



Sales and Use Tax for Contractors

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mn DEPARTMENT
OF REVENUE
Minnesota Business Tax Education

November 2024

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

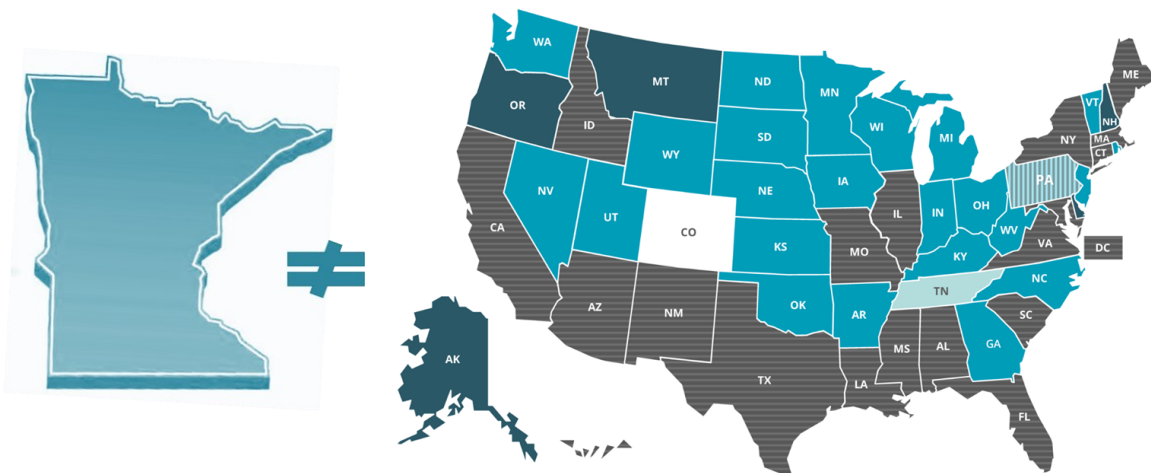
Providing education opportunities about Minnesota tax laws.

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
- Define real property as it pertains to contracting
- Distinguish between contractors and retailers as it relates to real property improvement
- Explain the Purchasing Agent Agreement and when you can use an exemption certificate
- List several resources that answer your sales and use tax questions

Sales Tax Laws Are Not The Same In Every State



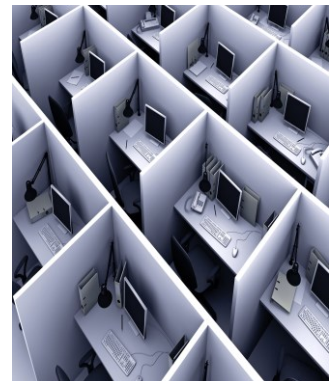
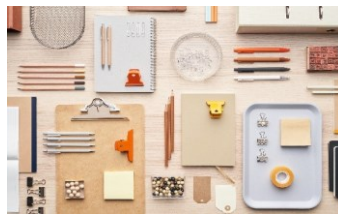
[Streamlined Sales Tax](#)

Categories of Sales



Tangible Personal Property

Subject to sales and use tax unless an exemption applies



Real Property Includes



Real Property Does Not Include

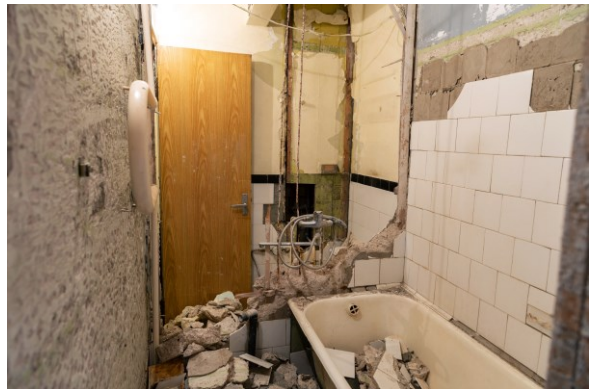
Sales tax exempt eligible tools, implements, or machinery



Substantial Damage

- Physical damage
- Functional damage

Physical Damage



Functional Damage



Contractor or Retailer

Contractor



Retailer



Construction Contracts

- All materials and labor to complete a job
- Building materials taxable to the contractor
- No tax on invoice



Improvement to Real Property

Do not charge sales tax to the customer

Tile	\$350.00
Labor	400.00
Cabinets	420.00
Labor	<u>500.00</u>
Total	\$1670.00

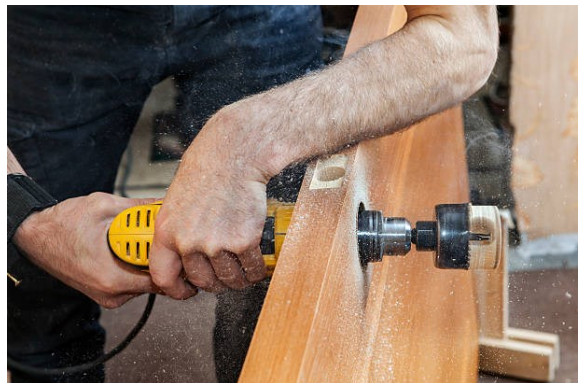
When is Labor Taxed?

Types of Labor	Examples	Is it taxable?
Construction labor	<ul style="list-style-type: none">• Build an office building• Kitchen remodel	No
Repair labor	<ul style="list-style-type: none">• Car repair• Equipment repair• Calibrating equipment• Sharpening tools	No (if separately stated)
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](#)

Fabrication Labor

- Alter an existing product
- Create a new product



Installation Labor

- Sets an item into place
 - Remains tangible personal property after placement



Sales of Tangible Personal Property

- Equipment
- Equipment rentals (without an operator)
- Freestanding appliances
- Lockers and bleachers
- Materials-only sales

Real Property vs Tangible Personal Property



Security System Installers – Real Property

Items incorporated into real property

- Construction contract
- Charge to the customer is not taxable



Security System Installers - TPP

- Not incorporated into real property
 - Tangible personal property
 - Installation labor
 - Customer pays tax
- Lease agreements



Landscaping Contractors



Removal of Trees and Shrubs

Existing structure



Land clearing contracts



Contractor vs Grower

Grow nursery stock for use
in construction contracts

Pay sales or use tax on items
used to produce

Grow nursery stock for resale

Purchase items used or
consumed exempt from sales
tax

Aggregate Contractors

Taxable

- Materials and delivery without installation

Not Taxable

- Materials and delivery with installation
- Moving customer-owned materials
- Third-party delivery for road construction

Ready-Mixed Concrete

Taxable

- Concrete sold from a truck without installation
- Fuel for the truck subject to petroleum excise tax



Exempt

- Purchases of ready-mixed concrete trucks
- Fuel to run power take-off units
- Leases, repair, and/or replacement parts

Contracts with Exempt Organizations

No Purchasing Agent Agreement:

- Treated exactly like all other contracts
- Invoice does not include tax

Purchasing Agent Agreements

Purchasing Agent Agreements with Exempt Organizations:

- Materials-Only Contract requirements
- Exempt Organization has title and risk of loss
- Contractor and Sub-Contractor purchase materials exempt
 - Exemption Certificate

Exemption Certificate for Purchasing Agent

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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 on 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: New Hope Church Project description: Remodel of church

Name of purchaser:
ABC Contractor
 Address:
123 Maple Drive City: Maplewood MN ZIP code: 55119
 Taxpayer ID Number: 1234567 State of sale: Minnesota

Name of seller:
XYZ Lumber Co.
 Address:
789 Oak Street City: Oakdale MN ZIP code: 55128

Type of Business

<input type="checkbox"/> 01 Accommodation and food services	<input type="checkbox"/> 11 Transportation and warehousing utilities
<input checked="" type="checkbox"/> 02 Construction	<input type="checkbox"/> 12 Wholesale trade
<input type="checkbox"/> 03 Finance and insurance	<input type="checkbox"/> 13 Business services
<input type="checkbox"/> 04 Information, publishing and communications	<input type="checkbox"/> 14 Professional services
<input type="checkbox"/> 05 Manufacturing	<input type="checkbox"/> 15 Education and health care services
<input type="checkbox"/> 06 Mining	<input type="checkbox"/> 16 Nonprofit organization
<input type="checkbox"/> 07 Real estate	<input type="checkbox"/> 17 Government
<input type="checkbox"/> 08 Rental and leasing	<input type="checkbox"/> 18 Not a business (explain) _____
<input type="checkbox"/> 09 Retail trade	<input type="checkbox"/> 19 Other (explain) _____

Reason for Exemption (See instructions)

<input type="checkbox"/> A Federal government department	<input type="checkbox"/> J Agricultural production
<input type="checkbox"/> B Specific government exemption	<input type="checkbox"/> K Industrial production/manufacturing
<input type="checkbox"/> C Total government (arms)	<input type="checkbox"/> L Direct pay authorization
<input type="checkbox"/> D Foreign diplomat	<input type="checkbox"/> M Multiple goods of use, services, digital goods, or computer software delivered electronically
<input type="checkbox"/> E Charitable organization	<input checked="" type="checkbox"/> XI Other exempt category (27-Purch. Agt.)
<input type="checkbox"/> F Educational organization	<input type="checkbox"/> P Percentage exemption
<input type="checkbox"/> G Religious organization	<input type="checkbox"/> Q Exempting (enter percentage) _____%
<input type="checkbox"/> H Retail	<input type="checkbox"/> R Utilities (enter percentage) _____%
<input type="checkbox"/> I Qualifying capital equipment (see instructions when equipment claimed is part of a construction project)	<input type="checkbox"/> S 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 fail to make proper use by using an exemption certificate for items or services that will be used for purposes other than those being claimed, you may be fined \$1000.00. Make sure you read instructions for each exemption category.

Signature of Purchasing Agent:
Max Woodman Title: Purch. Agt. Date: August 5, 2022

Requirements for Exemption Certificates for purchasing agents:

- Check the box indicating you are the purchasing agent
 - Fill in Exempt entity name and Project description
- Purchaser's name and address
- Purchaser's Minnesota tax ID number
- Purchaser's type of business
- Reason for exemption – Other reason 27
- Purchaser's signature (unless on-line order form or shopping cart)

Miscellaneous Construction Contracts

Contracts outside of Minnesota

- Materials or supplies delivered to Minnesota prior to being transferred out of state **are** subject to Minnesota Sales and Use Tax
- Materials that would not be subject to tax at the out of state site **are not** subject to Minnesota Sales and Use Tax
- Materials or supplies delivered directly to the site out of state **are not** subject to Minnesota Sales and Use Tax

Primarily a Contractor or Retailer

Contractor

More than 50% of your business is installing into real property

Retailer

More than 50% of your business is selling materials at retail

Purchases Made by Contractors

- Materials and supplies for a job
- Equipment purchases and rentals
- Portable toilets
- Final cleaning
- Office supplies and equipment
- Promotional items

Retail Sales Made by Contractors

- Charge tax to customer if **retail** sale is made
- Adjust Sales and Use Tax filing

Retail Sale Made by a Contractor

Contractor's Purchase Invoice

Materials	\$ 50.00
Tax (6.875%)	<u>\$ 3.44</u>
Total	\$ 53.44

Customer's Purchase Invoice

Materials	\$150.00
Tax (6.875%)	<u>\$ 10.31</u>
Total	\$160.31

Amount Reported on the Sales and Use Tax Return

Gross Receipts	\$150
Less: Original Invoice	<u>\$ 50</u>
General Rate Sales	\$100

Note: The \$50 purchase amount from the contractor's original invoice is not recorded on your return.

Purchases Made by Retailers

- Buy inventory exempt for resale
- Pay tax on equipment and general business items

Construction Contract Performed by Retailer

Calculate use tax on items taken out of inventory to perform construction work

Sourcing of Transactions

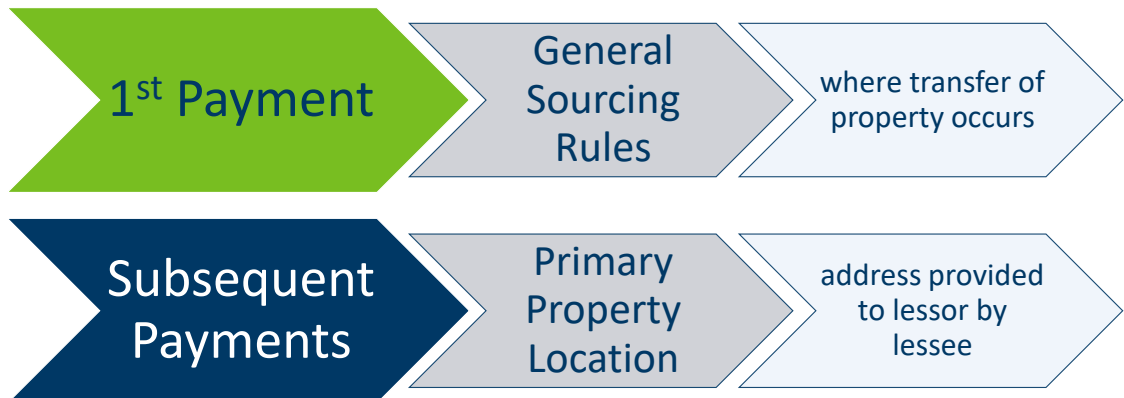
Sourcing determines where the sale takes place, and which taxes are imposed on the sale.

1. Seller's Address

2. Delivery Address

3. Billing Address

Sourcing Rules for Leases or Rentals of TPP



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

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Businesses

We offer information and resources to help businesses:

- File and pay Minnesota taxes and fees
- Get a Minnesota Tax ID Number
- Calculate sales tax rates
- Manage tax accounts and business information
- Learn about other business taxes and fees

Top Tasks [+]

Business Tax Resources [+]

Business Taxes and Fees [-]

[All Business Taxes and Fees](#)

[Alcoholic Beverage Tax](#)

[Cannabis Tax](#)

[Cigarette and Tobacco Taxes](#)

[Corporation Franchise Tax](#)

[Environmental Taxes and Fees](#)

[Estate Tax](#)

[Fiduciary Tax](#)

[Gambling Taxes](#)

[Insurance Taxes](#)

[Mining and Mineral Taxes](#)

[MinnesotaCare Taxes](#)

[Mortgage Registry and Deed Tax](#)

[Partnership Tax](#)

[Petroleum Tax](#)

[Property Taxes](#)

[S Corporation Tax](#)

[Sales and Use Tax](#)

[Solar Energy Production Tax](#)

[Unrelated Business Income Tax](#)

[Wind Energy Production Tax](#)

[Withholding Tax](#)

Contact Info

EMAIL
Contact form

PHONE
651-282-5225
800-657-3605

HOURS [+]

ADDRESS [+]

Related Content

Collection Information
Annual Tax Statistics
Revenue Notices

Last Updated
May 24, 2023

Sales and Use Tax Information

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

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Sales and Use Tax

Sales Tax applies to most retail sales of goods and some services in Minnesota. You may owe Use Tax on taxable goods and services used in Minnesota when no sales tax was paid at the time of purchase. We also administer a number of local sales taxes.

New Law Changes
See [2021 Sales and Use Tax Law Changes](#) to learn about new or expanded sales tax exemptions, June accelerated payment changes, and updated provisions for local sales and use taxes.

Top Tasks [+]

File and Pay [+]

Sales Tax [+]

Local Sales Tax [+]

Use Tax [+]

Exemptions and Refunds [+]

Remote Sellers [+]

Education [+]

Resources [+]

Contact Info

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800-657-3777

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Last Updated
August 19, 2021

Local Sales Tax Information

Funding Minnesota's Future



Individuals

Resources for Families and individuals



Businesses

Resources and information for businesses



Tax Professionals

Resources for tax professionals and software providers



Governments

Resources for state agencies and local governments

I need to...

[Check My Refund](#)

[Log in to e-Services](#)

[Calculate Sales Tax](#)

[Make a Payment](#)

[Register for a Tax ID](#)

[Find a Form](#)

Calculate a Sales Tax Rate

Sales Tax Rate Calculator

Use this calculator to find the general state and local sales tax rate for any location in Minnesota.

The results do not include special local taxes—such as admissions, entertainment, liquor, lodging, and restaurant taxes—that may also apply. For more information, see [Local Tax Information](#).

Find a Sales and Use Tax Rate

You can search by address, 9-digit ZIP code, or by searching on an interactive map. [Look up a ZIP code or verify an address](#) on the U.S. Postal Service website.

Contact Info

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800-657-3777

HOURS [+]

ADDRESS [+]

Related Content

[Sales and Use Tax Information](#)

Last Updated

March 06, 2020

Sales Tax Rate Calculator

Use Tax Basics

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

Review Your Invoices

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



Local Use Tax

Contractor's Purchase Invoice

Lumber	\$ 1000.00
Tax (8.375%)	\$ <u>83.75</u>
Total	\$ 1083.75

Amount Reported on the Sales and Use Tax Return

St. Paul Use Tax	
(1.5%)	\$ 1000.00
Amount Due	\$ 15.00

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



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)



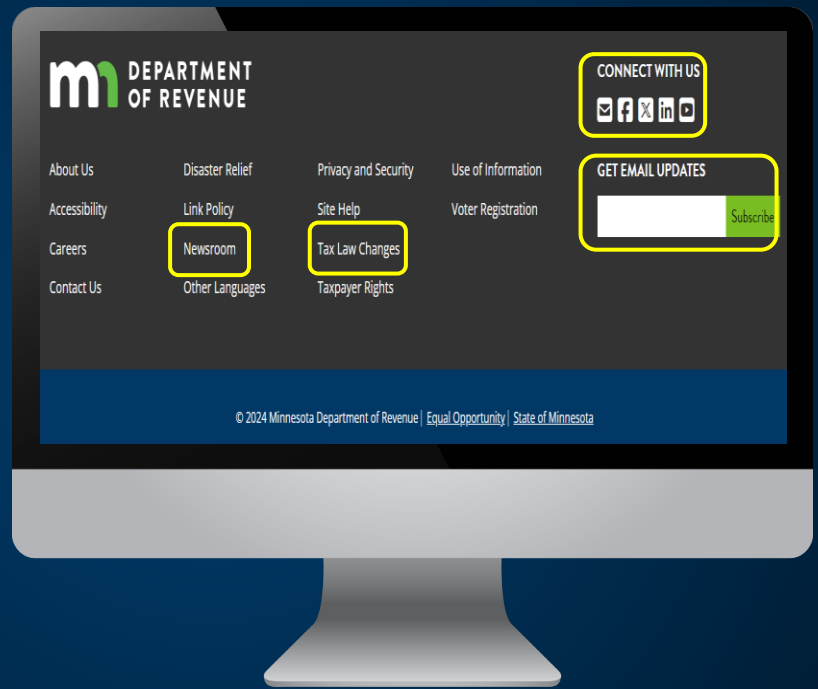
Other Division Contact Information

- 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



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Course Review

During this class, we discussed:

- Real property as it pertains to contracting
- Differences between contractors and retailers as it relates to real property improvement
- Purchasing agent agreement and when you can use an exemption certificate
- Where to find information to help answer your questions



Thank you!

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