

Arts and Crafts

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Sales Tax Fact Sheet 154

Fact Sheet

What's New in 2015

Starting July 1, 2015, the capital equipment refund is an up-front sales tax exemption.

If you pay sales tax on purchases after June 30, 2015, you may still file a refund request for tax paid in error.

Sales

Sales of arts and crafts, except for most clothing, are subject to sales tax. This includes sales at craft shows, art fairs, flea markets and similar events, private homes, or nonprofit events such as church bazaars. If you make retail sales of taxable items in Minnesota, you must register to collect Minnesota sales tax. To register for a Minnesota ID number by phone, call 651-282-5225. Form ABR, *Application for Business Registration*, is also available on our website (www.revenue.state.mn.us).

You are not required to register if all your sales are through consignment shops or retail stores that are required to collect and report sales tax.

Examples of taxable items	Examples of nontaxable items
barrettes	aprons
belt buckles (sold separately)	baby clothes
billfolds	belts
caricatures	hats
dolls and doll clothing	mittens
jewelry	neckties
paintings	scarves
pet clothing and supplies	shoes
photo mementos	suspenders
photographs	T-shirts and sweatshirts
pottery	
purses	
sculptures	
wood carvings	

Sales tax may either be added separately to the selling price or included in the selling price. If the tax is included in the selling price, the item must be marked “tax

included” or a sign must be posted indicating that tax is included.

If your receipts include state sales tax, you should subtract the tax from your general rate sales before electronically filing your sales and use tax return. Divide your general rate sales by 1.06875 to get the taxable sales that you will report on your sales and use tax return. If local tax is also included, see the Subtracting sales tax from receipts in the Sales Tax Instruction Booklet.

For more information, see Fact Sheet 148, *Selling Event Exhibitors and Operators*.

Out-of-state sellers

Out-of-state businesses must collect Minnesota tax on all taxable sales made while in Minnesota. If you make sales to Minnesota residents after you leave the state of Minnesota, or take orders for future direct mailings, these sales may be subject to Minnesota tax. For more information, see Revenue Notice 00-10, Nexus Standards.

If you come into Minnesota for a selling event you are subject to income tax if you meet the minimum filing requirements. For more information, call 651-296-3781.

Any wages paid to employees are subject to Minnesota withholding tax requirements. For more information, call 651-282-9999.

Sales for resale

Sales of arts or crafts to a buyer who will resell them are not taxable. The buyer must give you a completed Form ST3, *Certificate of Exemption*. You must keep the certificate in your records to show why you didn't collect sales tax.

Sales to nonprofit organizations

Qualifying exempt organizations must give you a completed Form ST3, *Certificate of Exemption*, to make purchases without paying sales tax. You must keep the certificate in your records to show why you didn't collect sales tax.

Purchases

Making arts and crafts is considered to be industrial production. When you make arts and crafts to sell, you can buy the materials and other components that become part of your product without paying sales tax. For more information, see Fact Sheet 145, *Industrial Production*.

Exemption Certificate

To buy items without paying sales tax, you must give the seller a completed Form ST3, *Certificate of Exemption*. You can find Form ST3 on our website. Go to www.rev-enue.state.mn.us and type **ST3** into the Search box.

A brief summary of how sales tax applies to items you buy to make arts and crafts is listed below.

Materials that are ingredients or component parts of the product are not taxable (including paint and glue). Some materials may not become part of the product but are also not taxable because they are used only once in producing the product. For example, disposable polishing cloths or sandpaper.

Non-returnable packaging materials used to package products are not taxable.

Utilities such as electricity or gas used to run production equipment are not taxable, such as the electricity used to run a saw. However, you must pay tax on utilities used for space heating or lighting. For more information, see Fact Sheet 129, *Utilities Used in Production*.

Lubricants for production equipment (such as oil for a sewing machine) are not taxable.

Cleaning solvents used to clean your work area, or to clean equipment are taxable. However, solvents used during the production process, are not taxable.

Machinery, equipment, and tools that are used primarily to make a product qualify for the capital equipment exemption. Equipment such as a sewing machine, wood lathe, glue gun, scissors, and paint brushes may qualify if used more than 50 percent of its operating time to make a product to sell.

Beginning July 1, 2015, the capital equipment exemption is allowed at the time of purchase. You must provide your vendor with a completed Form ST3, *Certificate of Exemption*.

Before July 1, 2015, you had to pay the tax and apply for the refund.

For more information, see Fact Sheet 103, *Capital Equipment*.

Use tax

Use tax applies to taxable items or services you use in your business that were purchased without paying sales tax. Use tax is similar to sales tax and the rates are identical. Use tax is based on the cost of taxable purchases.

For example, if you buy a computer online to keep records for your business and you are not charged sales tax, you owe use tax. Another example is if you remove some of your craft items from inventory to use yourself or to give as gifts, you owe use tax on your cost of materials to make the craft.

Note: Use tax does not apply to items that you purchased without paying sales tax using an exemption certificate (as described in Purchases) unless you put the items to personal or business use.

Report state and local sales and use taxes when you file your sales tax return.

Local sales and use taxes

If you are selling 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*.

Legal References

Minnesota Statute 297A.67, subd. 8, Clothing
Minnesota Statute 297A.87, Flea markets, Shows, and
Other Selling Events

Revenue Notices

00-10, Nexus Standards

Other Fact Sheets

103, *Capital Equipment*
129, *Utilities Used in Production*
145, *Industrial Production*
146, *Use Tax for Businesses*
148, *Selling Event Exhibitors and Operators*
164, *Local Sales and Use Taxes*