

Motor Vehicle Sales Tax

The motor vehicle sales tax (MVST) has become an important funding source for transportation, although it had not historically been allocated solely to transportation. A constitutional amendment passed in 2006 will result in 100 percent of MVST revenues going to transportation purposes starting in fiscal year 2012.

MVST imposition and collection

The motor vehicle sales tax, or MVST, is a 6.5 percent tax applied to the sale of new and used motor vehicles. [Minn. Stat. § 297B.02](#). It is imposed instead of the general sales tax and is based on the purchase price of the vehicle. Some older autos as well as collector's vehicles have a flat tax instead. MVST is collected by auto dealers at the time of sale or when the vehicle is registered (for private party sales).

Periodic MVST dedication to transportation

The legislature first directed a portion of MVST revenue to highways and transit in 1981, with the intent that it supplement other transportation funding sources. Over the ensuing years, the percentage allocated to transportation was periodically changed and suspended; it was eliminated beginning in fiscal year 1992.

2000-2001 tax policy changes affecting MVST

Two changes in tax policy re-established MVST allocation for transportation. First, the 2000 Legislature placed caps on registration taxes (tab fees) for passenger vehicles, which reduced the amount of revenue collected. Registration taxes are dedicated exclusively to streets and highways, and the legislature made up for the losses to highway funds by providing MVST revenue. Second, the 2001 Legislature prohibited the use of property tax levies for metropolitan transit operations. It replaced property tax revenue with allocations from MVST for both metropolitan and greater Minnesota transit.

Rather than provide new funding for transportation, these MVST allocations to highways and transit were intended primarily to offset reductions in other taxes. One effect was to shift some transportation funding from local to state sources.

2003 re-allocation to transit

In the 2003 session, the legislature increased the percentage of MVST revenue going to transit, but it was done without increasing the overall MVST allocation to transportation. The additional funding for transit was partially to make up for reductions in general fund appropriations for bus service throughout Minnesota (which was largely due to overall budget cuts), and partly to reduce local responsibility for Hiawatha light rail transit operating costs.

In effect, increased transit funding came from a reduction in the amount of MVST revenue going to the state trunk highway system. MVST revenue allocated to the highway user tax distribution (HUTD) fund was decreased with a corresponding increase in allocations to the metro area and greater Minnesota transit funds. Funds in the HUTD fund are constitutionally dedicated to state, county, and municipal highways and streets. The county state-aid highway fund and the municipal state-aid street fund received direct allocations from MVST revenue in order to offset the

reduction in their portions of the HUTD funding (holding those funds “harmless”).

The MVST constitutional amendment

At the 2006 general election, the voters approved a constitutional amendment dedicating all MVST revenue to transportation purposes. The amendment includes a phase-in period: 63.75 percent of the revenue must be dedicated to transportation purposes in fiscal year 2008, with the transportation share growing by 10 percentage points per year until reaching 100 percent starting in fiscal year 2012.

The constitutional language also requires that “no more than 60 percent” of the revenue go to the HUTD fund and “not less than 40 percent” go to public transit assistance. [Minn. Const. art. XIV, § 13](#). These distribution limits establish a ceiling for allocation to highways and a floor for allocation to transit. Within the distribution limits, the Constitution allows legislation to set the actual division between highways and transit.

MVST phase-in and allocation

Legislation passed in 2007 allocated MVST revenue under the phase-in. It was modified in 2009 by shifting additional funds from highways to transit for fiscal years 2010 and 2011, which was designed to help address transit deficits. [Minn. Stat. § 297B.09](#).

In fiscal year 2012, after the phase-in, the revenues will be distributed 60 percent to highways and 40 percent to transit (with the transit portion consisting of 36 percent for the metropolitan area and 4 percent for greater Minnesota).

MVST Phase-In Allocation

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012+
HUTD fund	30.00%	38.25%	44.25%	47.5%	54.5%	60.00%
County state-aid highway fund	0.65					
Municipal state-aid highway fund	0.17					
Metropolitan transit	21.50	24.00	27.75	31.5	35.25	36.00
Greater Minnesota transit	1.43	1.50	1.75	4.75	4.00	4.00
General fund	46.25	36.25	26.25	16.25	6.25	0.00

Note: Percentage allocations for transit in fiscal years 2010-11 include dollar caps not discussed here.

Additional MVST revenue

Additional revenue for transportation (with a corresponding reduction in revenue for the general fund) is estimated at about \$252 million in fiscal year 2012, the first year in which the MVST dedication is fully phased in. This represents a drop from a 2006 estimate of \$285 million, which is due to decreased MVST collections.

Additional Revenue from MVST Phase-In

(amounts in millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
HUTD fund	\$32.0	\$54.2	\$71.8	\$108.1	\$152.3	\$162.8
Metropolitan transit	17.9	32.1	49.1	70.2	84.3	90.1
Greater Minnesota transit	1.3	2.2	15.2	13.2	15.0	16.0
General fund	(51.3)	(88.5)	(136.1)	(191.5)	(251.6)	(269.0)

Note: Amounts are actual for fiscal years 2008-10 and estimated for subsequent fiscal years based on the Nov. 2010 forecast.

For more information: Contact legislative analyst Matt Burress at 651-296-5045. See also the House Research publication [Motor Vehicle Sales Tax Chronology](#), August 2009.

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