

1 Department of Revenue

2

3 Adopted Permanent Rules Relating to Sales and Use Tax on Sales
4 of Special Tooling

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6 Rules as Adopted

7 8130.5550 SPECIAL TOOLING.

8 Subpart 1. **General information.** Special tooling is taxed
9 at a separate rate under Minnesota Statutes, section 297A.02,
10 subdivision 2. "Special tooling" is defined by Minnesota
11 Statutes, section 297A.01, subdivision 17, as tools, dies, jigs,
12 patterns, gauges, and other special tools. Special tooling is
13 tooling that is made to specific requirements to produce a part
14 or a series of related parts, which are known at the time the
15 special tooling is manufactured for a single customer. The
16 special tooling itself must be unique. Regardless of whether
17 tooling is fabricated for the purchaser or purchased for resale,
18 if the tooling is available from a catalog, other sales
19 literature, or over-the-counter, the tooling is standard and not
20 special tooling.

21 Because special tooling does not need to produce a direct
22 effect upon the product, nor does it need to have an ordinary
23 useful life of less than 12 months, special tooling is usually
24 different from accessory tools as defined in part 8130.5500,
25 subpart 9, (separate detachable units). Certain special tooling
26 may also be exempt from tax as separate detachable units or as
27 accessory tools because the definitions are not exclusive. See
28 subpart 3, item B.

29 Subp. 2. **Component parts.** Materials from which special
30 tooling or component parts are produced by a seller of special
31 tooling need not themselves be unique and useable only by the
32 seller who produces special tooling. For example, metal used to
33 produce special tooling need not be unique metal, only the
34 special tooling produced from the metal needs to be unique.
35 However, special tooling or components of special tooling must

1 be unique, having value and use only for the buyer of special
2 tooling.

3 Special tooling comprised of components qualifies for the
4 separate rate to the extent of the purchase price of the unique
5 components. Unique components are those components which are
6 manufactured for the special tooling and are not standard or
7 reusable. Components of special tooling which can be reused,
8 either in special tooling or general applications, do not
9 qualify for the separate rate.

10 Subp. 3. **Nonqualifying items.**

11 A. Machine tools and machinery are usually frames and
12 motors which, through tools and special tooling, perform an
13 action on materials to produce a product. They are commonly
14 purchased in a standard configuration and can be used to produce
15 parts for more than one customer. Attachments to machine tools
16 and machinery that are used with the machine tool or machinery
17 generally are not produced in accordance with special
18 requirements of the purchaser of special tooling and do not
19 qualify for the special tooling tax rate. They are not special
20 tooling. Machine tools and machinery and their accessories can
21 be used by any person other than the purchaser who wants to
22 perform a function similar to the purchaser's. This quality
23 excludes them from the definition of special tooling. Examples
24 of machine tools and machinery include:

- 25 (1) lathes;
26 (2) mills;
27 (3) machining centers;
28 (4) grinders;
29 (5) presses;
30 (6) shears;
31 (7) breaks;
32 (8) die and mold machines; and
33 (9) screw machines.

34 B. Accessory tools, as included within the definition
35 of separate detachable units, are typically standard items which
36 are loaded into a machine tool or hand-held machine and which

1 produce a direct effect on the product. The definitional
2 conditions required of exempt accessory tools in part 8130.5500
3 are that: they are separate detachable units; they are used in
4 producing a direct effect upon the product; and they have an
5 ordinary life of less than 12 months. These conditions are not
6 the same as those for special tooling. Generally accessory
7 tools can be purchased from a catalog or over-the-counter
8 without any special fabrication. Further, usually any person
9 requiring the action of an accessory tool on a product can use
10 the accessory tool, so it is not limited in use or value only to
11 the buyer. For example, anyone who needs thread cut can use a
12 tap, so it has general value and is not special tooling.

13 Although an accessory tool usually does not qualify as
14 special tooling, the statutory definitions do not preclude
15 tangible personal property from qualifying as both an accessory
16 tool and special tooling. If, for example, a cutting tool is
17 made for a special purpose which is unique to a single customer,
18 it qualifies both as an accessory tool and special tooling.
19 Examples of tools that are usually accessory tools are:

- 20 (1) drill bits;
- 21 (2) cutting tools;
- 22 (3) grinding wheels;
- 23 (4) abrasive and polishing belts;
- 24 (5) taps;
- 25 (6) reamers; and
- 26 (7) saw blades.