

# Hotels and Lodging Facilities

Hotels and lodging facilities must charge sales tax on short-term lodging and certain related services. If the lodging facility has a restaurant, bar or similar facility, see Fact Sheet 137, Restaurants and Bars, for more information.

## Taxable sales and services

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

**Taxable related services.** Following are examples of other items or services sold by lodging facilities that are subject to sales tax:

**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, Recreational Areas, Resorts and Campgrounds, for more information.

**Cable TV and in-room movie charges**

**Copies**, including coin-operated machine receipts

**Cot and crib** rental charges

**Fax charges**

<b>Table of contents</b>	
Taxable sales and services .....	1
Nontaxable sales and services .....	2
Other sales and charges .....	2
Sales to schools and nonprofit organizations .....	2
Sales to government agencies .....	2
Direct pay status .....	3
Taxable purchases .....	3
Exempt purchases .....	4
How to report sales and use tax .....	4
Local sales and use taxes .....	4
References .....	4

**Food and liquor** sales from an in-room courtesy bar

**Jukebox, pool table and electronic game receipts**

**Laundry services:** Charges to guests for laundry or dry cleaning services are taxable. Note: Charges for the use of self-service coin-operated laundries and dry cleaning facilities are not taxable.

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

**Popcorn prepared by the vendor**

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

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

**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.

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## Nontaxable sales and services

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The following are examples of related 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. However, sales tax is due on that portion of the lease or rental attributable to use of the equipment, phones, furniture, parking spaces, etc.

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## Other sales and charges

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**Gift shop sales.** Most gift shop sales are taxable. However, the taxability of food, clothing, and health products depends on the item sold. 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 Sheet 117, Health Products

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

**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.

**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 didn’t show up.

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

**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.

**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, cigarettes, pop and other beverages sold 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 analgesics, 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.

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## Sales to schools and nonprofit organizations

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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.*

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## Sales to government agencies

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**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 using credit cards. There are four different types of cards issued by the federal government to employees. **Travel Cards** - VISA, prefix 4486 or 4716; MasterCard, prefix 5568. 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 using 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** - Voyager (VISA), prefix 8699; MasterCard, prefix 5568. 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. Purchases made using these cards are **not taxable**.

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

**Combined Cards** (formerly called Integrated Cards) – One card is used for *all* types of purchases. The prefixes and the guidelines are the same as listed above. In addition, cards with prefix 5568-16 and the agency's ID# 14-0001849 are taxable. For the items listed under **Travel Cards**, taxability depends on the sixth digit. All purchases of items listed under **Fleet Cards** and **Purchase Cards** are exempt from sales tax.

**Tribal Council or Government of an Indian Reservation in Minnesota:** The usual sales tax exemptions apply. Also, 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 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.

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## Direct pay status

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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.

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## Taxable purchases

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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:

- building cleaning and maintenance services including carpet, drapery and upholstery cleaning
- cleaning products and supplies
- coin-operated amusement devices
- draperies and bedspreads
- 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 and VCRs
- 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 6.5 percent use tax (the 9 percent liquor tax rate only applies to *sales* of liquor). **Free meals and drinks** are those that you give away with no stipulations (no purchase necessary), such as free appetizers, free drink given in response to a customer complaint, or free birthday dessert.

Free meals and drinks *do not* include package deals such as complimentary breakfast, free child meal with purchase of an adult meal, or special offers such as two for one. 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.

The items become taxable when they are purchased from a Minnesota seller or enter Minnesota, unless the sales tax was paid at the time of purchase. **Note:** Shipping and/or handling charges on taxable purchases are also taxable.

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## 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 Certificate of Exemption, Form ST3, use exemption code G, to buy these

items exempt. 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.

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## How to report sales and use tax

If sales tax is not separately stated but included in your sales price, your records may show only the total dollar amount of receipts without a breakdown of the sales tax (e.g., vending machine receipts). You must subtract sales tax from your receipts so you can complete your return correctly. See “Subtracting sales tax from receipts” in the Sales and Use Tax Instruction Booklet for more information.

Report state and local sales and use taxes electronically either on the Internet or by phone. See Fact Sheet 170, A Step-by-Step Guide to Filing and Paying Sales and Use Tax Electronically, and the Sales and Use Tax Instruction Booklet for details on how to file your return.

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## 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.

**Minneapolis and Rochester.** In addition to the general sales tax in Minneapolis and Rochester, city lodging taxes also apply. See Fact Sheet 164S, Special Local Taxes, for more information.

**Other lodging taxes.** Other cities and localities administer their own lodging tax authorized under M. S. 469.190. For more information on these taxes, contact the appropriate city hall.

**Duluth** administers its own sales and use tax. For more information, contact Duluth Sales Tax, 105 City Hall, Duluth, MN 55802, phone 218-723-3271.

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## References

M. S. 157, Food, Beverage and Lodging Establishments  
M. S. 297A.61, Subd. 3(g)(2) Lodging  
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

**Other fact sheets you may need:**  
Sales to Government, #142  
Use Tax for Businesses, #146  
Local Sales and Use Taxes, #164  
Special Local Taxes, #164S