

1 Department of Revenue

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3 Adopted Permanent Rules Relating to Sales and Use tax;

4 Processing of Property furnished by Consumer

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6 Rules as Adopted

7 8130.0700 PRODUCING, FABRICATING, PRINTING, OR PROCESSING OF
8 PROPERTY FURNISHED BY CONSUMER.

9 Subpart 1. General. A sales tax is assessed on the retail
10 sale of tangible personal property. See Minnesota Statutes,
11 section 297A.01, subdivision 3, paragraph (a).

12 In addition, a sales tax is assessed on the production,
13 fabrication, or processing of tangible personal property for
14 retail consumers who furnish directly or indirectly the
15 materials used in the production, fabrication, or processing.
16 See Minnesota Statutes, section 297A.01, subdivision 3,
17 paragraph (b).

18 Producing, fabricating, and processing include any
19 operation which results in the creation or production of
20 tangible personal property, or which is a step in a process or
21 in a series of operations resulting in the creation or
22 production of tangible personal property, except sales for
23 resale.

24 Subp. 2. Repairs. Application of labor to tangible
25 personal property so that such property may continue to be used
26 in the same form and for the purpose for which acquired
27 represents repairs and does not constitute producing,
28 fabricating, or processing of property. Where the expenditure
29 is made for the purpose of modifying, altering, or assembling it
30 in some other manner, the application of labor thereto
31 represents a sale under the provisions of Minnesota Statutes,
32 section 297A.01, subdivision 3, paragraph (b).

33 Subp. 3. Tax applications.

34 A. Example 1. A customer enters into an agreement
35 with an upholsterer whereby the latter will remove old fabric

1 from the customer's living room sofa and replace it with fabric
2 chosen by the customer. The cost agreed upon is \$300. Service
3 charges are \$150, with the remaining \$150 representing the cost
4 of the materials. As the reupholstering repair permits the
5 customer to continue to use the sofa for the purpose for which
6 it was acquired, only the \$150 for material represents a sale,
7 provided the charges for materials are billed separately, and
8 that such charges represent a reasonable sales price for such
9 material were it purchased without the service charge for
10 reupholstering. If the customer had furnished the material, no
11 sale would have resulted.

12 B. Example 2. A customer furnishes material which is
13 thereafter produced into a slipcover for sofa. The charge for
14 producing the slipcover is a sale in accordance with Minnesota
15 Statutes, section 297A.01, subdivision 3, paragraph (b), since
16 it results in the modification of tangible personal property.
17 If the customer had purchased material from the upholsterer, the
18 entire cost to the customer would be a sale.

19 C. Example 3. Custom sawing of logs by a saw mill
20 where logs are furnished by the customer constitutes a sale.

21 D. Example 4. Developing prints of home movies or
22 stills for customers who furnish the exposed film constitutes a
23 sale.

24 E. Example 5. Printing on paper stock furnished by
25 customers constitutes a sale.

26 F. Example 6. Reproducing copies of typewritten or
27 printed matter on a stock furnished by customers constitutes a
28 sale.

29 G. Example 7. Recapping of a tire carcass supplied
30 by the customer is a repair. If the materials and labor are
31 separately stated, only the material portion is taxable. If no
32 separation is shown on the invoice, the entire amount is
33 taxable. These rules apply even though the new cap is of a
34 different tread design, i.e. a snow tread cap applied over a
35 summer tread, or vice versa. If a carcass is traded in for a
36 recapped tire, the entire charge, less allowance for the

1 trade-in is taxable. (See part 8130.1500.)

2 H. Example 8. Cutting and milling charges by a
3 lumberyard or woodworking shop, and pipe cutting or threading
4 charges by a hardware store or plumbing shop are taxable whether
5 the materials are supplied by the buyer or the seller.

6 I. Example 9. Engraving of an item furnished by the
7 customer is considered a service not subject to tax. This
8 service engraving is to be differentiated from product engraving
9 which is taxable. Product engraving is billed along with or
10 included in the sales price by the seller at the time the item
11 is sold.

12 J. Example 10. The entire amount charged for the
13 initial electroplating, heat treating, or painting of tangible
14 personal property furnished by the customer is taxable as
15 fabrication labor.

16 K. Example 11. Collating and assembling done by
17 stapling or using a similar process affixing items together is
18 taxable. The punching, assembly, stamping, burning,
19 electroplating, etc. of goods supplied by a customer is taxable.

20 L. Example 12. A locksmith changes a combination on
21 a safe or changes the tumblers in a lock so that a different key
22 must be used. The transaction is considered to be a nontaxable
23 service and the locksmith is required to pay the sales or use
24 tax on purchases of the parts and materials used to perform such
25 service. However, retail sales of keys and parts which are
26 billed separately are taxable.

27 M. Example 13. Additional types of fabrication
28 charges which are taxable regardless of whether the customer or
29 fabricator furnishes the materials include charges for the
30 following:

31 (1) assembling kits to produce a completed
32 article;

33 (2) bending glass tubing into neon signs;

34 (3) bookbinding;

35 (4) conversion of a vehicle into a stretch
36 limousine;

- 1 (5) drilling holes in bowling balls;
- 2 (6) engraving when it is charged with or included
- 3 in the sales price by the retailer;
- 4 (7) firing of ceramics or china;
- 5 (8) making of a fur coat from pelts, or gloves or
- 6 a jacket from a hide;
- 7 (9) making curtains, drapes, pillows, slipcovers,
- 8 or other household furnishings;
- 9 (10) laminating identification cards;
- 10 (11) lumber cut to specifications and producing
- 11 cabinets, counter tops, or other items from materials for
- 12 customers;
- 13 (12) matting and framing of art work;
- 14 (13) printing and imprinting, including
- 15 lithography, silk screen printing, multilithing, mimeographing,
- 16 photostating, and similar processes;
- 17 (14) photography, the taking of pictures and
- 18 developing of films which result in sale of photographs or
- 19 movies;
- 20 (15) production of a sound recording or a motion
- 21 picture;
- 22 (16) rebuilt auto parts by a manufacturer of a
- 23 previously manufactured article such as radiators, generators,
- 24 carburetors, fuel pumps, transmissions, engine blocks, or
- 25 similar parts;
- 26 (17) steel fabrication, which may involve cutting
- 27 the steel to length and size, bending and drilling holes in the
- 28 steel to the specifications of a particular construction job
- 29 when the end result of the fabrication is a modification of a
- 30 previously manufactured article; and
- 31 (18) taxidermy, the charges for stuffing and
- 32 mounting.

33 Subp. 4. Custom made goods. The total proceeds of sale of
34 custom made products are taxable, without deduction for labor
35 costs, provided that the manufactured item remains personal
36 property after installation. Labor charges to install

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- 1 manufactured items which become part of real property are not
- 2 taxable.