Motor Vehicle – Auto Body Repair and Service

131A
Sales Tax Fact Sheet

What's New in 2013
Starting July 1, 2013, motor vehicle repair shops can buy paint and repair materials without paying sales or use tax. For more information, see "Handling Sales Tax on Repair Paint and Materials" on page 2.

This fact sheet is specific to motor vehicle body and interior repairs. It will be helpful for the following types of businesses:
- Automotive dealers
- Body shops
- Independent installers
- Paint shops

This fact sheet covers:
- Taxable, nontaxable, and miscellaneous sales
- Repair paint and repair materials
- How to charge sales tax on invoices
- Warranties and service contracts
- Taxable and nontaxable purchases
- Use tax

For information on other repair services, see the following fact sheets:
- 131B, *Motor Vehicle Mechanical Repair and Service*
- 152A, *Labor – Installation and Construction*
- 152B, *Labor – Repair for Businesses*
- 152C, *Labor Repairs for Individuals*

Definitions

Motor vehicle
A self-propelled vehicle that must be licensed for road use. Examples include:
- Cars
- Pickups
- Trucks
- Motorcycles
- Semi-tractors
- Motor homes
- Trailers
- Vans

Repair labor
Restores an item to its original condition so it can be used for its original purpose.

Repair materials
Repair materials become part of the vehicle or are consumed in providing the vehicle repair service. This does not include repair parts.

Shop supplies
Supplies used to clean or maintain the shop, equipment, and tools.

Taxable Sales

Parts
Parts used to repair or service a vehicle are taxable to the customer. Parts are easily assigned to a repair or service and have a fixed or definite price.

You do not pay sales or use tax when you purchase these parts to use in your business. Instead, give your supplier a completed Form ST3, *Certificate of Exemption*. Specify the resale exemption.

Examples include:
- Bumpers
- Door panels
- Fenders
- Hoods
- Rocker panels
- Trunks
- Headlights
- Windows
- Grills

Repair Paint and Repair Materials
Beginning July 1, 2013, repair paint and repair materials can be purchased exempt for resale if they:
- become part of the vehicle, or
- are consumed in providing the vehicle repair service.

Note: If you choose not to purchase repair materials exempt for resale, you can continue to pay tax on the purchase of materials and not charge tax to your customers (See Method 3 on page 2).

Items used to provide repairs on multiple vehicles (such as machinery, tools, and equipment) are not repair materials and are taxable to the shop.

Sales and Use Tax Division – Mail Station 6330 – St. Paul, MN 55146-6330
Phone: 651-296-6181 or 1-800-657-6777
Minnesota Relay (TTY) 711
Email: salesuse.taxes@state.mn.us

This fact sheet is intended to help you become more familiar with Minnesota tax laws and your rights and responsibilities under the laws. Nothing in this fact sheet supersedes, alters, or otherwise changes any provisions of the tax law, administrative rules, court decisions, or revenue notices. Alternative formats available upon request.

Examples of repair paint include:

- Body paint
- Clear coat
- Paint thinner
- Primer

Examples of repair materials include:

- Abrasives
- Acetylene
- Body filler/putty
- Bolts and nuts
- Buffing pads
- Chamois
- Degreasing agents
- Glaze
- Grease
- Grinding discs
- Hydraulic jack oil
- Lubricants
- Masking tape
- Oxygen
- Polishes
- Razor blades
- Sanding discs
- Sandpaper
- Scuff pads
- Sealer
- Solder
- Solvents
- Striping tape
- Tack cloth
- Waxes
- Welding rods

To purchase repair paint or repair materials exempt, give your supplier a completed Form ST3, *Certificate of Exemption*. Specify the resale exemption.

Handling Sales Tax on Repair Paint and Repair Materials

You may treat repair paint and repair materials using one of the following three methods. You must remain consistent in the method you choose.

Method 1: Treat the repair paint and repair materials as taxable parts. Separately state the price and quantity of the repair paint and repair materials on the invoice. See invoice example on page 5.

Method 2: Use an industry-standard formula to calculate the price of taxable repair paint and materials. Multiply the number of labor hours by a rate based on standard practices in your industry. The sales price of the repair paint and repair materials must equal or exceed the price you paid for them. State the repair paint and repair materials as a single line item on the invoice. See invoice example on page 5.

Method 3: Pay tax on all purchases of materials (does not apply to parts). Pay sales or use tax on your purchase of repair paint and repair materials. State the paint and materials as a single line item on the invoice and do not charge tax on that amount,

Motor Vehicle Upgrades and Enhancements

Labor to add or install something new or different to a vehicle is taxable. The parts being installed are also taxable to the customer. Examples include:

- Installing remote starters, navigation systems, and sunroofs
- Installing lighting graphics
- Installing bug deflectors and running boards
- Spraying bed liners
- Tinting windows

Vinyl Decals

Charges to apply vinyl decals are taxable. If the customer brings a decal for you to apply, the charge to apply the decal is taxable. If you order or make a decal and apply it to a vehicle, the charges for the decal and the labor are both taxable.

Taxable Services

The following services are taxable:

- Applying fabric protector
- Motor vehicle towing services
- Motor vehicle washing, waxing, and cleaning services, including coin-operated facilities
- Rustproofing and undercoating of vehicles

For more information, see Fact Sheet 113, *Motor Vehicle Towing, Washing, Rustproofing*.

Nontaxable Sales

Motor vehicle repair labor

Auto body repair labor is not taxable when it is separately stated from repair parts on the invoice.

Custom Painting

Labor charges to custom paint a vehicle are not taxable. But the paint and materials used are taxable. You must either charge sales tax to your customer, or pay sales or use tax when buying these materials.

Waste disposal fees

Charges for disposing of hazardous waste are not taxable when separately stated on the invoice. (Examples include battery fees, special charges for disposing of oil, antifreeze, tires, etc.)

Miscellaneous Sales

Employee sales

Parts and repairs on employee vehicles are taxed the same as repairs for other customers.

If you:	Then you must:
Discount the parts	Charge tax on the reduced price of the parts
Do not charge for the parts	Pay sales or use tax on your cost of the parts
Add or install something new or different at no charge	Pay sales or use tax on your cost of the parts

Sales to governments and nonprofits

Sales to federal agencies or other federal entities are exempt from tax. The federal agency must give you a purchase order, payment voucher, work order, or a completed Form ST3, *Certificate of Exemption*.

The state of Minnesota uses a Direct Pay Permit. State agencies pay the Department of Revenue directly on most purchases. Purchase orders issued by Minnesota state agencies include the necessary direct pay information. Minnesota state agencies do not need to provide a completed Form ST3, *Certificate of Exemption*.

Sales to certain local governments may be taxable. For more information, see Fact Sheet 176, *Local Governments – Cities, Counties, and Townships*. To claim exemption on qualifying purchases, the local government must give you a completed Form ST3, *Certificate of Exemption*.

Certain purchases by nonprofit organizations are exempt from tax. To claim exemption, the nonprofit must give you a completed Form ST3, *Certificate of Exemption*.

Sales of Business Equipment

Sales tax may apply if you sell or lease equipment or other items used in your business. For more information, see Fact Sheet 132, *Occasional Sales of Business Equipment and Goods*.

Other Equipment Repair Labor (not motor vehicles)

For the period of July 1, 2013 - March 31, 2014, labor to repair machinery and equipment for business use is taxable.

Examples include:

- Boats
- Forklifts
- Heavy operating machinery
- Lawn mowers/snow blowers
- Snowmobiles/ATV's
- Tractors

Note: If the machinery or equipment is owned by a person and not used for a business activity, the repair labor is not taxable. You must use a reasonable method to identify if the customer is a business or an individual.

Warranties and Service Contracts

Manufacturer's warranty or recall

Repair or replacement parts are not taxable when they are covered by a manufacturer's warranty or recall.

Optional maintenance contracts

Optional maintenance contracts provide prepaid coverage for scheduled oil changes, tire rotation, etc. Optional maintenance contracts are taxable if they include any taxable items, unless the cost of those items is insignificant. The sales tax is due when the contract is sold, not when the maintenance is performed.

Used car warranty

Used car dealers in Minnesota must 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 are not taxable when included in the purchase price of a rebuilt engine, transmission, etc.

Extended warranty contracts

Extended warranties to cover unexpected repair costs are not taxable. However, sales or use tax does apply to the parts used for contracted repairs. The following examples will tell you when tax is due and who pays it.

If the warranty states:	Then you must:
No cost to customer for parts	Pay sales or use tax on your cost of the parts.
Customer is responsible for a percentage of parts and labor	Charge the customer sales tax on the amount for parts only
Customer pays a deductible for parts or labor	Pay sales or use tax on your cost of the parts. The deductible payment is not taxable

What purchases are taxable?

Tools and equipment

Purchases of tools and equipment for your business are taxable. (Examples include wrenches, power tools, paint booths, and lifting equipment.)

Shop supplies

You must pay sales or use tax when you purchase shop supplies used to clean or maintain the shop, equipment, and tools. (Common examples include "floor dry" products, cleaning products, and rags – though cleaning products and rags may be exempt if they are used up while making repairs.)

Safety equipment and supplies

Items to provide safety or protection against injury are taxable.

Examples include:

- Breathing masks
- Fire extinguishers
- Hearing protectors
- Safety glasses or goggles (nonprescription)
- Welding gloves or helmets

Laundry

Laundry services are taxable. Examples include:

- Coats and coveralls
- Floor mats and rugs
- Shirts
- Work uniforms

For more information, see Fact Sheet 120, *Laundry and Cleaning Services*.

Promotional items

Promotional items, such as calendars, key chains, and pens are taxable. But clothing items, such as T-shirts and caps, are not taxable.

Donations

If you donate or give away taxable items, you owe sales or use tax on your cost of the items, no matter who the recipient is. 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.

What purchases are not taxable?

Subcontracted repairs and services

If you subcontract with another business for repair work or services, do not pay sales or use tax on your purchase. Instead, give the subcontractor a completed Form ST3, *Certificate of Exemption*. Specify the resale exemption. But you must charge sales tax to your customer for any subcontracted labor, parts, or materials.

Clothing

General clothing items are not taxable. Examples include:

- Cloth or latex gloves
- Coveralls and uniforms
- Disposable clothing
- Steel-toe shoes or boots

For more information, see Fact Sheet 105, *Clothing and Wearing Apparel.*

Use Tax

If you buy equipment shop supplies or other taxable items for your business and the seller does not charge Minnesota sales tax, you owe use tax on the cost of those items. If your business is in an area with a local tax, you also owe local use tax.

For more information see:

- Fact Sheet 146, *Use Tax for Businesses*
- Fact Sheet 164, *Local Sales and Use Taxes*

How to Report Sales and Use Tax

You can report state, local, and use taxes electronically at www.revenue.state.mn.us. If you do not have Internet access, you can file by phone at 1-800-570-3329.

For more information on how to file:

1. Go to our website, www.revenue.state.mn.us
2. Click "**Sales and Use Tax**"
3. Under "I need to file Sales and Use Tax…", click "**Electronically**" or "**Phone**".

Sample Invoices

Method 1: Treat the repair paint and repair materials as parts. Separately state the price and quantity on the invoice. For example:

Job Details		
Qty	Parts	Cost
1	Fender	$ 170.00
1	Bumper	$ 355.00
10	Welding rods	$ 10.00
4	Sanding discs	$ 2.00
	Paint & Materials	
2	Primer	$ 20.00
2	Paint	$ 90.00
2	Clear Coat	$ 40.00
3	Body putty	$ 3.00
2	Striping Tape	$ 4.00
2	Masking tape	$ 3.00
	Labor	
4	Fix damaged fender and bumper	$ 400.00
2	Paint damaged area	$ 200.00
	Total Parts	$ 697.00
	Total Labor	$ 600.00
	Tax (MN on parts, paint & materials)	$ 47.92
	Total	**$ 1,344.92**

Method 2: Use an industry-standard formula to calculate the price of repair paint and materials. Multiply the number of labor hours by a rate based on standard practices in your industry. The sales price of the paint and materials must equal or exceed the price you paid for them. State the paint and materials as a single line item. For example:

Job Details		
Qty	Parts	Cost
1	Fender	$ 170.00
1	Bumper	$ 355.00
	Paint & Materials	
6	Repair paint and repair materials	$ 172.00
	Labor	
4	Fix damaged fender and bumper	$ 400.00
2	Paint damaged area	$ 200.00
	Total Parts	$ 697.00
	Total Labor	$ 600.00
	Tax (MN on parts, paint & materials)	$ 47.92
	Total	**$ 1,344.92**

References

Minnesota Statutes 297A.61
- subd. 3, Sale and purchase
- subd. 4, Retail sale

Minnesota Statutes 325F.662
Minnesota Rules 8130.0700, Producing, fabricating, printing, or processing of property furnished by consumer
Minnesota Rules 8130.5400, Clothing and wearing apparel
Revenue Notice 12-12, Warranty and Maintenance Contracts – Optional Contracts of Equipment

Other fact sheets you may need

105, *Clothing and Wearing Apparel*
113, *Motor Vehicle Towing, Washing, Rustproofing*
120, *Laundry and Cleaning Services*
131B, *Motor Vehicle Mechanical Repair and Service*
132, *Occasional Sales of Business Equipment and Goods*
142, *Sales to Government*
146, *Use Tax for Businesses*
152A, *Labor – Installation, Fabrication, and Construction*
152B, *Labor – Repair for Businesses*
152C, *Labor – Repair for Individuals*
164, *Local Sales and Use Taxes*
176, *Local Governments, Cities, Counties, and Townships*