



Sales and Use Tax for Contractors


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mi DEPARTMENT OF REVENUE
Minnesota Business Tax Education

November 2023

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About the Webinar



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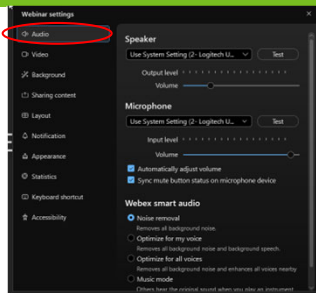
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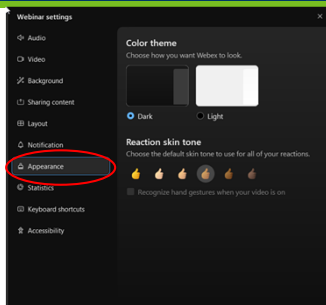
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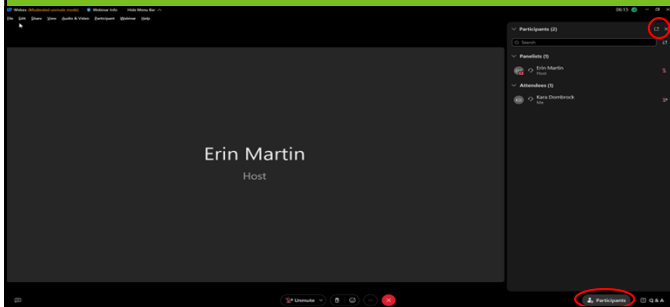
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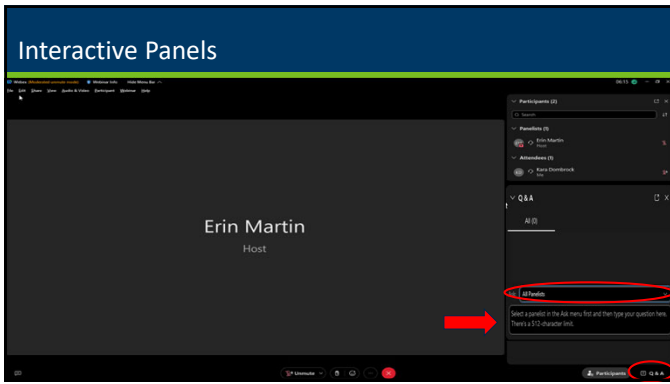
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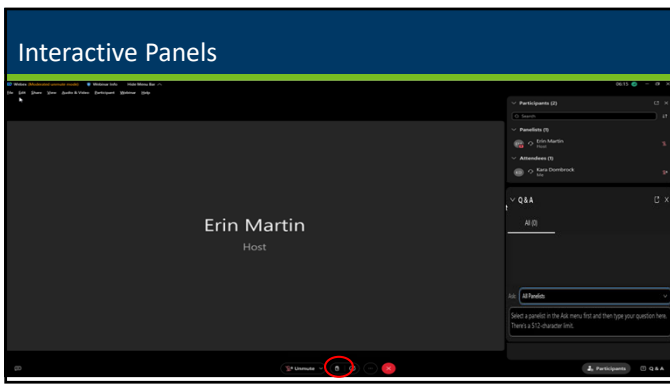
Interactive Panels



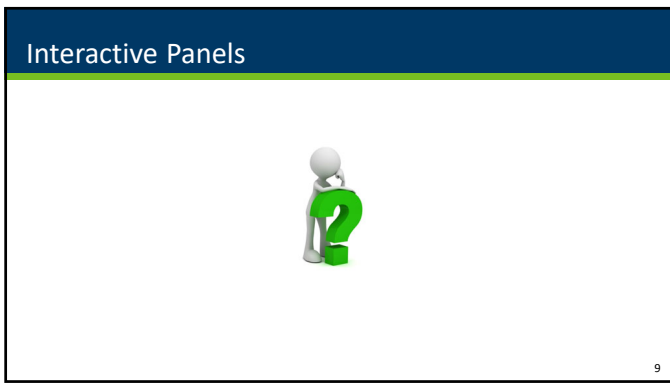
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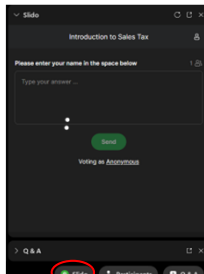


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Interactive Panels



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Disclaimer

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

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

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



Minnesota Business Tax Education Program
Providing education opportunities about Minnesota tax laws.

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Objectives

As a result of this course, learners will be able to:

- 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.
- Use e-Services to file a sales and use tax return.
- List several resources that answer your sales and use tax questions.

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Real Property Includes



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Real Property Does Not Include

- Sales tax exempt eligible tools, implements, or machinery



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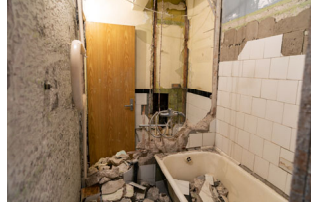
Substantial Damage

- Physical damage
- Functional damage

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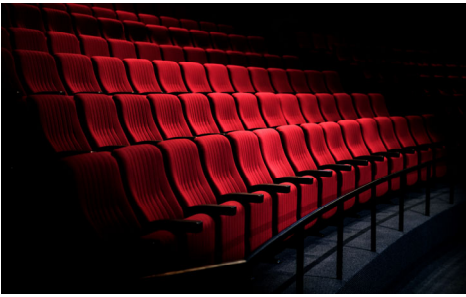
Physical Damage



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Functional Damage



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Contractor or Retailer

Contractor



Retailer



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Construction Contracts

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



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Improvement to Real Property

Do not charge sales tax to the customer

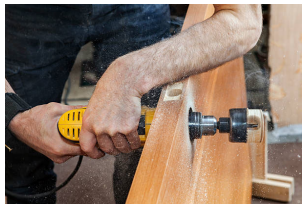
Tile	\$348.59
Labor	400.00
Cabinets	420.00
Labor	500.00
Total	\$1668.59

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Fabrication Labor

- Alter an existing product
- Create a new product



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Installation Labor

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



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Sales of Tangible Personal Property

- Equipment sales
- Freestanding appliances
- Lockers and bleachers
- Materials-only sales

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Security System Installers

Items incorporated into real property

- Construction contract
- Charge to the customer is not taxable



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Security System Installers

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



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Landscaping Contractors



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Removal of Trees and Shrubs

Existing structure



Land clearing contracts



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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

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Aggregate Contractors

Taxable

- Materials and delivery without installation

Not Taxable

- Materials and delivery with installation
- Moving customer purchased materials
- Delivery for road construction

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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

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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

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Contractor Rules

- Pay tax on all purchases
- Charge tax to customer if retail sale is made
- Adjust Sales and Use Tax filing

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Retail Sale Made by a Contractor

Contractor's Purchase Invoice		Customer's Purchase Invoice		Amount Reported on the Sales and Use Tax Return	
Materials	\$ 50.00	Materials	\$150.00	Gross Receipts	\$150
Tax (6.875%)	<u>\$ 3.44</u>	Tax (6.875%)	<u>\$ 10.31</u>	Less: Original Invoice	<u>\$ 50</u>
Total	\$ 53.44	Total	\$160.31	General Rate Sales	\$100

Note: The \$50 purchase amount from the contractor's original invoice is not recorded on your return. This is an example only. Report total taxable sales on the return.

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Purchases Made by Contractors

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

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Use Tax for Contractors

- Items purchased without sales tax
- Local taxes

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Materials Transferred

Contractor's Purchase Invoice

Lumber \$ 1000.00
Tax (8.375%) \$ 83.75
Total \$ 1083.75

Amount Reported on the Sales and Use Tax Return

St. Paul Use Tax
(0.5%) \$ 1000.00
Amount Due \$ 5.00

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Retailer Rules

- Buy materials and supplies exempt for resale
- Pay tax on equipment used in the course of doing business
- Calculate use tax on items taken out of inventory to perform construction work

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Contracts with Exempt Organizations

No Purchasing Agent Agreement:

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

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Contracts with Exempt Organizations

Purchasing Agent Agreements with Exempt Organizations:

- Contract requirements
- Purchases of materials and supplies
 - Exemption certificate

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Exemption Certificate for Purchasing Agent

m DEPARTMENT OF REVENUE
Form 870, Certificate of Exemption
Effective January 1, 2014. See instructions for details.
This certificate is valid for use in Minnesota only. It is not valid for use in other states.

1. Type of Exemption
 Purchasing Agent
 Other Reason 27

2. Purchaser Information
Purchaser Name and Address: _____
Minnesota Tax ID Number: _____
Reason for Exemption: _____

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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 (if a paper certificate is used)

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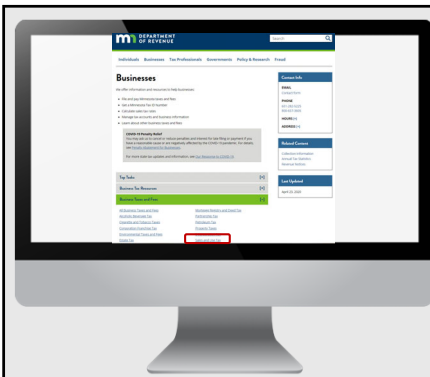
Miscellaneous Construction Contracts

Contracts outside of Minnesota

- Materials or supplies delivered to Minnesota prior to being transferred out of state are subject to Minnesota Sales or Use Tax
- Materials or supplies delivered directly to the site out of state are not subject to Minnesota Sales and Use Tax

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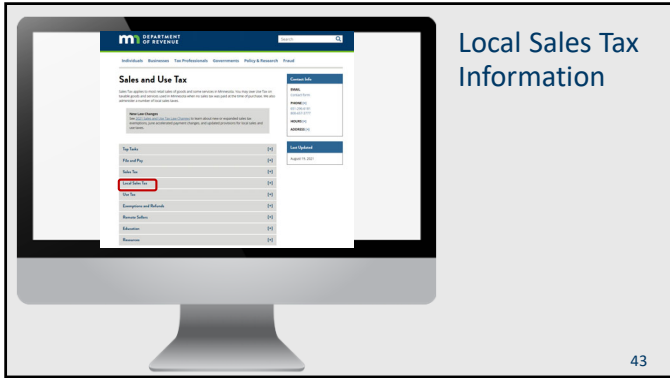
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Sales and Use Tax Information

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Local Sales Tax Information

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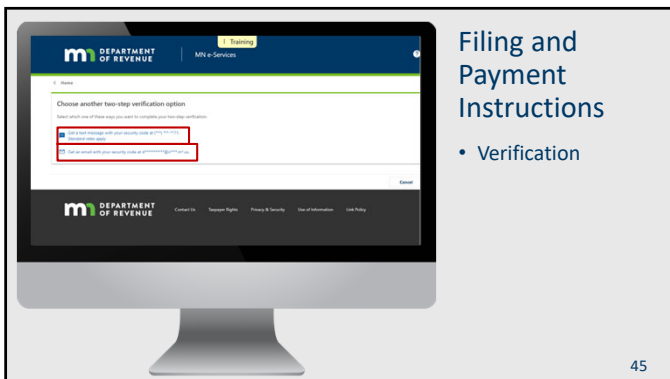


MN e-Services Filing and Payment Instructions

- Log In
- Registration

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Filing and Payment Instructions

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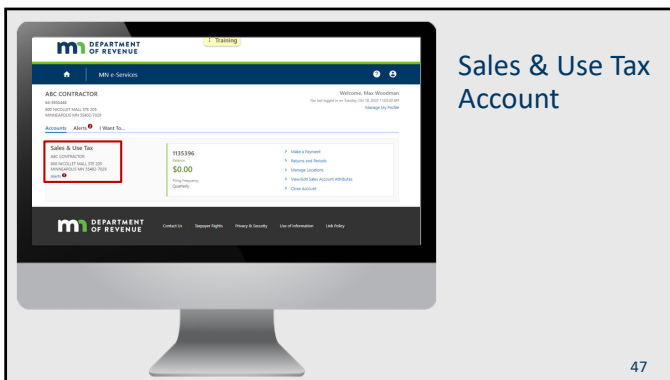
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Verification

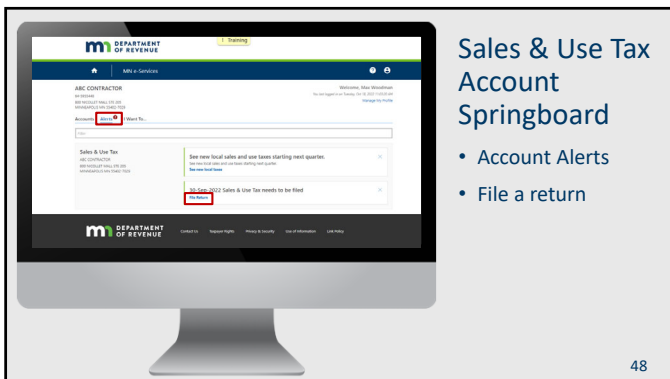
- Security code
- Trust this device
- Confirm

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Sales & Use Tax Account

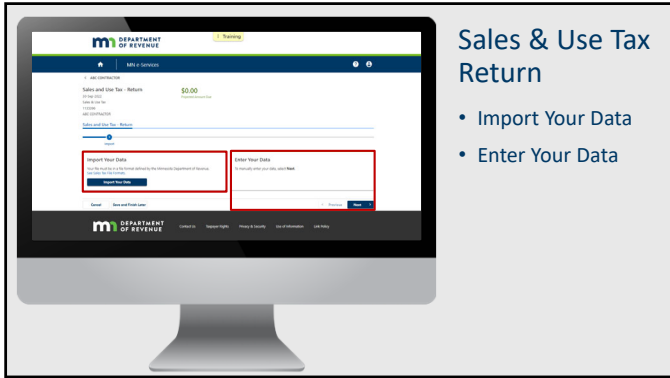
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Sales & Use Tax Account Springboard

- Account Alerts
- File a return

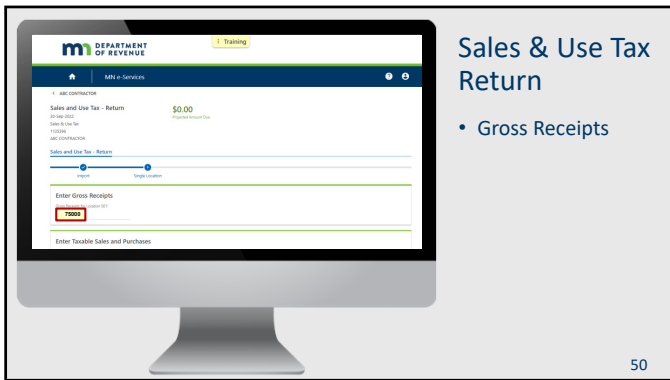
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Sales & Use Tax Return

- Import Your Data
- Enter Your Data

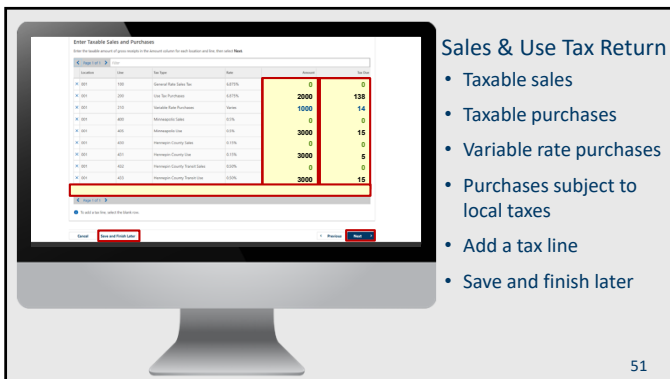
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Sales & Use Tax Return

- Gross Receipts

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Sales & Use Tax Return

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

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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



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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

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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

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Resources to Answer Your Questions

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Are you looking for additional resources?



Visit our website at revenue.state.mn.us

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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)



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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

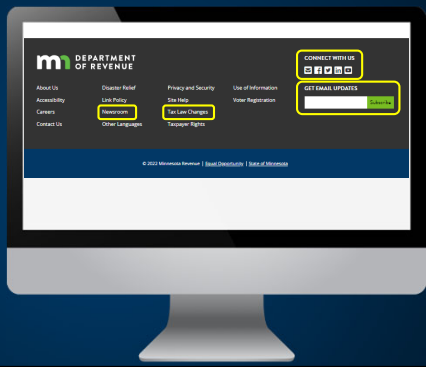


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Stay Informed

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



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Sales Tax Education Classes

- Webinars currently being offered:
- e-Services for Sales and Use Tax
 - Introduction to Sales and Use Tax
 - Sales and Use Tax for Agricultural and Farming
 - Sales and Use Tax for Manufacturers
 - Sales and Use tax for Retailers
 - Sales and Use Tax for Taxable Service Providers
 - Sales and Use Tax for Schools
 - Sourcing of Sales – Applying State and Local Taxes

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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



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Minnesota Revenue Social Media Accounts

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



twitter.com/MNrevenue



facebook.com/MNrevenue



linkedin.com/company/MNrevenue

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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 related to real property improvement.
- Purchasing agent agreement and when you can use an exemption certificate.
- Using e-Services to file a sales and use tax return.
- Where to find information to help you answer your questions.

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