

MINNESOTA SALES AND USE TAX BASICS

WHAT ARE SALES AND USE TAXES?

Sales tax is a tax on retail sale of most goods (including digital) and some services.

Use tax is a tax on goods and services that are taxable in Minnesota and Minnesota sales tax wasn't paid at the time of purchase. Individuals and businesses may owe use tax. Use tax will typically need to be calculated if a purchase was made outside Minnesota. The use tax rate is equal to the sales tax rate.

TAXABLE SALES AND SERVICES

In general, you must collect and remit sales tax for any good you sell unless it falls into an exempt category. Services are the inverse; you don't have to collect sales tax unless the service falls into a specified category of taxable services.

EXEMPT SALES

Minnesota has exempted certain categories of goods and services from sales tax, such as:

- Clothing
- Groceries
- Drugs
- Feminine hygiene products
- Medically prescribed massage therapy
- Occasional and isolated sales

This list is incomplete. Use the Minnesota Department of Revenue's website for details on tax exempt sales: www.revenue.state.mn.us/guide/nontaxable-sales.

Occasional and isolated sales of nonbusiness personal property are not subject to sales tax. For example, you don't need to collect sales tax if you sell your old bicycle or have a yard sale. This exclusion doesn't apply to property you purchase for resale.

TAXABLE SERVICES

Some common taxable services include:

- Cleaning and janitorial
- Lawn and garden maintenance
- Laundry and dry cleaning
- Massages
- Pet care and grooming

These are only some of the more common taxable services. Details on all taxable services can be found on Minnesota Department of Revenue's website: www.revenue.state.mn.us/taxable-services-minnesota.

CALCULATING TAX RATE

Sales taxes are generally calculated where the customer receives the product or service. For goods, this will be at a storefront or the delivery address. For services, this will be the address where the service is performed. This means that businesses may have to calculate and track different sales tax rates.

To calculate the correct amount of sales tax to collect in Minnesota, start with the Minnesota general sales tax rate then add any county, local, or special rate that applies. Remember, the rates are based on where the customer receives the good or service which might not be your business address. Minnesota Department of Revenue's website has a tool to help calculate the proper sales tax by address: www.revenue.state.mn.us/sales-tax-rate-calculator.

Example - Sales Tax Calculation Sale of goods for \$225 at 2610 University Ave W St Paul, MN 55114
MN State Sales Tax: 6.875%
Ramsey County Transit Sales Tax: 0.5%
St. Paul Sales Tax: 0.5%
Total sales tax rate: 7.875%
\$225 x 7.875% = \$17.72 sales tax to collect

If you were not aware of your sales or use tax requirements, there is a process to voluntarily disclose and request waiver of penalties:
<https://www.revenue.state.mn.us/penalty-abatement-businesses>.

SALES TAX RETURNS

Sales tax returns are an entirely different style of tax return. They are filed separately from income tax returns and have their own schedule.

A sales tax return does not report just the total sales tax collected. It reports how much of your gross sales are subject to each individual tax rate. You may have sales for which the tax collected was the same, but the taxes were for different localities. Many point-of-sale, invoicing, or payment processing software can export this data for you. The software may even be able to export it in the correct format to upload it to Minnesota as a sales tax return.

WHEN TO FILE

When to file a sales tax return changes based on how much sales tax you collect, not the gross value of your sales. You may need to report annually, quarterly, or monthly.

- You need to report annually if you collect less than \$1,200 of sales tax in a year. The due date for an annual return is usually February 5 of the following year.
- You need to report quarterly if you collect at least \$1,200 but less than \$6,000 of sales tax in a year. Quarterly return due dates are typically April 20, July 20, October 20, and January 20 of the following year.
- You need to report monthly if you collect at least \$6,000 of sales tax in a year. The due date for each month’s return is the 20th of the following month.

If you have a sales tax filing requirement, you may also be required to file a \$0 return. This is most common when someone needs to file quarterly or monthly and has a particular quarter or month without any taxable sales.

HOW TO FILE

You must register for both a Minnesota ID number and an account with the Minnesota Department of Revenue e-services system to file and remit your sales taxes. You do not need a formal business entity or federal EIN to register for a Minnesota ID. You can find instructions for how to create an e-services account here: www.revenue.state.mn.us/e-services-information.

Once you have an account, you can log in and start the sales tax return. If your point-of-sale system can export the gross receipts and sales tax information in the proper format (see www.revenue.state.mn.us/sales-tax-file-formats), then you can upload it into the return. If your system doesn’t export in the proper format, you will need to manually enter all the tax rates at each location you had sales.

Example - Sales Tax Return for Location 1	
Enter total gross receipts at each tax rate	
Gross Receipts: \$225	
MN State Sales Tax: 6.875%	$\$225 \times 6.875\% = \15.47
Ramsey Co. Transit Sales Tax: 0.5%	$\$225 \times 0.5\% = \1.13
St. Paul Sales Tax: 0.5%	$\$225 \times 0.5\% = \1.13
Total tax to remit	\$17.73

It’s possible, because of rounding on each transaction and rate, that the sales tax collected won’t match the sales tax to remit.

EFFECT ON INCOME TAX RETURN

Depending on when the sales tax is collected and how it is calculated, it is treated differently on an income tax return:

- If the sales tax wasn't calculated or collected at the time of sale, then the gross receipts is the value of the sale, and you can deduct the sales taxes you paid to the state during the year. The deduction happens in the year the tax is paid to the state.
- If the sales tax is itemized or is indicated as "tax included" on the receipt/invoice it is treated as being held in trust for the state. It is not included in your gross receipts and is not a deduction. It just isn't income.

If the sales tax wasn't itemized out but was just labeled as "tax included," then you will need to calculate what the gross receipts actually were before completing your tax returns. For example, a \$225 sale with tax included at the 7.875% rate would be gross receipts of \$208.57 ($225/1.07875 = 208.57$). You must do this before completing both your sales tax and income tax returns since the portion of receipts that are sales taxes aren't to be included in your gross receipts for income taxes.

LEARN MORE

You can find detailed guides on sales tax on Minnesota Department of Revenue's website: www.revenue.state.mn.us/sales-and-use-tax/. They also have a series of instructional videos on sales and use tax here: <https://www.revenue.state.mn.us/sales-tax-education>. The sales tax division can be called for questions directly at 651-296-6181.

If you have additional questions about sales and use tax, you can call the Prepare + Prosper Self-Employment line at 651-262-2169.