

Taxation of Motor Vehicle Leases

Motor vehicle leases are subject to the 6.875 percent general sales tax

While the *sale* of a motor vehicle is subject to the 6.5 percent motor vehicle sales tax imposed under Minnesota Statutes, chapter 297B, the *lease* of a motor vehicle is subject to the general sales tax of 6.875 percent imposed under [Minnesota Statutes, chapter 297A](#). (The general sales tax is a 6.5 percent tax, plus an additional 0.375 percent imposed under the state constitution until July 1, 2034.) The general sales tax is imposed on all motor vehicle leases regardless of duration. There are also some additional taxes and fees imposed on short-term leases of certain motor vehicles under the general sales tax chapter. The timing of the payment of the sales tax depends on the length of the motor vehicle lease.

Most short-term leases are also subject to an additional 9.2 percent tax and 5 percent fee

Short-term rentals of 28 days or less of passenger motor vehicles are subject to a tax of 9.2 percent in addition to the general 6.875 percent tax. They are also subject to a fee of 5 percent. (A lessor with no more than 20 vehicles for lease and no more than \$50,000 in gross receipts in the previous calendar year may opt out of charging the 5 percent fee.) Motor vehicles subject to this tax and fee include automobiles, passenger vans with a carrying capacity of three-fourths of a ton or less, and pickup trucks with a carrying capacity of no more than three-fourths tons or a gross vehicle weight of less than 10,000 pounds. It does not apply to a taxicab, hearse or limousine used for funerals, or cargo vans. The total taxes plus fees on a short-term lease is 21.075 percent of the lease price.

Vehicles rented from a nonprofit car-sharing company are exempt from the extra tax and fee

A nonprofit corporation that runs a short-term vehicle rental service for members only (often known as a car-sharing company) is exempt from the additional tax and fee on short-term motor vehicle leases provided that:

- the charge to members is priced based on intervals of one hour or less, and the rate does not decline with increased use (measured by time or distance);
- vehicles are parked at unstaffed self-service spots that are accessible 24 hours a day; and
- the nonprofit corporation insures the vehicle on the members' behalf, and pays for all fuel.

A *for-profit* car-sharing company is still subject to the additional short-term tax and fee.

The total sales tax is due upfront on most long-term motor vehicle leases

Generally the sales tax on a leased item is due incrementally at the time of each lease payment. However the total sales tax owed over the entire lease agreement is due at the time that the lease is executed for long-term leases of most motor vehicles. This upfront sales tax payment *does not* apply to a motor vehicle lease if:

- the lease agreement is for 28 days or less; or

- the motor vehicle has a manufacturer’s gross vehicle weight rating of more than 10,000 pounds (this excludes large commercial vehicles).

The state receives the revenue at the time of the lease agreement, either because the lessee pays the tax when the lease is executed or the lessor pays the tax at the time of the agreement and builds the amount of the tax into the periodic lease payments.

Most sales tax revenue on motor vehicle leases goes to dedicated funds

Most of the sales taxes imposed on long- and short-term motor vehicle leases goes to dedicated transportation funds. The exceptions are the sales tax paid on primarily commercial motor vehicle leases that are not subject to either the extra short-term lease tax and fee or the upfront sales tax payment requirement, and the revenue from the extra 0.375 percent general tax that is constitutionally dedicated to other funds. As indicated below the short-term lease fee mainly remains with the lessor.

Distribution of Taxes and Fees Imposed on Motor Vehicle Leases

Tax or Fee	Allocation of Revenue	Amount allocated in FY 2018
6.5% general tax	<p>For revenues from vehicles leases subject to the upfront sales tax payment:</p> <ul style="list-style-type: none"> • 38% to the county state-aid highway fund • 38% to the greater Minnesota transit account • 13% to the Minnesota state transportation fund • 11% to the highway user tax distribution fund (HUTDF) <p>For revenues from vehicles leases subject to the extra short-term tax and fee:</p> <ul style="list-style-type: none"> • 100% to the HUTDF <p>For revenues on all other motor vehicle leases:</p> <ul style="list-style-type: none"> • 100% to the general fund 	<p>\$94.5 million</p> <p>\$17.2 million</p> <p>Not available</p>
0.375% additional general tax	<p>All revenue is allocated as follows:</p> <ul style="list-style-type: none"> • 33% to the outdoor heritage fund • 33% to the clean water fund • 14.25% to the parks and trails fund • 19.75% to the arts and cultural heritage fund 	\$5.4 million
9.2% short-term lease tax	100% to the HUTDF	\$24.4 million
5.0% short-term fee	The lessor of the vehicle retains the fee to cover the motor vehicle registration fee on the leased vehicle; any fee collected in excess of that amount is remitted to the state with 100% going to the HUTDF	\$2.0 million (Amount transferred to the HUTDF)

For more information: Contact legislative analyst Pat Dalton at 651-296-4472. Also see the House Research publication *Motor Vehicle Sales Tax*, February 2016.

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