

Storage and Warehousing Services

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Sales Tax Fact Sheet

What's New in 2014

Starting April 1, 2014, business-related storage and warehousing services are subject to sales and use tax.

Minnesota sales and use tax is due when a business buys storage or warehouse services for its tangible personal property, except as noted below.

“Tangible” refers to property that can be seen, weighed, measured, felt or touched. The tax does not apply to digital storage services.

Storage and warehousing services are subject to the tax where the storage or warehouse is located.

No tax is due when a company stores its inventory in its own warehouse, separate from its production facility.

Reminder: Warehousing or storage is not a taxable service when it is provided by a parent company or affiliate group, or on an isolated or occasional basis.

Taxable storage and warehousing

Beginning April 1, 2014, Minnesota sales and use tax applies to business-related warehousing and storage services for tangible personal property.

Storage and warehousing facilities take responsibility for storing goods and keeping them secure. They do not sell the goods they handle.

They may also provide other services, often referred to as “logistics services,” related to the distribution of goods.

All logistics services associated with taxable storage and warehousing services are also taxable.

Logistics services can include labeling, breaking bulk products down into smaller shipments, inventory control and management, light assembly, order entry and fulfillment, packaging, “pick and pack” (storage and repackaging of products for shipment), price marking and ticketing, and arranging for transportation.

Examples of taxable storage and warehousing services:

- Document storage and warehousing (not digital storage)
- Coal storage
- Customs (foreign trade) warehousing
- General warehousing and storage of goods
- Hazardous waste storage
- Lumber storage terminals
- Liquor warehousing
- Self-storage services the purchaser can deduct as a business expense on its federal income tax return
- Storage for construction machinery or supplies

Nontaxable storage and warehousing

The following items and warehouse or storage services are exempt from this tax:

- Agricultural products
- Refrigerated storage
- Electronic data storage
- Self-storage services and storage of motor vehicles, recreational vehicles, and boats (when those services cannot be deducted as a business expense)
- Petroleum products (interstate petroleum terminals)

These exemptions are discussed in more detail on the following pages.

Local taxes

If a storage or warehouse facility is in an area with local sales taxes, they also apply. For more information, see Fact Sheet 164, Local Sales and Use Taxes.

Agricultural Products Exemption

Sales and use tax does not apply to warehousing and storage services for “agricultural products.” For this purpose, an agricultural product is one that:

- results from agricultural production;
- is in a raw state; and
- has not been packaged for the end user’s consumption (that is, for final retail sale).

What is “agricultural production”?

Under state law, agricultural production includes the following activities *when they result in a retail product*:

- Cultivating, planting, raising and harvesting crops
- Rearing, feeding and managing livestock, dairy animals, poultry, fur-bearing animals, pets, research animals, and horses
- Cultivating plants and animals in water (including hydroponics and fish farms)
- Cultivating fruits, vegetables, plants, flowers, and sod
- Caring for and cultivating forest trees
- Harvesting maple syrup
- Raising or keeping honey bees

For more information, see Fact Sheet 100, Agricultural Production.

When is a product in a “raw state”?

An agricultural product is in a raw state if it has not been processed and is recognizable from its primitive or adult state. Examples include a seed and a tree, or an egg and a chicken.

Once a product has been processed, it is no longer in a raw state. Its warehousing and storage is then subject to the sales tax, with the exception of refrigerated storage.

For purposes of this tax:

- “Processing” includes any process, step, or operation – after agricultural production has ended – that creates or produces tangible personal property.

Examples include sawing, cutting, mixing ingredients, assembling, grinding, and dehydrating. (Minnesota Rules 8130.0700, subpart 1)

- Processing does not include treating agricultural products before or during storage to prevent or eradicate insects, fungi, mold, bacteria, and other

biological organisms. Examples include grain drying and applying wax to produce.

What is “packaged for the end user’s consumption”?

An agricultural product has been packaged for the end user’s consumption when it is packaged for retail sale. Once that happens, warehousing and storage of that product is taxable even if it is still in a raw state.

For purposes of this tax:

- Packaging means the final container in which the product is placed for consumption by the end user. Examples include cartons, cans, bags, boxes, jars, and bottles.
- Packaging does not include reusable items or materials that temporarily hold the product for loading, unloading, hauling, transportation, or storage. Examples include skids and pallets.

Sale and transportation of products

Transporting an agricultural product from one warehouse or storage facility to another, or selling the agricultural product while it is in the facility does not make the warehousing or storage services taxable – regardless of the intended use of the product once sold.

The warehousing and storage charges are not taxable as long as the agricultural product remains in a raw state and is not packaged for the end user’s consumption.

Materials used in agricultural production

Sales tax does not apply to the sale and purchase of materials used or consumed in agricultural production. But warehousing and storage charges are taxable for those materials unless some other exemption or exclusion applies. For example:

- Sales and use tax does apply to warehousing and storage for chemicals used to clean equipment or treat waste, petroleum products and lubricants, and chemical fertilizers.
- Sales and use tax does not apply to warehousing and storage services for tree saplings, feed, and untreated seeds that are used or consumed in agricultural production. That is because they meet the definition of agricultural product on their own – as long as they are not processed or packaged for the end user’s consumption.

Agricultural products – examples

The following examples highlight some of the products that are exempt from the sales and use tax on warehouse and storage services, and some that are not exempt.

- Exempt as “agricultural products”: wheat, sweet corn, feed corn, apples, potatoes, lettuce, green beans, sugar beets, crop seeds,

tree saplings, flax, soybeans, hay, raw wool, cows, sheep, other animals, eggs, grain

- Not exempt: Products such as cheeses, flour, bottled honey, sugar (raw or refined, soymilk, barley malt

Note: If any of these items are in refrigerated storage, the warehousing and storage charges are not taxed, because refrigerated storage is not subject to sales tax.

Refrigerated Storage Exemption

Sales and use tax does not apply to warehousing and storage services for “refrigerated storage.”

“Refrigerate” means to make or keep cold or cool; to freeze or chill for preservation.

Examples include:

- Food lockers
- Frozen food lockers
- Cold or refrigerated warehousing

Electronic Data Storage Exemption

Sales and use tax does not apply to warehousing and storage services for “electronic data.”

All electronic data is stored at some point in time. Usually the data is saved on an electronic storage device.

A data storage device is any mechanism used to record data so it can be retrieved and used later.

Examples include:

- Online storage
- DVDs
- Flash drives
- Hard drives

Self-Storage and Storage of Motor Vehicles, Recreational Vehicles, and Boats Exemption

Sales and use tax does not apply to self-storage and storage of motor vehicles, recreational vehicles, and boats that cannot be deducted as a business expense on your federal income tax return.

What is “self-storage”?

“Self-storage” is a storage service that provides secure areas, such as rooms, units, compartments, or containers that are designated for the use of the purchaser.

The purchaser must retain care, custody, and control of their own property. Purchases should have:

- Unlimited free access
- Free access within reasonable business hours
- Free access upon reasonable notice to the service provider

Self-storage areas may be accessible from inside or outside a building. Examples include:

- Mini-storage units
- Portable storage units

Self-storage does **not** include:

- Rental of an entire building, such as a warehouse
- Storage where the warehouse staff and equipment typically handle, store, and retrieve the items (and the purchaser has no free access to the storage space)

Storage of motor vehicles, recreational vehicles, and boats

Storage fees for motor vehicles, recreational vehicles, and boats **are not** taxable when storage is contracted for a time where access is generally infrequent such as several months or winter storage.

Petroleum Products Exemption

Storage of petroleum products in general is taxable. For example, a petroleum storage company that supplies fuel at an airport is providing taxable storage of petroleum.

But petroleum products – like other tangible property – are exempt from sales and use tax when being moved through Minnesota as part of interstate commerce. In certain cases, this exemption also applies to the storage of petroleum products.

For sales tax purposes, there is a difference between storage and parking. Parking generally means access is frequent or daily.

For more information, see Fact Sheet 166, Parking Services.

Interstate petroleum transporters

Storage of petroleum products is not subject to sales and use tax when the storage or terminal fees are bundled with the Federal Energy Regulatory Commission (FERC) tariff.

References

M.S. 297A.61, subd. 3, Sale and purchase
M.S. 297A.61, subd. 57, Self-storage service
M.S. 297A.68, subd. 13, Outstate transport or delivery
M.S. 17A.03, subd. 5, Livestock

Fact sheets that may be of interest

100, Agricultural Production
116, Petroleum Products
164, Local Sales and Use Taxes
166, Parking Services