

# Labor – Repair and Maintenance for Businesses

152B

This fact sheet explains how Sales and Use Tax applies to repair and maintenance services for businesses.

For more information, see Fact Sheet 152A, Labor - Installation, Construction, and Fabrication, and Fact Sheet 152C, Labor – Repair for Individuals.

## What's New in 2013

### Taxable business repair services

Starting July 1, 2013, the repair and maintenance of certain equipment and machinery for businesses will be subject to Minnesota sales and use tax. This includes electronic and precision equipment, and commercial and industrial machinery and equipment.

## Repair and Maintenance Services

Taxable repair and maintenance labor for businesses includes:

- *Repair labor* – To restore an item so it can be used for its original purpose.
- *Maintenance labor* – To keep an item in good working order or ensure it keeps operating safely and efficiently.

## Electronic and Precision Equipment

Sales and use tax applies to labor to repair or maintain electronic and precision equipment if the purchaser can deduct the service as a business expense. This includes:

- Electronic devices, computers and computer peripherals, monitors, computer terminals, storage devices, and CD-ROM drives;
- Other office equipment such as photocopying machines, printers, and facsimile machines;
- Televisions, stereos, sound systems, video or digital recorders and players;
- Two-way radios and other communications equipment;

- Radar and sonar equipment, scientific instruments, microscopes, and medical equipment.

Computer software is not electronic and precision equipment. For more information, see Fact Sheet 134, Computer Software.

### Examples of taxable electronic and precision equipment repair and maintenance:

- Power tools and shop equipment
- Computer equipment
- Office security system
- Sprinkler system in a production building

## Commercial and Industrial Machinery and Equipment

Labor to repair or maintain commercial and industrial machinery and equipment is taxable, even when the equipment is installed into real property. This includes:

- Commercial refrigerators and freezers
- Farm machinery used in agricultural production (*Note: The repair or maintenance is not taxable if farm machinery is owned for personal use.*)
- Logging equipment
- Manufacturing and production equipment
- Mechanical cleaning equipment (floor sweepers, washers/scrubbers, etc.)
- Mining equipment
- Other heavy machinery (front end loaders, cranes, bulldozers, back hoes, skid steers, forklifts, etc.)
- Restaurant equipment
- Truck scales (portable and real property)

Repair or maintenance of commercial and industrial machinery and equipment does **not** include:

- Motor vehicles (see below)
- Furniture and fixtures (see below)
- Ships, railroad stock, and aircraft.

**Motor vehicles** are self-propelled vehicles or trailers that: 1) must be registered for use on public roads; or 2) is designed and manufactured primarily for highway use.

This generally includes passenger cars, trucks, semi-trucks, trailers that must be registered, police cars, fire trucks, ambulances, buses, limousines, motor homes, and motor cycles.

This does not include snowmobiles, boats, off-road vehicles, most farm machinery, and heavy operating machinery.

**Furniture** is movable articles used in a commercial or industrial building; such as chairs, desks, tables, benches, stools, lamps, bookcases, cubicle partitions, cabinets, or similar items.

**Fixtures** are items that are permanently attached to a building or structure and cannot be removed without substantial damage.

This includes plumbing, vents, ducts, power outlets and switches with their electrical wiring, security systems, or similar items that are installed into a building.

This does not include production equipment regardless of size, weight, or method of attachment. It also does not include mine shafts, tunnels, and other underground openings to extract ores and minerals (or other materials used to support such openings).

*Note:* The labor to repair or maintain fixtures is taxable if they are electronic and precision equipment.

## Sourcing Repair and Maintenance Labor

For tax purposes, the sale of repair and maintenance services is “sourced” to the location where the purchaser could potentially first use the item. In other words, the sale occurs where the purchaser receives the repaired machinery or equipment.

### Examples of how repair or maintenance labor is sourced:

1. A manufacturer in Iowa uses gauges at its factory to ensure its product meets specifications. It ships the gauges to a test laboratory in Minnesota to verify their accuracy.

The lab tests and adjusts the gauges, then ships them back to the manufacturer’s location in Iowa. The sale is sourced to Iowa. The lab does not charge sales tax on the repair or maintenance service.

2. A Wisconsin contractor brings a forklift to a repair shop in Minnesota for service. The Minnesota shop repairs the forklift.

The Wisconsin contractor returns to pick up its forklift at the Minnesota repair shop. The sale is sourced to Minnesota. The shop charges sales tax on the repair service.

3. A cleaning business located in Minnesota brings some of its vacuums to a repair shop in Wisconsin for service.

When the repairs are complete, the cleaning company picks up the vacuums at the repair shop and brings them back to Minnesota.

If the cleaning company did not pay Wisconsin sales tax on the service, it owes use tax to Minnesota. (If the company did pay Wisconsin tax, the amount is subtracted from the use tax it owes Minnesota.)

## Capital Equipment

Minnesota’s sales tax exemption for capital equipment extends to repair parts and replacement parts. However, the **labor** to repair or maintain capital equipment is taxable.

These labor charges are not “refundable” – that is, they are not eligible for the capital equipment refund. Charges for repair parts and labor must be separately stated on the invoice. (If they are not, the repair parts will not be eligible for the capital equipment refund.)

## Maintenance and Warranty Contracts

Optional maintenance contracts to repair and maintain equipment and machinery are taxable. This applies to any new contracts, extensions, or renewals paid for after July 1, 2013.

Extended warranty contracts that cover future, unexpected repair costs are exempt from sales and use tax. If a warranty contract for equipment and machinery covers the entire cost of repair parts, the service provider must pay sales or use tax on their cost of the parts.

## Travel or Trip Charges

Mileage and delivery charges that are billed to your customer with repair charges are taxable.

## **Local Taxes**

Local sales taxes might also apply. For more information, see Fact Sheet 164, Local Sales and Use Taxes.

## **Record Keeping**

Sellers must keep business records that identify whether the customer is an individual or business.

### **References**

- Minnesota Statutes 297A.61, subd. 3 – Sale and purchase
- Minnesota Statutes 297A.68, subd. 38 – Bundled transaction
- Revenue Notice 06-11, Sales Price – Labor Charges
- Revenue Notice 12-12, Warranty and Maintenance Contracts – Optional Contracts on Equipment

### **Other Fact Sheets You May Need**

- No. 131, Automotive Repairs and Service
- No. 134, Computer Software
- No. 152A, Labor – Installation, Fabrication and Construction
- No. 152C, Labor – Repair for Individuals
- No. 142, Sales to Government
- No. 146, Use Tax for Businesses
- No. 156, Use Tax for Individuals
- No. 164, Local Sales and Use Taxes