

The motor vehicle sales tax has become a significant transportation funding source after passage of a 2006 constitutional amendment that dedicates its revenue. Fiscal year 2018 revenue was \$772.4 million, distributed 60 percent to state and local highway systems, 36 percent to Twin Cities metropolitan area transit, and 4 percent to transit in Greater Minnesota.

## Motor Vehicle Sales Tax Imposition

The motor vehicle sales tax, or MVST, is a 6.5 percent tax applied to the sale of new and used motor vehicles registered in Minnesota. The rate is based on the purchase price, and the tax is imposed instead of the state general sales tax. [Minn. Stat. §§ 297B.02, 297B.13](#). MVST is collected by auto dealers at the time of sale or by deputy registrars when the vehicle is registered (for private sales).

## Exceptions to the Tax

There are various MVST exceptions and exemptions.

- A flat tax rate applies for most low-value automobiles that are at least ten years old (at \$10) as well as for some collector vehicles (at \$150).
- Various exemptions are provided depending on the entity purchasing the vehicle or the vehicle use. This includes purchases by: the federal government, towns exclusively for road maintenance (but not including passenger vehicles and pickup trucks), transit providers for transit service, educational institutions for use in automotive training programs, and a person who resided outside Minnesota for at least 60 days prior to becoming a Minnesota resident (if the vehicle had been registered elsewhere).
- Some types of vehicles do not need to be registered to operate on public roads and are therefore exempt from MVST, including fire apparatuses, marked police vehicles, and marked ambulances. [Minn. Stat. §§ 168.012](#), subd. 1; [297B.02](#); [297B.025](#); [297B.03](#).

## Historical Allocation

Historically, MVST revenue had been allocated both to the state's general fund and to transportation purposes, with periodic changes and suspension in the amount provided to transportation. A series of legislative changes from 2000 to 2003 resulted in increased MVST revenue distributed to roads and transit. (However, the modifications essentially offset reductions in other funding sources like the general fund, rather than to substantially increase transportation funding.) Changes connected to MVST reallocations during this period included: (1) placing caps on the amount of registration taxes (tab fees) collected on motor vehicles (which were subsequently removed in 2008); and (2) eliminating local property taxes as a core funding source for Twin Cities metropolitan area transit operations.

## The 2006 Constitutional Amendment

At the 2006 general election, voters approved a constitutional amendment dedicating all MVST revenue to transportation purposes. Constitutional language established a floor for revenue allocation to transit and a ceiling for allocation to roads. It required that:

- “not less than 40 percent” goes to public transit assistance; and

- “no more than 60 percent” of the revenue goes to the Highway User Tax Distribution (HUTD) fund, which in turn is constitutionally dedicated to state and local highways. [Minn. Const. art. XIV, § 13.](#)

The amendment also specified a phase-in period for shifting revenue from the state’s general fund to transportation; this occurred over fiscal years 2008 to 2012.

## MVST Allocation

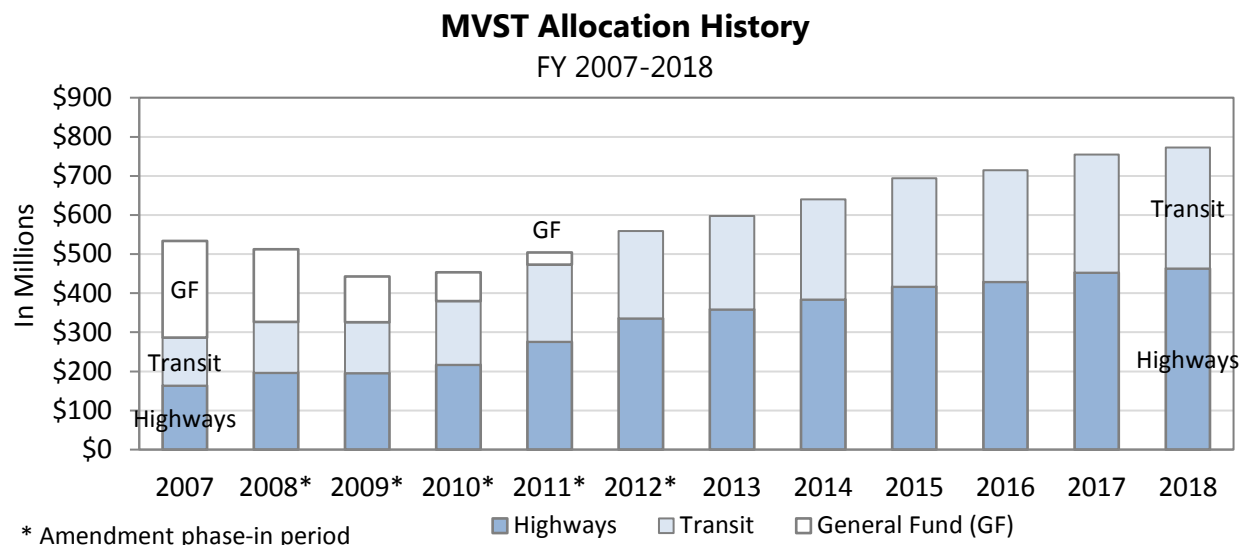
Within the constitutional constraints, the legislature can set the division between highways and transit by statute. Legislation passed in 2007 allocated MVST revenue for the phase-in period and after. [Minn. Stat. § 297B.09.](#) The legislature temporarily modified the allocation in 2009 by shifting additional funds from highways to transit only for fiscal years 2010 and 2011 (which was designed to help offset reductions in transit funding from the general fund).

Since fiscal year 2012 (at completion of the phase-in), revenue is distributed:

- **60 percent to highways** (via the Highway User Tax Distribution fund); and
- **40 percent to transit**, which consists of 36 percent for the Twin Cities metropolitan area and 4 percent for Greater Minnesota.

## Revenue

Fiscal year 2018 MVST revenue was \$772.4 million. The chart below summarizes historical revenue and distribution. Note that while the phase-in over fiscal years 2008 to 2012 increased transportation funding, the net increase over that period was impacted by reduced MVST collections during an economic downturn. Following the downturn, the average annual revenue growth is about 6.4 percent (calculated over fiscal years 2012 to 2018).



**For more information:** See the House Research publication *Highway Finance*, January 2019.



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