Did you know?
Most sales from vending machines are taxable.
The sales price always includes applicable sales tax.
Products purchased for use in game machines are taxable.

If you own or operate vending machines, the information in this fact sheet will help you understand which sales are taxable, how to compute the tax, and who is responsible for reporting the sales.

Food and drinks
All food and drinks sold from vending machines are taxable. Sales from snack boxes such as ‘honor boxes’ and powdered beverage dispensers are treated the same as vending machine sales and are taxable.

Schools: A new law beginning July 1, 2002, taxes all food and drinks sold from vending machines at all schools. However, transitional language was provided for pre-kindergarten through 12th grade schools, independent and special school districts, and certain secondary vocational schools. If a vending machine contract was entered into before May 30, 2002, food sales from vending machines at these schools will be exempt until July 1, 2003.

Health care products
Nonprescription analgesic products are not taxable, even when sold through a vending machine. Examples include:
• aspirin (acetylsalicylic acid)
• acetaminophen (e.g., Tylenol)
• ibuprofen (e.g., Advil)
• ketoprofen (e.g., Orudus KT)
• naproxen (e.g., Aleve)
• any non-prescription analgesic approved by the U.S. Food and Drug Administration

Baby care products such as diapers, baby oil, baby shampoo, and baby bottles are not taxable.
Feminine hygiene products are not taxable.
Combs, condoms, cosmetics, cough drops, hand lotions, mouthwash, nail clippers, shampoo, soap, tissues, toothbrushes, toothpaste, and similar products are taxable.

Request Fact Sheet 117, Health Products, for additional examples of taxable and nontaxable health care items.

Clothing
Clothing sold through vending machines is not taxable. Bathing suits, diapers, and stockings are examples of nontaxable clothing items. Jewelry, ear or nose plugs, sunglasses and other taxable items are taxable whether sold through vending machines or elsewhere. Request Fact Sheet 105, Clothing, for more information and examples.

Miscellaneous items
Photocopies are taxable whether the customer operates the copy machine or the business operates it.

Vending machine sales of items such as books, cigarettes, color crayons, magazines, pencils, phone cards, sewing kits, shoe polish, shoe shine cloths, souvenirs, and writing tablets are taxable.

Animal feed sold from vending machines is taxable, including sales from dispensers located at parks and zoos.

Baggage cart rentals are taxable.
Newspapers and postage stamps are not taxable.
Receipts from coin-operated machines that check blood pressure or pulse rate are not taxable.
Receipts from parking meters and from coin-operated showers, lights, and toilets are not taxable.
Products purchased for resale

When you buy items to sell in a vending machine, you should buy them without paying sales tax. Give the seller a Certificate of Exemption, Form ST3, using Code F – Resale, to buy the items without paying tax. If the seller will not accept the exemption certificate, or if, for some other reason, you pay sales tax when you buy the products you resell in a vending machine, you may deduct the sales tax paid on these products from the tax you remit when filing your sales tax return. See the example in the section Subtracting sales tax from your gross receipts on page 3.

Entertainment machines

Receipts from coin-operated entertainment and amusement machines are taxable. Examples include fortune telling machines, cranes, foosball and pool tables, video and pinball games, batting cages, rides, photo or video booths, and jukeboxes.

Purchases or leases of records, disks, tapes, and CDs used in jukeboxes are taxable. If the seller or lessor doesn’t charge sales tax, you must pay use tax. For more information, see the section Use tax in the next column.

Receipts from sales of pull tabs sold through dispensing devices are not subject to sales tax. For more information on taxes that apply to gambling devices, contact the Special Taxes Division of the Minnesota Department of Revenue at 651-297-1772.

Tokens, tickets, and prizes

Most prizes given away to winners of games of chance, amusement, or skill are taxable to operators of the machines. Some operators of vending machines use tokens to operate the machines or tokens to be redeemed for prizes. The operator must pay tax on purchases of tokens, tickets and prizes unless the item itself is exempt or unless the exemption below applies.

Beginning July 1, 1999, there is an exemption for prizes for games of skill or chance conducted at events such as carnivals, festivals, and fairs lasting less than six days. Give the seller a Certificate of Exemption, Form ST3, using Code I and write in “Prizes”, to claim exemption.

Coin-operated laundries

Generally, laundry and dry cleaning services are taxable. However, receipts from coin-operated washers and dryers that are operated by the customer are not taxable. Products such as laundry detergents, bleach, softeners, candy, and soft drinks sold on the premises of coin-operated laundry facilities, or anywhere else, are taxable.

Car washes

Receipts from coin-operated car washes and vacuums are taxable. Sales of towels, chamois cloths, cleaning supplies, and deodorizers sold through vending machines are also taxable. Request Fact Sheet 113, Motor Vehicle Towing, Washing, Rustproofing, for more information on purchases and sales by car wash operators.

Machine purchases

When you buy or lease a new or used vending machine or other coin-operated device for use in Minnesota, you must either pay sales tax or accrue use tax on the purchase price or lease payments.

Many vending machine suppliers are located outside Minnesota and may not collect Minnesota sales tax. If you weren’t charged Minnesota sales tax, you must report use tax on the purchase or lease payments. If a Minnesota company buys a machine for temporary use in another state and later brings it into Minnesota for use, use tax is due on the purchase price of the machine. If you were required to pay another state’s sales tax, but it was lower than Minnesota’s rate, the use tax is based on the difference in rates. For more information on use tax, see Use tax, below.

Minnesota sales or use tax is due on purchases of vending machines, coin-operated devices, or other taxable items if you buy them in Minnesota and take possession here. If you buy them outside Minnesota and store them here, Minnesota tax is due even if the machines are later shipped out of Minnesota for use. There are two exceptions:

- If the machines or devices will be transported outside Minnesota for use in a state or country where they are not subject to sales or use tax, no Minnesota tax is due.
- If the machines or devices are brought into Minnesota by common carrier and kept in a public warehouse before being transported out of Minnesota, no Minnesota tax is due.

Parts and repairs

Sales or use tax must be paid on parts used to repair machines. Repair labor is not taxable if the repair labor is separately stated on the invoice. If labor is not separately stated, the entire amount of the invoice is taxable.

Use tax

Sales tax is generally charged by the seller at the time of sale. However, if the seller does not charge Minnesota sales tax on machines, prizes, tokens, or repair parts, you must pay use tax. Use tax is due on your cost.
of the item when no Minnesota sales tax was charged by the seller at the time of sale. See Fact Sheet 146, Use Tax for Businesses, for more information about use tax.

Who remits the tax?
Sales tax due from vending machines must be reported by the vending machine operator. If you are the one who removes the money, you must report and remit the tax on all sales. This includes all vending machines you operate including soft drink and candy machines in employee break rooms.

Some cities may require licenses or permits to place vending machines at specific sites. Even if the permit must be obtained by the owner of the premises, sales tax is still the responsibility of the operator of the machine.

Subtracting sales tax from your gross receipts
Sales tax is always calculated on total receipts from vending machines and amusement devices. You cannot deduct the cost of items sold, machine rental, or space rental. If an operator pays rental fees or a percentage of profits or receipts to the owner of the machine’s location, sales tax must be calculated before any fees or commissions are deducted.

Vending machine receipts include all applicable state and local sales tax. Since vending machine receipts include the sales tax collected, you need to subtract the sales tax from your receipts before you electronically report your sales and use tax.

If your sales include tax collected at the rate of 6.5 percent, divide the receipts by 1.065 or multiply by .939. The result is the total dollar amount of sales NOT including sales tax. Fill in this calculated amount as the General rate sales amount when you electronically file your return. If your receipts include a combination of state tax and local tax, use the following chart to compute the sales amount.

<table>
<thead>
<tr>
<th>If tax rate is:</th>
<th>Divide receipts by: or</th>
<th>Multiply by:</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.5%</td>
<td>1.065</td>
<td>.939</td>
</tr>
<tr>
<td>7.0%</td>
<td>1.07</td>
<td>.935</td>
</tr>
<tr>
<td>7.5%</td>
<td>1.075</td>
<td>.930</td>
</tr>
<tr>
<td>10.0%</td>
<td>1.10</td>
<td>.909</td>
</tr>
</tbody>
</table>

Here is an example using 6.5 percent as the tax rate.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total receipts from</td>
<td>$200.00</td>
</tr>
<tr>
<td>machine</td>
<td></td>
</tr>
<tr>
<td>Multiply by .939 from</td>
<td>$187.80</td>
</tr>
<tr>
<td>chart</td>
<td></td>
</tr>
<tr>
<td>Taxable sales equal</td>
<td>$187.80</td>
</tr>
<tr>
<td>Sales tax equals</td>
<td>$ 12.20</td>
</tr>
</tbody>
</table>

When you electronically file your sales and use tax return, report taxable sales of $188 because you must round to whole dollars. Sales tax is $12 and will be calculated by the electronic filing system.

If you already paid sales tax on products that you sell through vending machines, make an adjustment before you report the sales on your return. Report the full sales amount as Gross receipts. However, report only the difference between the sales price of the item and your cost of the item (not including tax) as General rate sales, and on any applicable local tax line. Since you already paid tax on your cost of the item, this adjustment will result in reporting tax on your markup only.

Separating taxable and nontaxable sales
Both taxable and nontaxable items may be sold through the same vending machine. Unless these sales are separately documented, all sales are considered taxable. For example:

A hotel vending machine sells aspirin (nontaxable) along with taxable items. Records indicate 10 bottles of aspirin were sold at $2 each.

$2 x 10 bottles = $20 in nontaxable sales

Assume total vending sales (including tax) for this period were $150. Calculate your return as follows:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total sales</td>
<td>$150.00</td>
</tr>
<tr>
<td>Nontaxable sales</td>
<td>- 20.00</td>
</tr>
<tr>
<td>Gross taxable sales</td>
<td>$130.00</td>
</tr>
</tbody>
</table>

Then follow the previous formula to compute gross sales:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross taxable sales</td>
<td>$130.00</td>
</tr>
<tr>
<td>Multiply by .939 from</td>
<td>$122.07</td>
</tr>
<tr>
<td>chart</td>
<td></td>
</tr>
<tr>
<td>Taxable sales (excluding tax)</td>
<td>$122.07</td>
</tr>
</tbody>
</table>

Report $122 (rounded to the nearest whole dollar) as the General rate sales on your return. Sales tax is $8 and will be calculated by the electronic filing system.

To compute Gross receipts, add the gross taxable sales (excluding tax) and the nontaxable sales.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross taxable sales</td>
<td>$122.07</td>
</tr>
<tr>
<td>Nontaxable sales</td>
<td>+ 20.00</td>
</tr>
<tr>
<td>Gross receipts</td>
<td>$142.07</td>
</tr>
</tbody>
</table>

Round to the nearest whole dollar to report $142 as Gross receipts when you electronically file your sales and use tax return.

If the vending machine is located in an area where local sales tax applies, be sure to use the appropriate factors from the chart.
Equipment sales
If you sell or lease equipment or other items that were used in your business, the sale may be subject to sales tax. Request Fact Sheet 132, Occasional Sales of Business Equipment and Goods, for more information.

Required records
You must keep your receipts for all products, equipment, and repair parts that you buy. If you sell both taxable and nontaxable items from vending machines, you must keep accurate records separating the sales of nontaxable items from the taxable sales. Be sure to keep any other records that show you have accurately reported your sales and that you have paid any use tax due on purchases.

Local sales and use taxes
If you are making sales in an area with a local tax, local sales or use tax may also be due. Local taxes are listed and explained in Fact Sheet 164, Local Sales and Use Taxes, and Fact Sheet 164S, Special Local Taxes. (Note: Minneapolis entertainment tax also applies to the charge to use amusement devices or games in Minneapolis.)

Sales on Indian Reservations
Because of tax agreements in effect with the following Indian Reservations, sales from vending machines and other coin-operated machines that occur on the following reservations should be taxed according to the guidelines in this fact sheet:

- Bois Forte Chippewa Reservation
- Fond du Lac Chippewa Reservation
- Grand Portage Chippewa Reservation
- Leech Lake Chippewa Reservation
- Lower Sioux Reservation
- Mille Lacs Chippewa Reservation
- Shakopee Mdewakanton Sioux Reservation
- Upper Sioux Reservation
- White Earth Chippewa Reservation

We have a tax agreement with the Red Lake Chippewa Reservation. However, because of the terms of the agreement, sales occurring on the Red Lake Chippewa Reservation are not subject to Minnesota sales tax.

There is no agreement in place with the Prairie Island Sioux Reservation. Therefore, sales occurring on the Prairie Island Sioux Reservation, or delivered by the seller onto this reservation, to Prairie Island members who live on the reservation, are not subject to Minnesota sales tax.

Machine sales. Sales of vending machines or any gaming machines, equipment or devices to any of the Indian tribal governments or tribally owned business entities for use on the reservation are exempt from sales tax.

References:
M. S. 297A.61, Subd. 3(d)(4) Sale and purchase
M. S. 297A.61, Subd. 34. Food sold through vending machines
M. S. 297A.67, Subd. 5. Exempt meals at schools

Other fact sheets you may need:
Use Tax for Businesses, #146
Local Sales and Use Taxes, #164
Special Local Taxes, #164S
A Step-by-Step Guide to Filing and Paying Sales and Use Tax Electronically, #170