

Hotels and Lodging Facilities

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Sales Tax
Fact Sheet

Hotels and lodging facilities must charge sales tax on short-term lodging and certain related services. In addition to the general sales and local taxes, city lodging taxes may also apply. The Department of Revenue administers city lodging taxes for Minneapolis, St. Paul and Rochester. See Fact Sheet 164S, Special Local Taxes, for more information.

Lodging is rental of a room or rooms for a temporary place to stay or live. Sales tax must be charged on lodging and lodging-related services furnished for a period of less than 30 days and for periods of 30 days or more if there is no enforceable written lease agreement with the customer that requires the guest to give prior notice of their intention to terminate.

Taxable lodging-related services

Charges for services provided within a guest room are treated as taxable lodging related services. The following are examples of taxable charges:

- pay per view **movies and video games**
- **cots, cribs, refrigerators, roll-away beds, and exercise equipment**
- **in-room safes**
- **laundry and dry cleaning services**
- **food or liquor** from in-room mini-bars and refrigerators
- **room service** or room delivery, including mandatory tips and gratuities
- **telephone access charges** in guest rooms

Other taxable services

Admissions to recreational areas and fees for use of recreational facilities: Includes campgrounds, golf courses, mini golf courses, picnic grounds, playgrounds, tennis courts, health clubs, swimming beaches and pools. See Fact Sheet 123, Athletic Facilities, Recreational Areas, Resorts and Campgrounds, for more information.

Cancellation vs. “no show” charges for lodging accommodations. *Cancellation* charges are not taxable—since the room was cancelled, no sale occurred and no sales tax is due. *“No show”* charges are taxable—since the room was held for the customer, a sale was made even though the customer did not arrive and failed to cancel.

Copies, including coin-operated machine receipts

Coupons. When customers use a coupon for a discount or free lodging, charge sales tax only on the amount the customer actually pays, unless the facility will be reimbursed by a third party. Subtract the coupon amount from the total price of the room and then calculate the tax. If the lodging facility is reimbursed for the coupon by a third party, charge sales tax first, and then subtract the coupon amount. See Revenue Notice #05-06 Discounts, for more information.

Damage charges. Charges for damage to tangible items, such as equipment or boats, are taxable. Charges for damage to real property, such as a hotel room or building, are not taxable. If the charge is a combination of the above and the nontaxable portion is not separately stated, it is taxable.

Equipment sales. Sales of surplus or used equipment or other items may be subject to sales tax. For additional information, see Fact Sheet 132, Occasional Sales of Business Equipment and Goods.

Fax charges

Gift shop sales. Most gift shop sales are taxable, except for food, clothing, and drugs. For additional information, see the following:

Fact Sheets 102A through E, Food and Food Ingredients, Candy, Soft Drinks and Other Beverages, Prepared Food, and Dietary Supplements

Fact Sheet 105, Clothing

Fact Sheets 117A through E, Drugs, Grooming and Hygiene Products; Durable Medical Equipment, Mobility Enhancing Equipment; Prosthetic Devices; and Health Product Exemptions

Newspapers and tabloids are not taxable. Magazines or periodicals sold over the counter or through vending machines are taxable.

Jukebox, pool table and electronic game receipts

Parking fees, including valet parking, and charges for car washing

Rental of equipment such as audio-visual equipment, computers, public address systems, tables, chairs, flowers and decorations, if billed separately from non-taxable meeting room charges.

Rental of game, athletic and recreational equipment, and boats, paddle boats, canoes, and pontoons

Food and liquor sales. If the lodging facility has a restaurant, bar or eating establishment, see Fact Sheet 137, Restaurants and Bars, for more information.

Telephone. Charges to guests for the *actual cost of telephone calls they make* are not taxable if the charge is separately stated on the guest's bill because the actual charge from the phone company to the hotel includes the sales tax. Charges to guests by hotels and other lodging establishments for *access charges* (charges for making telephone service available to the guest) are taxable. For example, if a hotel charges 50 cents per local call, it is an access charge and is taxable—the phone company doesn't charge that amount for local calls, but the hotel charges this fee for access to the telephone service.

Telephone call accounting systems. Many hotels use "call accounting systems" to track and determine the amount to charge guests for long distance telephone calls. Using these systems, hotel personnel don't know how much the actual telephone service costs until they receive their next bill from the telephone company. In this situation, the hotel must charge sales tax on the total amount billed to their guests for long distance telephone service. The hotel must also continue to pay sales tax to the telephone company for all telephone services. However, the hotel is allowed to make an adjustment to the taxable amount reported on the sales tax return by subtracting the amount they are billed by the telephone company for the actual costs of their guests' long distance calls made. This practice is only permitted when the lodging establishment can distinguish between telephone calls billed to guests and their own administrative costs for telephone service.

Tips and service charges. Tips left voluntarily by a customer are not taxable. Tips voluntarily added by the customer to a credit card slip are also not taxable.

However, when a tip or service charge is added to the bill by the seller, that amount is taxable. This is true even if the amount is separately stated or distributed directly to employees.

Vending machines, coin-operated devices, or self-service honor system. All sales of food, candy, gum, pop and other beverages through vending machines are taxable. Items sold through vending machines that are not taxable are clothing (swimsuits, pantyhose, etc.), feminine hygiene products, aspirin and other drugs, postage stamps, and newspapers. Generally, the person responsible for removing money from the vending machine or other coin-operated device is responsible for reporting and paying the sales tax. See Fact Sheet 158, Vending Machines and Other Coin-Operated Devices, for more information.

Nontaxable sales and services

The following are examples of services sold by lodging facilities that are *not* subject to sales tax:

- coat check
- meeting room or banquet hall rental
- messenger service
- rented space: Lodging facilities often enter into "management agreements" to provide space for a restaurant, barbershop, car rental booth or other vendor to operate. Sales tax is due on that portion of the lease or rental attributable to use of the equipment, phones, furniture, parking spaces, etc.
- gift certificates: Sales of gift certificates are not taxable. A gift certificate is treated the same as cash. When a gift certificate is redeemed, charge sales tax on any taxable amount and use the gift certificate as payment.

Sales to schools and nonprofit organizations

Lodging is taxable when sold to schools, school districts and nonprofit organizations, or their personnel, even when billed directly to the school or nonprofit organization. *A Certificate of Exemption cannot be used to purchase lodging exempt from sales tax.*

Sales to government agencies

Federal government: Lodging billed directly to and paid for by the federal government and its agencies are not taxable. However, lodging billed to an employee who is reimbursed by the federal government is taxable.

Federal employees sometimes make purchases with credit cards. There are four different types of cards issued by the federal government to employees.

- Travel Cards: For travel expenses related to official government travel (airline, hotel, meals, incidentals);
- Fleet Cards: For fuel and supplies for government vehicles; and
- Purchase Cards: For purchasing general supplies and services; and
- Integrated Cards: Two or more business lines (card types) whose processes are integrated into one card.

Travel Cards - VISA, prefix 4486 or 4614; and MasterCard, prefix 5568 or 5565, are usually used for lodging, meals, and car rentals. The sixth digit of these cards determines whether or not to charge sales tax.

If the *sixth digit is 1, 2, 3, or 4*, purchases made with these cards are billed directly to the federal employee, who is reimbursed by the federal government. Purchases made using these cards **are taxable**.

If the *sixth digit is 0, 6, 7, 8, or 9*, purchases using these cards are billed directly to and paid for directly by the federal government. Purchases made using these cards are **not taxable**.

Fleet Cards – VISA, prefix 4486, 4614, 4716; MasterCard, prefix 5565, 5568; Voyager, prefix 8699; and Wright Express, prefix 5565, are usually used for fuel and maintenance of vehicles, planes, boats, and equipment. Purchases using these cards are billed directly to and paid for directly by the federal government. Therefore, these purchases are **not taxable**.

Purchase Cards - VISA, prefix 4486, 4614 or 4716; MasterCard, prefix 5565, or 5568 are usually used for expenses such as computers, furniture, office supplies, services, etc. Purchases made with these cards are billed directly to and paid for directly by the federal government. Purchases made with these cards are **not taxable**.

Integrated Cards - One card is used for *all* types of purchases. The prefixes and the guidelines are the same as listed above.

Tribal Council or Government of an Indian Reservation in Minnesota: All sales billed to and paid by a tribal government for short-term *on-reservation* lodging of tribal officials acting in their governmental capacity are exempt.

Off-reservation short-term lodging and related services for tribal officials are exempt only if the tribal government has a tax agreement with the Minnesota Department of Revenue that exempts purchases off the reservation by the tribal government solely for its own use. All Minnesota tribal governments have such an agreement, except for the Prairie Island Mdewakanton Community.

This exemption does not apply to rooms rented by the tribal government to be used by others as part of a promotional package or for a similar business use.

State government: Lodging sold to state government agencies is taxable. This includes not only the State of Minnesota but also all other states. State agencies must pay both state and local taxes, where applicable. Minnesota state agencies cannot use their direct pay status to buy lodging exempt from sales tax.

Local government: Lodging sold to local government agencies is taxable. Local governments include Minnesota and non-Minnesota counties, cities, municipalities, townships, political subdivisions, commissions, special districts, and government boards.

Local governments must pay *state* sales and use tax, but are not required to pay *local* general sales and use taxes. However, local governments are required to pay other special lodging and restaurant and liquor taxes imposed by local governments. See Fact Sheet 164S, Special Local Taxes, for more information.

Foreign Consular Officials: The U.S. Department of State's Office of Foreign Missions issues sales tax exemption cards to qualifying foreign diplomats and consular personnel stationed in this country. The card contains the official's picture, name, description, individual tax exemption number and information about the extent of the exemption.

Ask to see the consular official's ID card. Make sure the purchase qualifies for the exemption by checking the information on the card. For example, some cards will state that the official must pay sales tax on charges for hotel rooms or on purchases under a certain dollar amount. You may also ask to see additional forms of identification. If the official qualifies for the exemption, write the individual tax exemption number found on the card on the billing or sales invoice. Keep this in your file as proof of exemption.

Direct pay status

Companies that have Minnesota direct pay status and hold a direct pay number **may not** use it to purchase lodging, meals, or other services exempt from the tax.

Taxable purchases

All equipment purchased or leased to provide lodging accommodations is taxable. If the seller does not collect Minnesota **sales tax**, you must report the **use tax** directly to the Department of Revenue. **Use tax** is based on the cost of the taxable items and is reported when you electronically file your sales and use tax return. Local use tax also applies if you are located in an area with a local tax. See Fact Sheet 146, Use Tax for Businesses, for more information.

The following are typical taxable purchases:

- beds and mattresses
- building cleaning and maintenance services including carpet, drapery and upholstery cleaning
- cleaning products and supplies
- coin-operated amusement devices
- draperies and bedspreads
- exercise equipment
- furniture and pictures
- kitchen appliances, coffee makers
- laundry and dry cleaning services including cleaning of linens and uniforms
- lawn care and landscaping supplies
- lawn care services
- linens and towels
- office supplies, forms
- paper cups, tissue, supplies
- pool supplies and chemicals
- postcards, stationery, envelopes, pens
- security services
- snow removal equipment
- soap, shampoo, complimentary personal items
- specialty advertising materials
- telephones, radios, televisions, VCRs and DVD players
- utilities

Hotels and lodging facilities must pay sales or use tax on the cost of paper plates, cups, napkins, etc. furnished as part of a free meal or drink. Liquor given away is subject to the general sales tax rate, any applicable local taxes and the 2.5 percent liquor gross receipts use tax. **Free meals and drinks** are those that you give away with no stipulations (no purchase necessary), such as free appetizers, free drinks given in response to a customer complaint, or free birthday dessert.

Free meals and drinks don't include packaged deals such as complimentary breakfasts, "2 for 1", free child meal with purchase of an adult meal, or coupon meals. The

paper plates, cups, napkins, etc., furnished as part of a package deal may be purchased exempt for resale.

Supplies for **repair or redecorating** are taxable if they are purchased *without installation*. Examples are: air conditioning units, carpeting, electrical supplies, fabric, light fixtures, lumber and hardware, paint, plumbing fixtures and supplies, wallpaper, etc.

Exempt purchases

Items that are actually resold or held exclusively for lease or rental to the customer **and billed separately from the lodging accommodations** may be purchased exempt from tax. Give your supplier a fully completed Certificate of Exemption, Form ST3, using the resale exemption code. Examples of items that can be purchased exempt for resale or rental are: pop, candy and other items that will be sold over the counter or in vending machines; recreational equipment to be rented separately; paper cups, napkins, etc. sold as part of a meal or drink; and guest laundry services.

Local sales and use taxes

If you are located 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.

Several cities impose special local taxes on sales of specific items such as food, liquor, lodging and entertainment which the Department of Revenue administers. See Fact Sheet 164S, Special Local Taxes and Revenue Notice #05-11: Local Lodging, Restaurant and Liquor Taxes for more information.

Other lodging taxes. Some cities and localities administer their own lodging tax authorized under M. S. 469.190. For more information on these taxes, contact each city directly.

References

M. S. 297A.61, Subd. 3(g)(2) Lodging
M. S. 297A.61, Subd. 7, Sales Price
M. S. 297A.70, Subd. 2(b)(4), Sales to government
M. S. 297A.70, Subd. 4(b)(3), Sales to nonprofit groups
M. S. 469.190, Local lodging tax

Revenue Notice #05-11: Local Lodging, Restaurant and Liquor Taxes

Other fact sheets that may be of interest:

Local Sales and Use Taxes, #164

Sales to Government, #142

Special Local Taxes, #164S

Use Tax for Businesses, #146

Vending Machines and Other Coin-Operated Devices, #158
