

Automotive Repairs and Service

131

Sales Tax
Fact Sheet

Is a bolt a repair part or a shop supply?

Is labor taxable?

*For answers to these questions and more,
continue reading . . .*

The information in this fact sheet will be useful to service stations, independent installers, body shops, paint shops, garages, and automotive dealers. Suppliers and customers of these businesses may also find it helpful. This information applies to most repairs and services performed on licensed vehicles, nonlicensed vehicles, marine engines, small engines, and similar items.

Parts

Parts are items used to repair or service a vehicle. They become part of the vehicle. Parts are easily quantifiable and have a fixed or definite price value. Materials used to repair vehicles may also be treated as parts if they are itemized on the invoice with price and quantity.

Purchases from suppliers

You shouldn't pay sales or use tax when you buy parts. Buy them exempt for resale by giving your supplier a Certificate of Exemption, Form ST3, using the resale exemption. Remember: a sales tax account number alone, without an exemption certificate, is not acceptable as proof of exemption.

Charges for parts

Separately stated charges on a customer's invoice for repair or replacement parts are taxable.

Note: Interstate motor carriers that hold a Motor Carrier Direct Pay Certificate may buy *qualifying* parts and equipment exempt from tax. See Fact Sheet 107, Interstate Motor Carriers, for more information.

Warranties and service contracts

Parts that are replaced or repaired under a warranty, recall, or service contract are taxed differently based on the terms of the agreement.

Manufacturer's warranty or recall. A manufacturer's warranty is included in the purchase price of a vehicle. Repair or replacement parts covered by a

manufacturer's warranty or recall are exchanges of inventory and not taxable.

Optional warranty or service contract. If you offer an optional warranty or service contract to your customers at an additional charge, the charge is not taxable. When you repair or service a vehicle under an optional contract, the following examples will help you determine when tax is due and who pays it.

- If the warranty states that there is no cost to the customer for parts, you must pay sales or use tax on your cost of the parts used under the warranty.
- If the warranty states that the customer is responsible for a percentage of parts and labor, the customer must pay sales tax on the amount you charge them for parts only.
- If the service contract states that the customer must pay a deductible that is not identified as a payment for either parts or labor, the deductible payment is not taxable. However, you must pay sales or use tax on your cost of the parts.

Used car warranty. Used car dealers in Minnesota are required to provide a warranty with the sale of certain used cars. If you sell such a vehicle and later make repairs under the warranty, no tax applies to the parts used in the repair.

Rebuilt parts. Repair or replacement parts covered by a warranty or guarantee that was included in the purchase price of a rebuilt engine, transmission, etc. are exchanges of inventory and not taxable.

Shop supplies

Shop supplies are items that are used or consumed when you repair or service a vehicle. Shop supplies are generally lumped together in one charge on the customer's invoice because the amount used on a job can't be easily measured for pricing. Shop supplies may or may not be transferred to the customer. A single line item charge on a customer's invoice for "shop supplies" is not taxable.

Purchases from suppliers

The repairer is considered to be the consumer of all shop supplies and must pay sales or use tax when buying or using the supplies. You cannot purchase them exempt for resale.

Many shop supplies never become part of the customer's vehicle. The following are examples of shop supplies that don't transfer to the customer and are always taxable:

abrasives	grinding disks	sandpaper
acetylene	masking tape	solvents
buffing pads	oxygen	wiping rags

Other shop supplies are transferred to the customer as part of the customer's vehicle. These shop supplies are also taxable. Examples include:

adhesives	lubricants	solder
bolts	paint	waxes
brake fluid	putty	welding rods

Note: If shop supplies are transferred to the customer and the quantity and price are separately stated on the customer's invoice, they are treated as *parts* rather than as shop supplies (see page one). If you treat an item as a shop supply sometimes and as a part at other times, you must keep accurate records to show that sales or use tax was paid on all items taken from inventory.

Reimbursement by insurance companies

Insurance companies generally reimburse automotive repairers for shop supplies on a formula basis. To properly calculate the reimbursement, you should include the sales or use tax paid on the shop supplies.

General purchases

Tools and equipment

You must pay sales or use tax on all tools and equipment that you buy, including wrenches, power tools, paint booths, and lifting equipment.

Note: If you sell or lease equipment or other items that you used in your business, the sale may be subject to sales tax. See Fact Sheet 132, Occasional Sales of Business Equipment and Goods, for more information.

Building cleaning and maintenance supplies

Building cleaning and maintenance supplies are used to clean or maintain the shop, equipment, tools, etc. Floor dry and hydraulic jack oil are common examples.

These items are not used to perform the actual repair or service. The cost of these overhead items is recovered through your markup of parts and labor charges. You must pay sales or use tax when you buy all building cleaning and maintenance supplies. You cannot buy these supplies exempt for resale.

Safety equipment and supplies

Items designed to provide safety or protection against injury while the user is performing job activities are generally taxable. Examples of taxable items include:

- breathing masks
- fire extinguishers
- hearing protectors
- safety glasses or goggles (nonprescription)
- welding gloves or helmets

The following items are general clothing items and are exempt from sales or use tax: cloth gloves, coveralls and uniforms, disposable clothing, latex gloves, and steel toe shoes or boots. See Fact Sheet 105, Clothing and Wearing Apparel, for more information.

Promotional items

Specialty advertising such as calendars, key chains, and pens are taxable. Clothing, such as T-shirts and caps, is not taxable. Promotional items for use outside Minnesota may be purchased exempt by giving your supplier a Certificate of Exemption, Form ST3.

If you donate or give away taxable items, you owe sales or use tax on your cost of the items - even if the recipient is a tax-exempt organization. For example, if you change the oil in a church van at no charge, you owe use tax on your cost of the filter and the oil used.

Miscellaneous sales

Oil changes

Retail sales of oil and filters are taxable. The labor to change oil in a vehicle is not taxable if separately stated on the customer's invoice. If there is one charge for labor and oil, the entire amount is taxable. The oil and filter may be purchased exempt for resale by giving your supplier a Certificate of Exemption, Form ST3, using the resale exemption.

Vehicle painting

Sales tax on vehicle painting, including applying paint sealant, may be handled one of two ways, depending on whether the paint or sealant are treated as *parts* or *shop supplies*.

- **Parts:** If you state the paint, sealant and labor charges separately on your customer's invoice, charge the customer tax only on the paint and/or sealant. You can buy the paint or sealant exempt for resale by giving your supplier a Certificate of Exemption, Form ST3, using the resale exemption.
- **Shop supplies:** If you bill your customer a lump sum amount to paint a vehicle, don't charge the customer sales tax. In this case, you must pay sales or use tax on your cost of the paint and/or sealant when purchased or when taken from inventory.

Taxable services

Sales tax applies to the total amount you charge your customers for performing the following taxable services:

- applying fabric protector
- motor vehicle towing services
- motor vehicle washing, waxing, and cleaning services, including coin-operated facilities
- rustproofing and undercoating of vehicles

Certain items used or consumed in providing these taxable services may be purchased exempt. See Fact Sheet 113, Motor Vehicle Towing, Washing, Rustproofing, for more information.

Subcontracted repairs and services

Car dealers and service stations often subcontract with another business for repair work or services such as car washing, towing, and rustproofing. The car dealer or service station may buy these services exempt for resale by giving the subcontractor a Certificate of Exemption, Form ST3, using the resale exemption. The car dealer or service station must then charge the customer sales tax.

Tire recapping and siping

Recapping or retreading of a tire carcass supplied by the customer is a repair. If the materials and labor are separately stated, only the material portion is taxable. If the materials and labor are not separately stated, the entire amount is taxable. These rules apply even if the new cap is of a different tread design, e.g., a snow tread cap applied over a summer tread, or vice versa. If a carcass is traded in for a recapped tire, the entire charge, less allowance for the trade-in, is taxable.

Tire siping is taxable fabrication labor.

Waste disposal fees

Charges billed to customers relating to disposing of hazardous waste (chemicals used in parts washers, battery fees, special charges for disposing of oil, anti-freeze, tires, etc.) are not taxable to the customer when separately stated on the invoice.

Employee sales

Repairs performed on employee vehicles should be taxed according to the same guidelines as those for any other customer.

- If you discount the parts on employee repairs, charge tax based on the reduced sales price.
- If you don't charge the employee for parts used in the repair, you owe use tax on your cost of the repair parts.
- If you charge the employee for fabrication labor (e.g., adding a sunroof), sales tax applies to both parts and labor. Fabrication labor is explained on the next page.
- If you perform fabrication labor for an employee, at no charge, you owe use tax on only the cost of the parts used.

Sales to governments and nonprofits

All sales to the federal government, its agencies and instrumentalities are exempt. The state of Minnesota uses a Direct Pay Permit, which means that state agencies do not pay tax to the seller on most purchases (they pay the Department of Revenue directly). Most sales to local governments (cities, counties, etc.) are taxable. See Fact Sheet 142, Sales to Governments, and Fact Sheet 135, Fire Fighting Equipment, for more information.

Qualifying nonprofit organizations must give you a Certificate of Exemption, Form ST3, to claim exemption on purchases.

Labor

Repair labor (exempt)

Repair labor is restoring an item to its original condition so it can be used for its original purpose. Repair labor is *not* taxable if separately stated from the repair parts on the customer's invoice.

If repair labor is not separately stated, the total amount of the repair is taxable, unless the value of the materials used to make the repair is insignificant (i.e., shop supplies).

Installation labor (taxable)

Installation labor is setting an item into position or connecting or adjusting or programming it for use. Beginning January 1, 2002, if the item being sold is taxable, charges by the seller to install it are also taxable. Installation charges are part of the sales price of the item, even if separately stated. Beginning July 1, 2002, installation charges by a third party became a taxable service if the installation would be taxable if provided by the seller of the taxable item.

Examples of installation labor include installation of:

- component parts or upgrade to an existing sound system
- cruise control
- radio or sound system in a car that did not have either a radio or speakers
- running boards
- theft alarms

Fabrication labor (taxable)

Fabrication labor is making, creating, or assembling a product or altering an existing product into a new or changed product. The total charge to the customer for materials and labor is taxable. Labor to *permanently* modify a vehicle is considered taxable fabrication labor. Examples of taxable fabrication labor include adding:

- air conditioning systems
- power locks
- power windows
- remote car starters
- sunroofs, both pop-up and electric
- tire siping
- window defrosters
- window tinting
- other street rod and customized vehicle accessories

Making keys for customers is taxable fabrication labor.

If you perform fabrication labor in your business, refer to the following fact sheets for information relating to additional exemptions and refunds available to you:

Fact Sheet 145 - Industrial Production
Fact Sheet 129 - Utilities Used In Production
Fact Sheet 103 - Capital Equipment

Local sales and use taxes

If you are located or working in an area with a local tax, local sales or use tax may also be due. Local taxes are listed and explained in detail in Fact Sheet 164, Local Sales and Use Taxes.

Use tax

Sales tax is generally charged by the seller at the time of sale. However, if the seller does not charge Minnesota sales tax on equipment, shop supplies, or other taxable items you use in your business, you must pay *use tax* directly to the state. *Use tax* is due on your cost of the item. See Fact Sheet 146, Use Tax for Businesses, for more information.

How to report sales and use tax

Report state and local sales and use taxes electronically over the Internet at www.taxes.state.mn.us. If you don't

have Internet access, you can file by phone at 1-800-570-3329. See Fact Sheet 170, Step-by-Step Guide to Filing and Paying Sales and Use Tax Electronically for more information.

References

M. S. 297A.61, Subd. 3(g)(6)(ii)

M. S. 325F.662

Revenue Notice 93-21

Rule 8130.0700, Producing, fabricating, printing, or processing of property furnished by consumer

Rule 8130.5400, Clothing and wearing apparel

Other fact sheets you may need:

Sales to Government, #142

Labor, #152

Use Tax for Businesses, #146

Local Sales and Use Taxes, #164

A Step-by-Step Guide to Filing and Paying Sales and Use Tax Electronically, #170