DEPARTMENT OF REVENUE

Sales and Use Tax for Retailers

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Minnesota Business Tax Education

June 2024

About the Webinar

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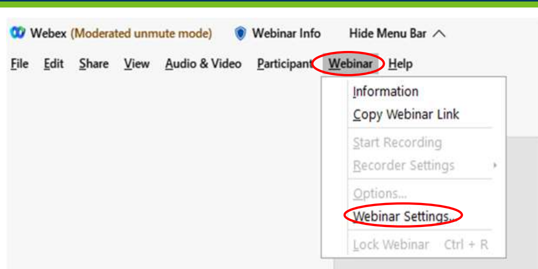
Webinar Settings



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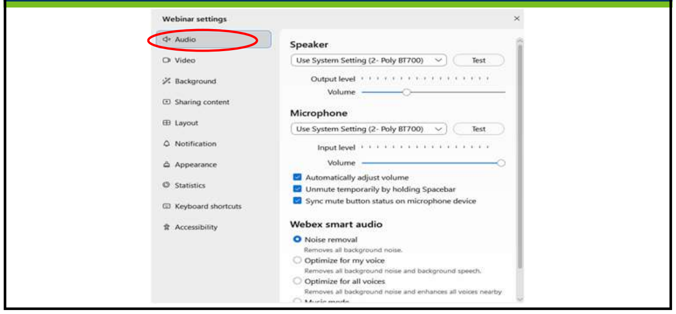

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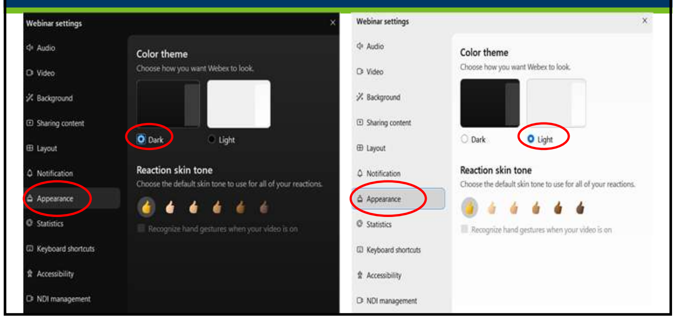
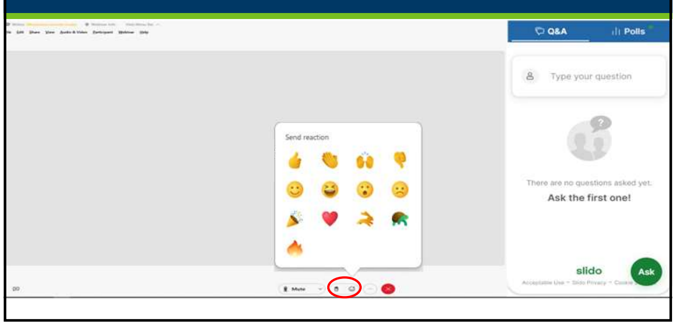


Interactive Panels



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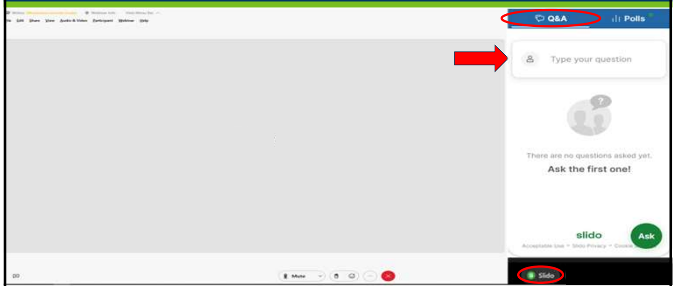

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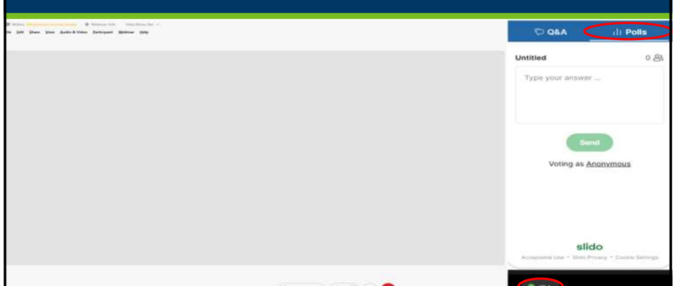


Disclaimer

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

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

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

Minnesota Business Tax Education Program

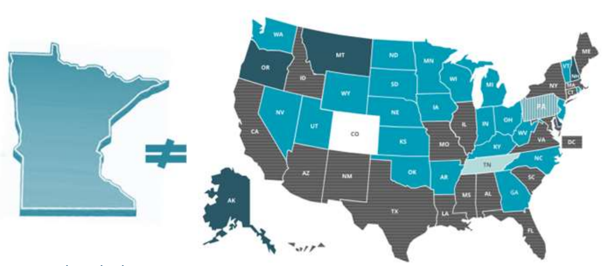
Providing education opportunities about Minnesota tax laws.

Course Objectives

After completing this course, you will be able to:

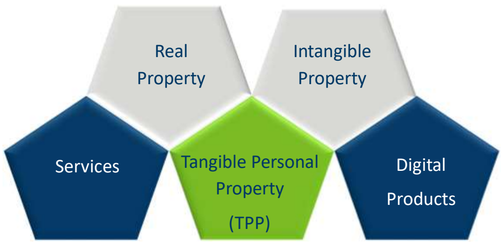
- Apply the basic sales and use tax concepts for Minnesota and its local taxing jurisdictions to your business
- Recognize the exceptions to the rule and the exemptions available
- Identify how to use and when to accept an exemption certificate
- Distinguish how sales and use tax law applies to retail businesses
- 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



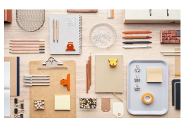
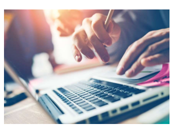
streamlinedsalestax.org

Categories of Sales



Tangible Personal Property

Subject to sales and use tax unless an exemption applies


Retailer vs Wholesaler

- Retailers sell goods or services to the final customer
- Wholesalers sell goods that will be resold

Trust Tax

Do I need to collect Minnesota sales tax?

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

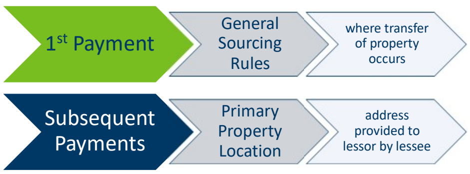
- An **exemption** applies, or
- You are a **remote seller** that meets the **small seller exception**

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



Retail Delivery Fee

Starting July 1, 2024, for **certain** transactions involving **retail delivery** in Minnesota that equal or exceeds $100

Retailer Exclusions:

- Minnesota retail sales less than **$1,000,000** in previous calendar year
- Marketplace provider facilitates Minnesota retail sales less than $100,000 in previous calendar year

[Retail Delivery Fee | Minnesota Department of Revenue]

Remote Sellers

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

Examples:

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

Small Seller Exception

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

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

Use Tax Basics

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

What is the tax rate?

Sales Tax is a Transaction Tax

Look at each transaction to determine its taxability

Sales Tax is a Transaction Tax

ABC Retail Store
111 Main St
St. Paul, MN 55106
Phone: 651-555-5555

4/14/2024 11:37

General Merchandise	4.49	TF
Candy	1.99	T
Coloring Book		
Grocery		
Salad Dressing	3.49	F
Coffee	13.18	F
2 @ 6.59		
Meat		
Ground Beef	4.99	F
Subtotal	28.14	
Tax on 6.48	0.64	
Total	28.78	

ABC Retail Store
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2 @ 6.59		
Meat		
Ground Beef	4.99	N
Subtotal	28.14	
Tax on 6.48	0.64	
Total	28.78	

Bundled Transactions

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

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

Itemized Transactions

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

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

Taxable Sales

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

Examples of taxable sales:

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

Sales Price Includes

- Retail price of the product or service
- All items required as a condition of the sale
- Delivery or handling charges
- Fabrication labor
- Installation charges
- Layaway fees
- Service charges
- Taxes that are the obligation of the seller

Sales Price Does NOT Include

- Credit allowed for TPP taken in trade (trade-in allowance must be in-kind)
- Discounts or Coupons (unless reimbursed by a third party)
- Interest
- Finance charges
- Taxes legally imposed on the consumer, if separately stated on the invoice

Retailer's Coupon

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

Computer	**$400.00**
Less coupon	**50.00**
Subtotal	**350.00**
Tax (6.875%)	**24.06**
Total due	**$374.06**

Manufacturer's Coupon

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

Computer	**$400.00**
Tax (6.875%)	**27.50**
Subtotal	**427.50**
Less coupon	**50.00**
Total due	**$377.50**

Daily Deal Website Vouchers and Coupons

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

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

How are vouchers taxed?

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

Voucher Example - Massage Services

Voucher Example - Car Detailing Services

Voucher Example - Candy

Rewards Programs

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

- Coupons
- Discounts
- Points
- Rebates

When is a rewards program considered a discount?

A reward is considered a discount when it:

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

Retailer Rewards

Retailer rewards are taxable if they:

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

Rewards Program – Punch Card

Punch card at a coffeeshop

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

Rewards Program – Restaurant Loyalty Card

Loyalty card sold by a restaurant for $50

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

Returns

- Refund purchase price, and
- Refund the sales tax originally paid, even if returned to a different location

Exempt Sales Transactions

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

- Product-based exemption
- Entity-based exemption
- Use-based exemption

Product-Based Exemptions

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

Entity-Based Exemptions

- Federal government agencies
- Tribal governments
- Local governments
- Exempt organizations
- State governments

Entity-Based Exemptions

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

Use-Based Exemptions

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

Authorization Letters and Permits

Businesses claiming these exemptions must complete an exemption certificate:

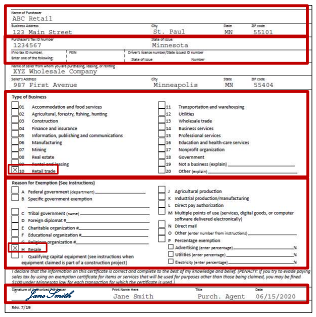
- Direct Pay
- Nonprofit Exempt Status
- Motor Carrier Direct Pay
- Resource Recovery Facility

Authorized Exemption Certificates

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

*If all required elements are included

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 (unless on-line order form or shopping cart)

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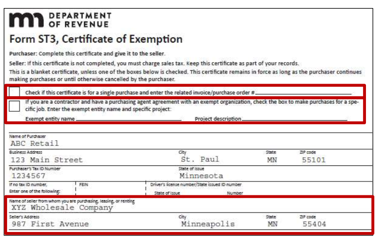
Other Fields on the Exemption Certificate



- 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, 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

Local Taxes

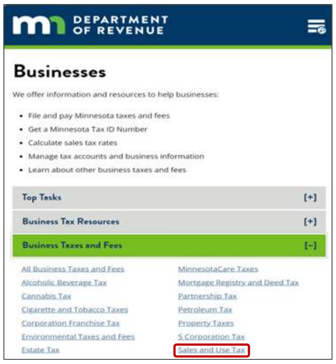
Local taxes are added to the state general sales tax rate to compute the total tax rate.

- City tax
- County tax
- Special local tax
- Motor vehicle $20 excise tax

Tools to Find Tax Rates

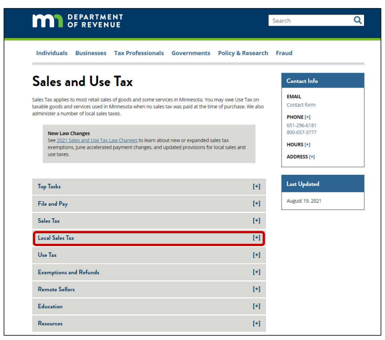
We offer a variety of tools including:

- Sales Tax Rate Calculators
- 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

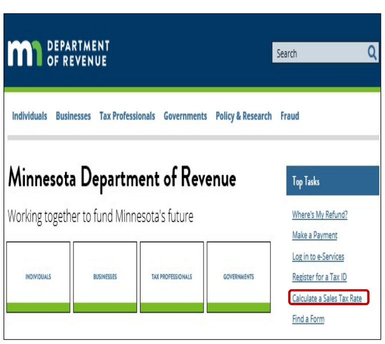


Sales and Use Tax Information

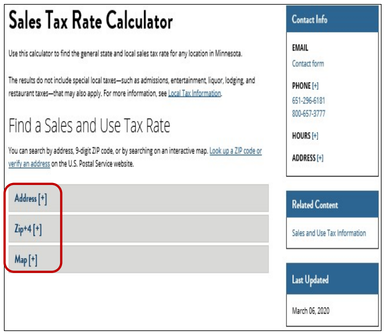
- Businesses
- Business Taxes and Fees
- Sales and Use Tax



Local Sales Tax Information



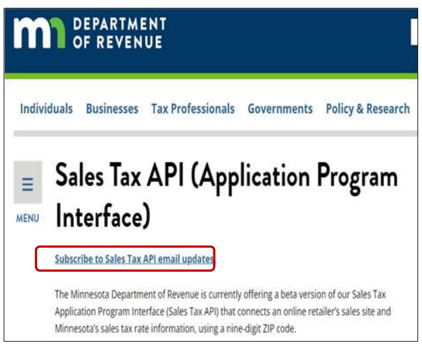
Calculate a Sales Tax Rate



Sales Tax Rate Calculator

Sales Tax API

Application Program Interface



Use Tax

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

- Buy items without paying sales tax
- Take items out of inventory
  - Use in your business
  - Donate to a charitable organization
  - Give away as promotional gifts
- Buy items in another Minnesota city or county with a lower (or no) local tax

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

Accruing Use Tax

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

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

Recording Use Tax

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

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%

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 transaction
- Description of the item
- Sales price
- Where the item 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 or 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)

Accounting Methods

Cash Basis	Accrual Basis
• Record income when you receive payment • Report sales tax when you receive payment • Report use tax when you pay the invoice	• Record income when you make the sale • Report sales tax when you make the sale • Report use tax based on the invoice date

Filing and Paying

e·Services

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.

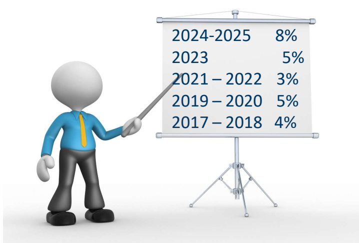
Filing Due Dates

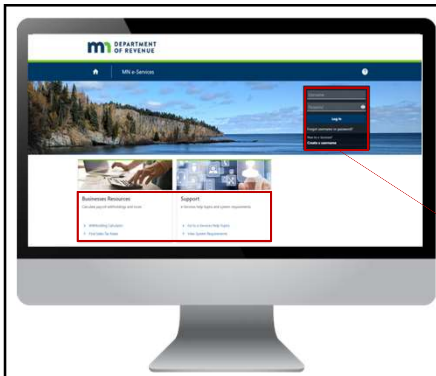
Filing Frequency	Average Tax Liability	Due Date
Annual filers	Less than $100 per month (less than $1,200 per year)	February 5 of the following year
Quarterly filers	Less than $500 per month (less than $6,000 per year)	20th day of the month following the end of the quarter
Monthly filers	More than $500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

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

Interest Rates



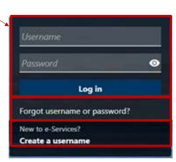


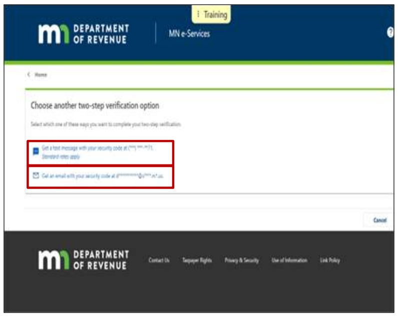
MN e-Services

Log In

Forgot Username or Password?

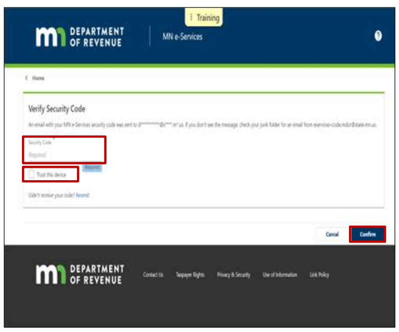
Create a Username





Filing and Payment Instructions

Verification

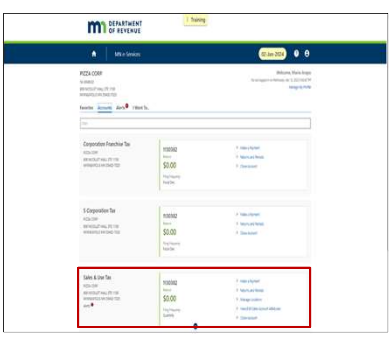


Verification

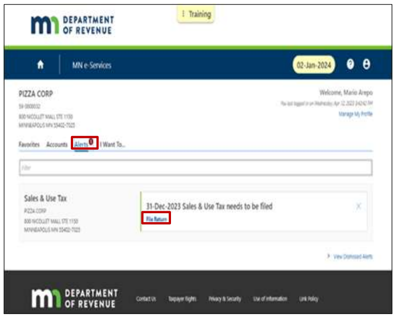
Security code

Trust this device

Confirm



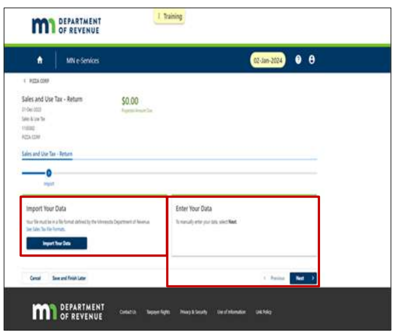
Sales & Use Tax Account



Sales & Use Tax Account Springboard

Account Alerts

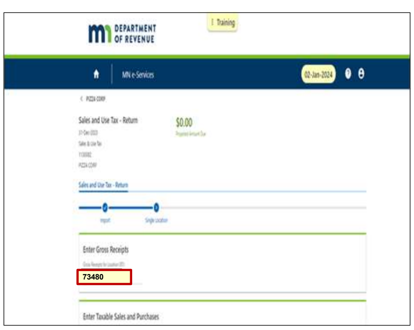
File a return



Sales & Use Tax Return

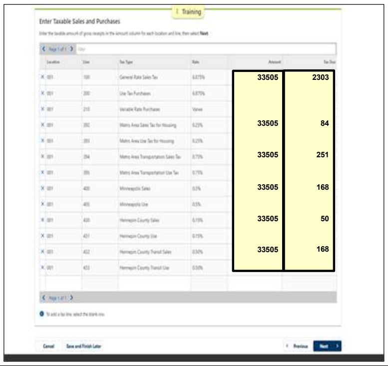
Import Your Data

Enter Your Data



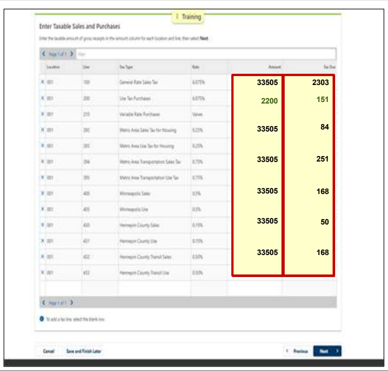
Sales & Use Tax Return

Gross Receipts



Sales & Use Tax Return

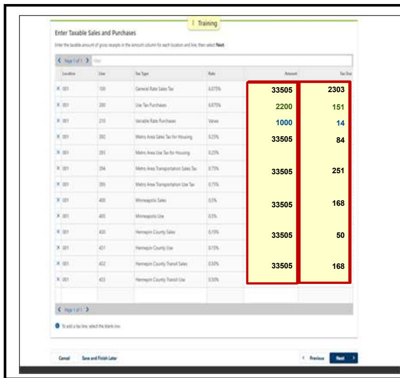
Taxable sales



Sales & Use Tax Return

Taxable sales

Taxable purchases

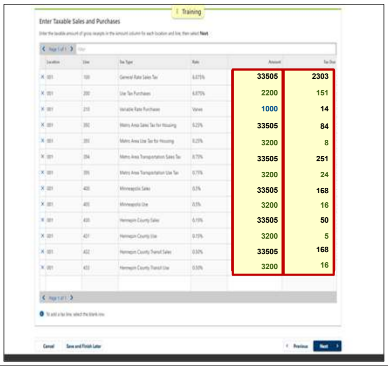


Sales & Use Tax Return

Taxable sales

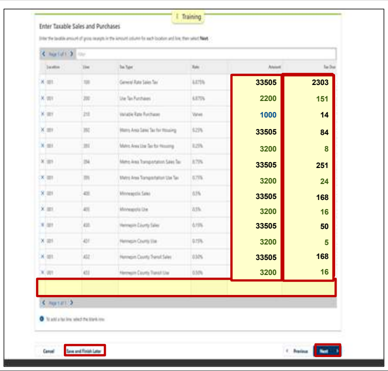
Taxable purchases

Variable rate purchase



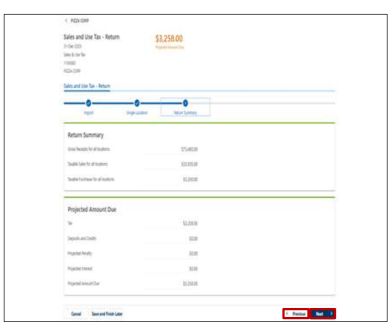
Sales & Use Tax Return

- Taxable sales
- Taxable purchases
- Variable rate purchases
- Purchases subject to local taxes



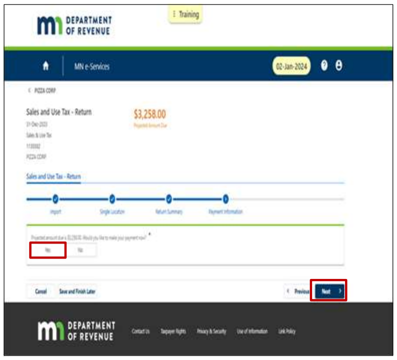
Sales & Use Tax Return

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



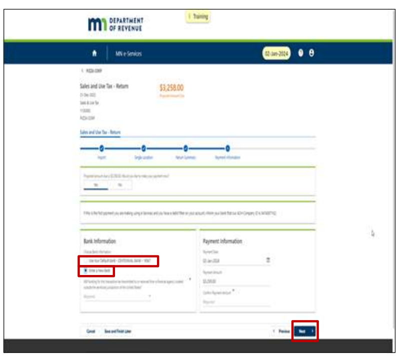
Sales & Use Tax Return Summary

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



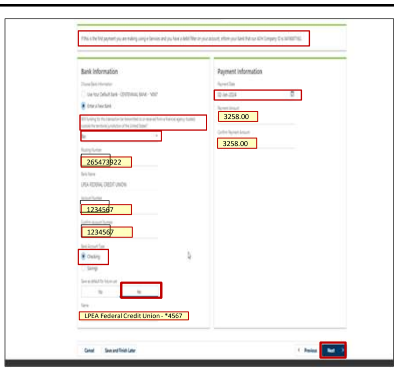
Projected Amount Due

Would you like to make your payment?



New Bank Account

Enter information for your new bank



Payment Instructions

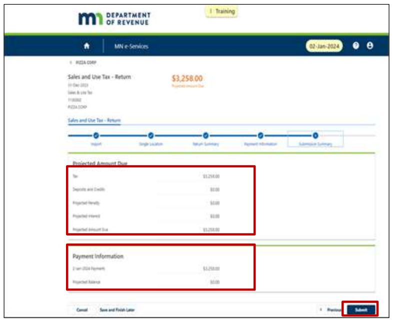
Bank Information

Payment Information

Submission Summary

Projected Amount Due

Payment Information



Confirmation Screen

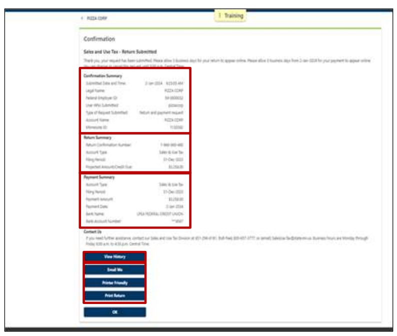
Confirmation Summary

Return Summary

Payment Summary

Review filing history

Print or email return



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 officers

Amending Returns

Common reasons for amending a return:

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

Letters or Bills

Did you receive a letter or a bill from us?

Resources to Answer Your Questions

Are you looking for additional resources?

Visit our website at revenue.state.mn.us

References – Publications

- Minnesota Sales and Use Tax Business Guide
- Federal Government
- Local Government
- State Agencies
- Local Sales and Use Tax
- Motor Vehicle
- Nonprofit Organizations

References – Publications

- Food and Food Ingredients
- Clothing
- Drugs
- Use Tax for Businesses
- Labor – Installation, Fabrication, Construction, and Repair

References – Publications

- Tribal Governments and Members
- Minneapolis Special Local Taxes
- Special Local Taxes
- Coupons, Discounts, Rewards, Rebates, and Other Forms of Payment

Sales and Use Tax Contact Information

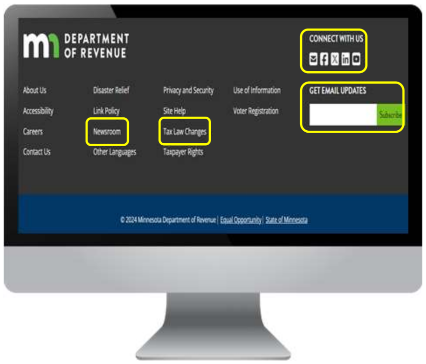
- Sales taxability questions
  Email: salesuse.tech@state.mn.us
- Sales and Use Tax account questions
  Email: salesuse.tax@state.mn.us
- Telephone assistance
  Phone: 651-296-6181 or 1-800-657-3777 (toll free)

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

Course Review

During this class, we discussed …

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

DEPARTMENT OF REVENUE
Minnesota Business Tax Education

Thank you!

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