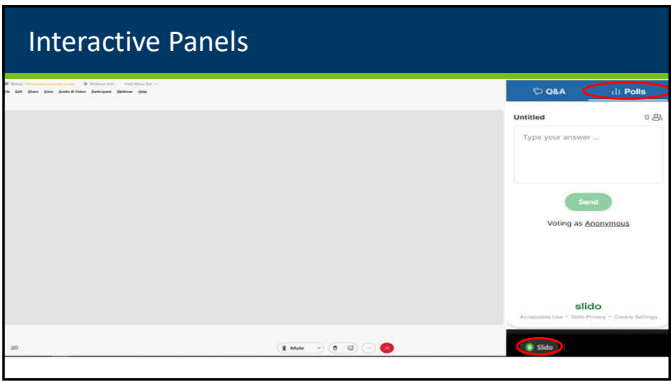












Disclaimer

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.

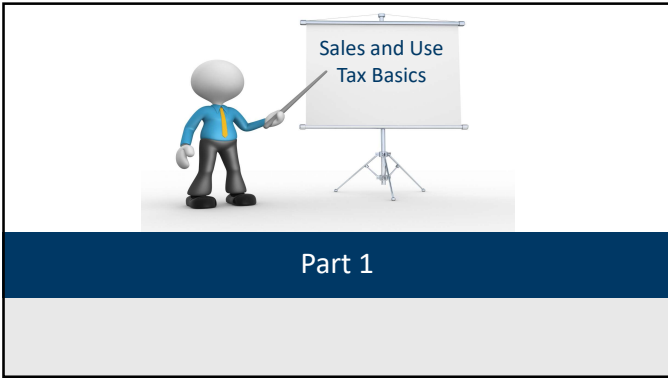
Introduction

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

Course Objectives

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

- Recognize when you owe sales or use tax
- Recognize the differences between the industrial production process and the integrated production process
- Identify the exemptions available to manufacturers
- Distinguish how the use of an item determines if it qualifies for an exemption
- Identify how to use and when to accept exemption certificates
- Identify when you have paid tax in error and how to get a refund
- List the resources available to help answer your sales and use tax questions



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?



Sourcing of Transactions

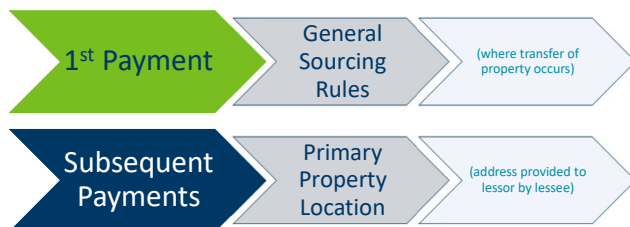
Sourcing determines where the sale takes place and which taxes are imposed on the sale.

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?	• Transfer of possession only; not title	• Transfer of title upon possession or at the end of the lease agreement
Who owns property at the end of the lease?	• Lessor owns property but lessee generally has a buy-out option	• The customer is required to buy the item at the end of the lease agreement
When is tax charged?	• Sales tax applied to each lease payment	• 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

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.

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 upgrades, enhancements, and support services	20% of the charge is taxable
Optional and includes support services only	Not taxable



Overview of Sales and Use Tax for Manufacturers

Part 2

Who qualifies for the industrial production exemption?

- Crafters
- Fabricators
- Miners
- Paper mills
- Refiners

The Industrial Production Process vs. The Integrated Production Process

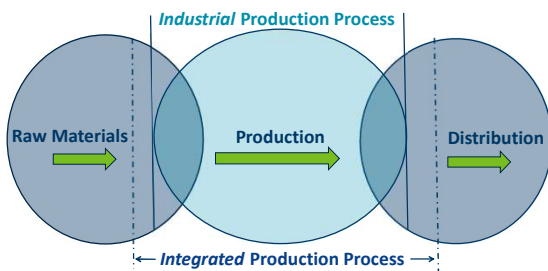
Industrial Production Process

- 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





Part 3

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



3D CAD Design Engineering Software



Consumable materials used to create your prototype on a 3D printer.

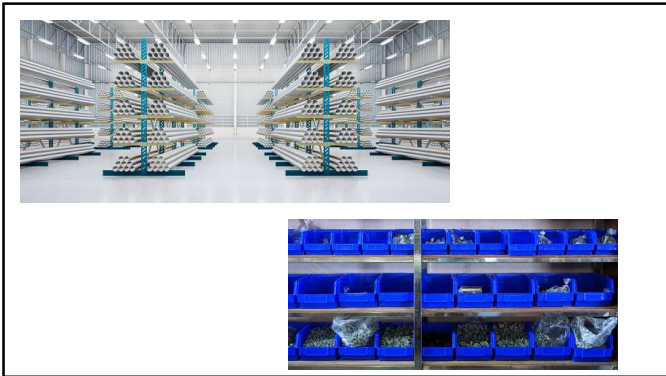
Something to think about ...

What items do you use in R&D activities that may qualify for an exemption?

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)



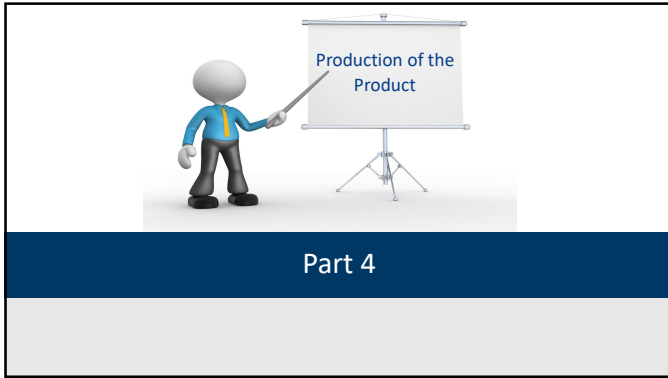


Something to think about ...

Do you have any items you use in raw materials inventory at your facility that may qualify for the capital equipment exemption?

Something to think about ...

Do you have items consumed in raw materials inventory that you should verify that you are not claiming the industrial production exemption?



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 and
 - 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)

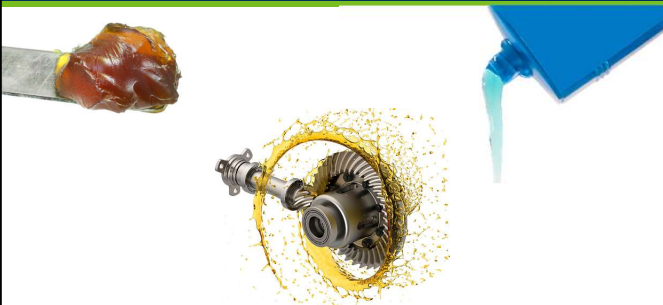
Utilities



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 for the original painting and cleaning of products
- 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."

Something to think about ...

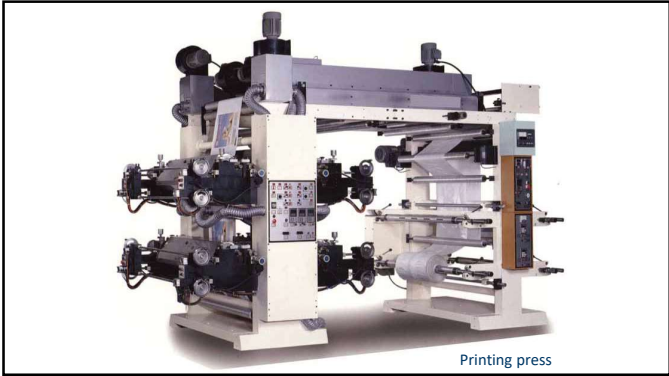
What equipment do you have that may qualify for the special tooling exemption?

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





Printing press



Laser cutter



Plastic injection molding machine



Metal lathe

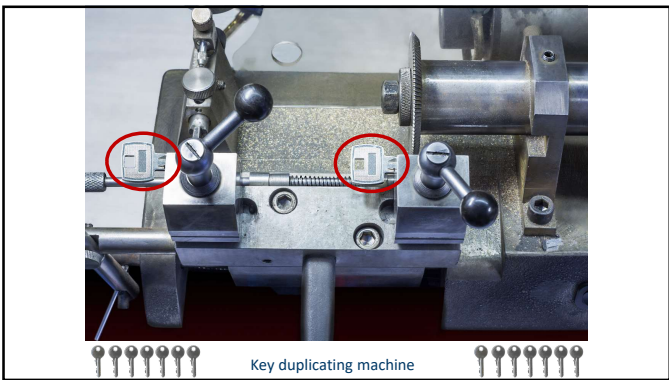


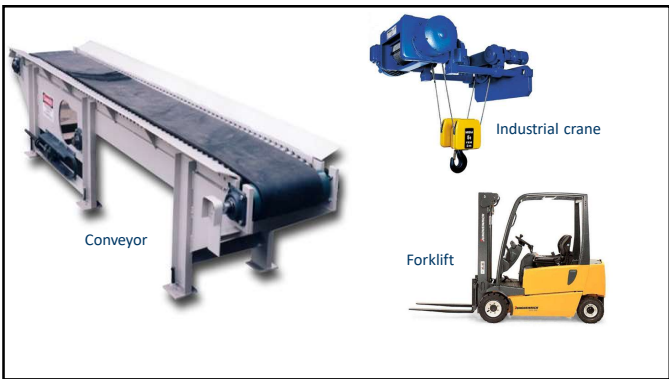
Turn-key line machine



Food processing equipment







What does not qualify as Capital Equipment?

Motor vehicles licensed for road use



except for



Ready-mixed concrete trucks



Air Purification System for the Textile Industry

Caution: Regulatory equipment that does not have a direct effect on the product is taxable.

Capital Equipment \neq 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

Something to think about ...

Do you have any items you use at your facility to store work-in-progress that may qualify for an exemption?

Outside Fabrication Labor

Outsourced fabrication services that are essential to producing a product may qualify for exemption if specific criteria are met.

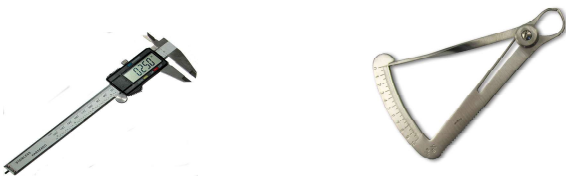
- Consumable and inventory items
- Equipment and machinery
- Special tooling

Something to think about ...

Does your company subcontract with another business to perform fabrication labor for you?

If you do, are there any items you can claim an exemption for that are used at their plant?

Quality Control and Product Testing



Calipers used to measure thickness of an item







Something to think about ...

Do you have any items used in quality control that may qualify for an exemption?

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





Paint booth

Internal Product Packaging

Nonreturnable packaging materials that

- Form or shape
- Protect
- Stabilize



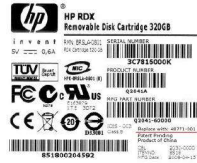
Product Information Materials

- Content lists
- Instruction sheets
- Material safety data sheets
- Owner's manuals
- Warranty cards



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.



Part 5

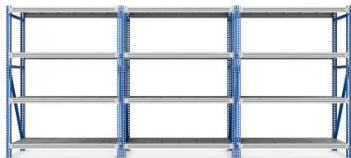
Finished Goods Inventory (or Warehousing)

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.



Industrial shelving used in finished goods inventory does NOT qualify.



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

Something to think about ...

Do you have any items used in finished goods inventory that may qualify for the capital equipment exemption?

Something to think about ...

Are there items consumed in finished goods inventory that you should verify that you are not claiming the industrial production exemption on?

Disposal of Scrap

- Disposal of scrap 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

Something to think about ...

Have you incorrectly claimed the capital equipment exemption on any equipment and machinery used to dispose of scrap and waste?

Something to think about ...

Are there any circumstances in your production process where equipment used to dispose of scrap qualifies for the capital equipment exemption?

Shipping and Distribution Exempt Purchases



Shipping and Distribution – Equipment and Supplies





Shipping and Distribution – Returnable Items

Taxable purchases include:

- Returnable containers and packaging
(except for food manufacturers)
 - Barrels and drums
 - Bottles
 - Boxes and cans
 - Gas cylinders and tanks
 - Sacks
- Returnable skids and pallets



Something to think about ...

Do you have any taxable product packaging?

Shipping and Distribution – Paper Products

Taxable purchases include:

- Address labels
- Invoices
- Packing slips
- Envelopes

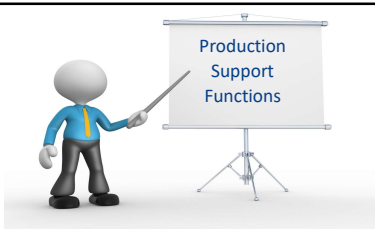


Shipping and Distribution – Warning Labels



Something to think about ...

Are there items you buy from your vendors without sales tax that are used in shipping and distribution that you need to accrue use tax on?



Part 6

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



Production Administrative Support

Taxable purchases include items used for:

- Internal product and production tracking
- Inventory management
- Production analysis

Protective and Safety Items

Taxable purchases include items used for:

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







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

Something to think about ...

Did you include general heating, cooling, and lighting in your utility exemption percentage?

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

Something to think about ...

Are there items consumed in treating waste that you should verify that you are claiming the industrial production exemption?



Part 7

General Administrative Activities

Examples of administrative activities include:

- Customer service activities
- General office administration
- Managerial functions



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



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



Part 8

Do you need an exemption certificate?

All sales of tangible personal property and taxable services are taxable unless:

- The item is exempt by Minnesota Statutes, or
- The purchaser provides the seller with a completed exemption certificate

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

The screenshot shows a Minnesota Form ST3 (Certificate of Exemption) for Bluth Company. Red boxes highlight the following required elements:

- Purchaser's name and address:** Bluth Company, 123 Pine Avenue, Minneapolis, MN 55404.
- Purchaser's Minnesota tax ID number:** 440123.
- Purchaser's type of business:** Wholesale trade.
- Reason for exemption:** Exemption for resale.
- Purchaser's signature:** John Jones, dated 07/15/2022.

- 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

The screenshot shows the Minnesota Department of Revenue Form ST3, Certificate of Exemption. Additional fields include:

- Sales tax rate:** 6.875%
- Sales tax ID number:** 440123
- Sales tax exemption code:** 000000
- Seller's name and address:** Bluth Company, 123 Pine Avenue, Minneapolis, MN 55404.

- 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



Part 9

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 .

- Purchaser Refund
 - Sales tax paid in error to a vendor

[illegible][illegible]

- 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?

Part 10 - Resources to Answer Your Questions

Are you looking for additional resources?



Visit our website at revenue.state.mn.us

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)



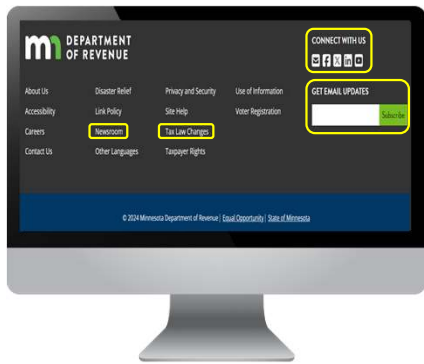
Other Division Contact Information

- 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

SUBSCRIBE TO EMAIL UPDATES

Subscribe



Get the latest tax updates

- 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

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



Part 11

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

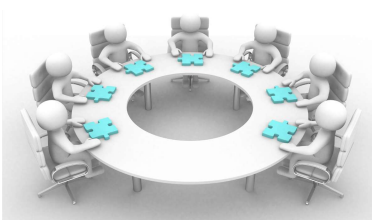
Manufacturers often overlook claiming the capital equipment exemption for these items:

- 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



Scenario Discussions

Scenario 1 – Window Manufacturer

You're an accounts payable clerk for a company that manufactures windows. This company also installs windows. You have vendor invoices for a manlift and shelving that do not have sales tax.

Do you need to accrue use tax on these items?

Scenario 2 – Meat Processing Plant

You're an accounts payable clerk for a meat processing plant. The plant uses a computer system to track their inventory. Your co-worker states that the inventory computer system is exempt under quality control because they must be able to track the meat if it gets recalled. If they do not track the meat, the FDA will not allow them to sell it.

Does the tracking system qualify for an exemption?

Scenario 3 – Fast Print and Mailing

You work for a store that offers mailbox rental, package service, custom printing, and copying. You are not paying tax on any of your printing or copy machines. You also do not pay tax on any of the ink or supplies for the machines

- Some machines are used only by employees for custom jobs.
- Other machines are available to the public for per copy fees and also used by employees for large custom jobs.

Do the printers and copiers qualify for the capital equipment exemption?

Does the ink qualify for the industrial production exemption?

Scenario 4 – Wood Furniture Manufacturing

You work for a small furniture manufacturer that expanded their wood furniture line to include custom finishes. To provide custom finishes they moved to a bigger location with several buildings.

- They saw and assemble unfinished furniture pieces in the wood shop building.
- They custom finish the pieces in the finishing building.
- Both buildings have dust control systems to protect the equipment and the product.

Do either of the dust control systems qualify for the capital equipment exemption?

Scenario 5 – ABC Manufacturing

You work for a large manufacturer who has given a blanket exemption certificate to the welding supply store.

- The invoices include charges for welding gases, tanks, and cutting tips.
- The welding gases are used to repair qualifying capital equipment.

Would all these items qualify for either the capital equipment exemption or the industrial production exemption?

Scenario 6 - Gravel Company

You work for a road contractor who has multiple gravel pits. The company sells class 5, crushed rock, and pit run. They also use these materials in their construction jobs.

- The company has never requested a capital equipment refund.
- The company gives exemption certificates to many of their equipment suppliers now that the exemption for capital equipment is an upfront exemption.
- The company keeps a breakdown of retail sales versus construction contracts.

From this information can you determine if the equipment used in the gravel pit qualifies for the capital equipment exemption?

Scenario 7 - Turkey Processing Plant

You work for a turkey processing plant that must maintain a temperature of 37 degrees on the processing floor. The processed turkeys are flash frozen and stored in freezers until they are shipped out. You are reviewing the electric bills and utility studies and find that all the electricity associated with the cooling and freezers was purchased exempt.

Are you allowed to purchase all your electricity for cooling and freezers exempt?

Scenario 8 – Water Company

You work for a bottled water company that has a proprietary filter system. The company is building a new building for all the pipes and filters for the system. You are purchasing all the building materials exempt from tax under the special purpose building exemption.

Do the building materials qualify for this exemption?

Course Summary

During this course, we discussed...

- When sales and use taxes are owed
- The capital equipment and industrial production exemptions
- The refunds and exemptions available to businesses engaged in "industrial production"
- How to request a refund of taxes paid using Forms ST11 and ST11-MPA



Thank you!

Permission of the Minnesota Department of Revenue must be secured before exhibiting, reproducing, distributing or making any other use of any part of this presentation.

Produced by the Minnesota Department of Revenue 600 North Robert Street, St. Paul, Minnesota 55146

© Copyright 2024, Minnesota Department of Revenue, All Rights Reserved

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