



Motor Vehicle Industry Guide

This information describes the sales and use tax topics related to the motor vehicle industry. Use the links in the Guide Menu to see information about that topic.

Sales and Transfers

Motor Vehicle Sales Tax is due on most motor vehicle purchases or transfers. See the topics under Sales and Transfers in the Guide Menu for more details about that topic.

Motor Vehicle Sales Tax

Motor Vehicle Sales Tax is due on most motor vehicle purchases or transfers.

Tax is due every time that a title transfers, unless an exemption applies. This includes sales by car dealers, leasing companies, private individuals, or any other type of business.

A motor vehicle is any vehicle that requires a license for road use, such as:

- Cars
- Motorcycles
- Motor homes
- Pickups
- Trailers
- Commercial and non-commercial trucks
- Semi/Truck-tractors
- Tractors
- Vans

The tax rate is 6.5% of the vehicle purchase price. This tax is paid to a deputy registrar or [Driver and Vehicle Services of the Department of Public Safety](#) when the title is transferred.

A lower sales tax rate applies to sales of older passenger vehicles, collector vehicles, and collector fire trucks. See miscellaneous motor vehicle taxes section for more information.

Gifted or Donated Vehicles

The motor vehicle sales tax applies to the fair market value of the vehicle at the time of the gift or donation.

For more information, see the [Driver and Vehicle Services of the Department of Public Safety](#) website.

Note: A business cannot use their direct pay authorization to buy motor vehicles exempt from tax.

Calculating the Vehicle Purchase Price

The purchase price is determined by subtracting any rebates and trade-in allowance from the vehicle sales price.

Vehicle sales price
- Rebates
- Trade-in allowance

= Purchase price of vehicle
x 6.5% Motor Vehicle tax rate

= Motor Vehicle Sales Tax

Vehicle Sales Price

The vehicle sales price includes:

- Price of the vehicle
- Charges for labor performed (such as rustproofing, undercoating, dealer preparation, and transportation)
- Charges for accessories (such as running boards and mud flaps)
- Federal excise tax when it is imposed at the wholesale level and passed on to the customer

Rebate

Any rebate, regardless of origin, is deducted from the sales price of a motor vehicle before calculating the tax.

The rebate must have a fixed value at the time of purchase.

The rebate may be:

- Shown on the purchase agreement as a reduction in the vehicle purchase price
- Applied as a down payment
- Refunded directly to the customer

The deduction applies to manufacturers' rebates and rebates issued by third parties who entered into an agreement with vehicle manufacturers.

Example

A credit card company offers car rebates as an incentive for buyers to use their credit card. The credit card company and vehicle manufacturer entered into a third-party agreement to offer the rebate. The rebate is deducted from the taxable sales price of the vehicle.

Note: Rebates from off-road vehicles – such as watercraft, all-terrain vehicles, and snowmobiles – do not reduce the sales price of a motor vehicle before calculating sales tax.

Trade-In Allowance

A trade-in allowance reduces the purchase price when the seller takes a motor vehicle in trade.

The vehicle must be titled in the name of the customer trading in the vehicle except in the following situations:

- A child is trading in a vehicle titled in his or her parent's name
- An individual is trading in a vehicle titled in his or her spouse's name

The trade-in of an off-road vehicle does reduce the purchase price of a motor vehicle. However, sales tax for the motor vehicle is calculated on the full purchase price before the trade-in allowance.

What type of vehicle is being purchased?	What type of vehicle is being traded in?	What price is sales tax calculated on?
Motor vehicle	Motor vehicle	The purchase price after subtracting the trade-in allowance
Motor vehicle	Off-road vehicle	The purchase price before subtracting the trade-in allowance

For more information, see [Off-Road Vehicle](#).

Charges Not Subject to the Motor Vehicle Sales Tax

Do not charge the motor vehicle sales tax on:

- Extended warranties
- Federal excise tax that is imposed at the retail level and separately stated on the customer's invoice
- Luxury tax on cars
- Registration, license, and document fees

Vehicle Disability Accessible Modifications

Charges for parts, accessories, and labor to make a vehicle disability accessible are not taxable.

To claim this exemption when buying a vehicle, the applicant must provide a statement describing the modifications and the value. Attach the statement to the application for title of the vehicle.

If the modifications are made after the purchase, the purchaser or owner must give the vendor a completed [Form ST3, Certificate of Exemption](#).

Local Vehicle Excise Taxes

Local sales tax does not apply to sales of vehicles. Instead, a local vehicle excise tax may apply to sales of motor vehicles registered for road use.

When Do Local Vehicle Excise Taxes Apply?

Vehicle excise tax must be collected by any person in the business of selling new or used motor vehicles at retail in certain areas.

Individuals, institutions, businesses, non-profit organizations, and state and local government agencies must pay the excise tax.

Businesses selling motor vehicles in a county or a city with a vehicle excise tax must collect a \$20 tax on each vehicle and report it on their Minnesota sales and use tax return. They must collect the excise tax even if the buyer is not from Minnesota and will register the vehicle in another state.

All buyers must pay local vehicle excise taxes except for:

- Federal government agencies
- Vehicles not required to be licensed for road use (marked police cars, fire trucks, ambulances)
- Vehicles for resale

The Minnesota Department of Revenue administers the vehicle excise tax for some counties. For information on the vehicle excise taxes we administer, see [Local Sales and Use Taxes](#).

Some cities and counties administer their own excise tax. Contact your city or county for more information.

Note: This fee is not collected by the deputy registrar or the [Driver and Vehicle Services of the Department of Public Safety](#).

Miscellaneous Motor Vehicle Taxes

Some vehicles have different tax rates than most.

Older passenger vehicles

Instead of the 6.5 percent Motor Vehicle Sales Tax, a \$10 tax applies if the vehicle meets all of the following:

- The vehicle is 10 years or older; and
- it has a sales price and average value of \$3,000 or less;

Note: The deputy registrar has the authority to determine a vehicle's value by using nationally recognized sources of information on vehicle resale values.

This tax is paid to a deputy registrar or the [Driver and Vehicle Services of the Department of Public Safety](#) when the title is transferred.

Collector Passenger Vehicles and Fire Trucks

Instead of the 6.5 percent Motor Vehicle Sales Tax, a \$150 tax applies to collector passenger vehicles and fire trucks. A "collector passenger vehicle" is a motor vehicle manufactured from 1925 to 1948 and designated as a collector car.

This tax is paid to a deputy registrar or the [Driver and Vehicle Services of the Department of Public Safety](#) when the title is transferred.

Small Price Vehicle Transfer

When a vehicle is transferred at a small price, the Motor Vehicle Sales Tax is calculated on the average value of similar vehicles.

Motor Vehicles Not Registered in Minnesota

When the customer states they will register the vehicle in another state, you must verify the customer's name and address listed on their driver's license and the signed contract.

If you can verify this information, the sale is not subject to the Minnesota Motor Vehicle Sales Tax.

Vehicles Owned By a Non-Minnesota Business Entity

When a non-Minnesota business owns a motor vehicle that is operated by a Minnesota resident, it is presumed that the Minnesota resident is the owner of the motor vehicle when two or more of the following are true:

- The business lacks a specific business activity or purpose
- The business maintains no physical presence in the jurisdiction where it is organized
- The business earns de minimis or no revenue
- The business maintains minimal or no business records
- The business fails to employ individuals and does not provide W-2 wage statements
- The business does not file federal income tax returns or fails to file state income tax in the state they are organized

A motor vehicle is under the control of a Minnesota resident when the following conditions are met:

- The vehicle is driven by a Minnesota resident
 - The resident is a partner, member, or shareholder of the business entity
 - The resident is insured to drive the vehicle
 - Operates or stores the vehicle in Minnesota for any period of time
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Lemon Law

Minnesota's vehicle warranty statute, also known as Minnesota's Lemon Law, helps protect buyers who buy or lease a new car, pickup truck, or van that is still under the original manufacturer's warranty (See [Minnesota Statute 325F.665](#)).

For more information, call the Attorney General's Office at 651-296-3353 [📞](#) or 1-800-657-3787 [📞](#).

If the vehicle qualifies for a refund under the Lemon Law, then the manufacturer is responsible for refunding the sales tax.

Refunds

If the motor vehicle sales tax was paid in error on the purchase of a vehicle, then the customer should file a refund claim directly with the Driver and Vehicle Services of the Department of Public Safety by using a [Claim for Motor Vehicle Refund](#) form.

The Minnesota Department of Revenue does not issue refunds for motor vehicle sales tax paid in error.

Insurance reimbursements

If your car is totaled and you receive reimbursement for the value of the vehicle, no sales tax refund is allowed.

Once a title is issued, the tax is not refundable unless it falls under the state Lemon Law.

Vending Machine Sales

The only taxable food sold through vending machines or honor boxes is prepared food, soft drinks, candy, and dietary supplements.

For more information see, [Vending Machines and Other Coin-Operated Devices](#).

Local sales tax

Some cities and counties have local sales and use taxes.

If you make sales into or are located in an area with a local tax, you may owe local sales or use tax. For more information, see [Local Sales and Use Taxes](#).

How to Determine Sales Tax Rate

Use the location where the product is received by the customer, typically your business or a delivery address.

You can use the Sales Tax Rate Map or [Sales Tax Rate Calculator](#) to help you determine the sales tax rate.

Note: The map and rate calculator do not include special local taxes.

For more information, see:

- [Local Sales Tax Information](#)
 - [Minneapolis Special Local Taxes](#)
 - [Special Local Taxes](#)
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Nontaxable Transactions

Some vehicle transactions are exempt from Motor Vehicle tax, open the sections below for more details.

Motor Vehicle Tax Exemptions

Some transactions are exempt from Motor Vehicle tax depending on who purchases the vehicle, as listed in the table below. For these sales, you must keep on file Form PS2000, Application to Title/Register a Vehicle, showing the exemption code.

Who is the customer?	They can buy the following vehicles exempt from Motor Vehicle Tax
Ambulance service	Ambulances sold or leased to an ambulance service (public or private) licensed under Minnesota Statutes 144E.10, Ambulance service licensing Note: Exemption includes accessory items used to initially equip ambulances and repair and replacement parts for ambulances
Disabled veterans	Any vehicle Note: Purchaser must have grant assistance under U.S. Code, title 38, section 3902
Federal government and its agencies	All vehicles (purchased, leased, or rented)
Federally Qualified Health Center	Vehicles used only as mobile medical units for providing medical and dental services by a federal qualified health center. Leases of these vehicles are taxable.
Job opportunity building zone (JOBZ)	Vehicles primarily garaged, used as part of, or in direct support of, the buyer's operations carried on in a JOBZ zone. To claim exemption, the business must provide a written statement indicating they: <ul style="list-style-type: none"> • are a qualified JOBZ business • have a Business Subsidy Agreement
Library	Vehicles used as a bookmobile or delivery vehicle
Metropolitan Transit Council	Buses (purchased or leased)
Municipal fire department	Fire trucks, pumper trucks, hook and ladder trucks, and clearly marked trailers Note: Exemption includes items used to assemble or initially equip these vehicles or items that are permanently attached to the qualified vehicle
Nonprofit group	Trucks, buses, or automobiles primarily designed to carry at least 10 people. Note: Limited to groups organized for charitable, religious, or educational purposes to transport goods and people, but not employees. State or local government organizations, schools, universities, or private bus companies do not qualify for this exemption.
Police department	Marked police patrol vehicles Note: Exemption includes accessory items used to initially equip the vehicle

Who is the customer?	They can buy the following vehicles exempt from Motor Vehicle Tax
Private non-profit or public school	Vehicles used as instructional aids in a vehicle body and mechanical repair course. Note: This exemption does not include vehicles used in driver education programs.
Public or private transit operations	Vehicle used for transit services. Vehicles used to provide transportation services for the elderly or disabled may also qualify. To qualify, the provider must receive financial assistance or reimbursement under Minnesota Statute 174.24 or 473.384, or operate under Minnesota Statute 174.29, 473.388, or 473.405.
Ready-mix producer	Ready-mix concrete trucks
Township	Snow plows, dump trucks, and other motor vehicles used only for road maintenance Note: This exemption does not include automobiles, vans, or pickup trucks. This exemption does not apply to purchases by other local governments.
Volunteer fire department	Fire trucks, pumper trucks, hook and ladder trucks, trailers, or components used to assemble these vehicles Note: Exemption includes components to assemble these vehicles and accessories, replacement parts, and repair parts.

For more information, see:

- [Emergency Services](#)
- [Government - Local Governments](#)

Nontaxable Motor Vehicle Transfers

The following title transfers are not taxable:

- By inheritance, including transferring a motor vehicle inherited upon death
- From joint tenancy to one of the joint tenants for no monetary consideration
- From an individual into the individual's revocable trust.
- Between husband and wife in a divorce proceeding
- By gift between:
 - Spouses
 - Parents and a child
 - Grandparents and a grandchild

No affidavit is required when a gifted motor vehicle is transferred between these relatives.

- Between related companies as defined in Internal Revenue Code sections 118, 331, 332, 336, 337, 351, 355, 721, 731, 1031, 1033, or 1563(a). For more information, see [Isolated and Occasional Sales](#).

- A gift to a 501(c)(3) nonprofit organization when the motor vehicle is used exclusively for religious, charitable, or educational purposes
- A gift from a limited used vehicle dealer licensed (nonprofit charitable organization) to an individual – if there is no monetary or other consideration, or the expectation of consideration. The transferring parties must sign an affidavit when transferring the title.

Motor Vehicles Purchased in Other State

If you bought and titled your vehicle under your name for at least 60 days in the other state, tax is not due when you register the vehicle in Minnesota.

If a Minnesota resident registered and paid sales tax to another state, Minnesota allows credit for tax paid to the other state. If the other state's tax rate is lower, then tax is due on the difference in rates to Minnesota.

Buying For Resale

If a buyer has a dealer's or lessor's license and is in the business of selling or leasing vehicles, the purchase for resale is not taxable. Without a dealer's license, individuals cannot purchase a motor vehicle exempt for resale.

The type of dealer's license the buyer has restricts what vehicles they can buy for resale. For example, a person licensed as a used car dealer cannot buy a new car exempt for resale. For more information, contact the Dealer's Unit of the Department of Public Safety at 651-201-7800 [S](#).

Dealer Plates

Motor vehicle dealers must place dealer plates on any vehicle they buy for resale and use for demonstration purposes, which include use by:

- the dealer, dealer's spouse, or any full-time employee of the dealership
- a part-time employee for business purposes of the dealer
- prospective buyers

It is illegal to use dealer plates on vehicles that are used for other purposes such as loaner vehicles, tow trucks, service trucks, or parts vehicles.

Interstate Motor Carriers

Interstate truckers may have a Motor Carrier Direct Pay authorization that allows them to pay a prorated tax on their vehicle when it is registered with the Department of Public Safety.

For more information, see [Transportation Service Providers](#).

Vehicles that Don't Require Registration

If vehicles are not registered for road use, they are not subject to the Motor Vehicle Sales Tax. Examples include:

- All-terrain vehicles
- Certain trailers
- Mini-bikes
- Off-road motorcycles
- Other off-road vehicles

Note: These vehicles are subject to the Minnesota general sales tax rate and any local sales tax rate that applies.

For more information, see the [Off-Road Vehicle](#). Off-road vehicles may have to be registered with the Minnesota Department of Natural Resources (DNR). For more information, see the [DNR website](#).

Leases

Motor vehicle leases are subject to Minnesota sales tax. These sections show how much tax is collected, when, and nontaxable charges.

Motor Vehicle Leases

Motor vehicle leases are subject to the Minnesota general rate sales tax and any local sales taxes that apply. Sales tax is collected on the total up-front lease price and reported on your next Sales and Use Tax return. Up-front leases include:

- New and used vehicles that require a license plate and have a gross vehicle weight rate of 10,000 pounds or less
- Vehicles for business or personal use
- Vehicles principally garaged in Minnesota (Local sales tax also applies if the vehicle is principally garaged in an area with a local tax.)

Note: Sales tax is due up front for lease renewals, just as it is for new leases. The up-front tax does not apply to rentals of vehicles for 28 days or less or to vehicles with a gross vehicle weight rate of over 10,000 pounds. The federal excise tax on certain heavy trucks is taxable to the lessor on the lease, even if separately stated on the customer's invoice or contract.

For leases of 28 days or less, see [Short-Term rentals](#).

Calculating Sales Tax

The total lease price is taxable. Sales tax is collected on the total lease price and must be collected up-front. To determine the total lease price, subtract any rebates, residual, and trade-in allowance from the vehicle value and add in any taxable add-ons, interest, and finance charges, as shown below:

Vehicle value
- Rebates
- Residual value
- Trade-in allowance
+ Taxable add-ons
+ Interest/finance charges

= Total lease price
x 6.875% Minnesota general sales tax rate and any local sales taxes that apply

= Sales tax

Vehicle Value

The vehicle value is the selling price of the vehicle. It is not necessarily the manufacturer's suggested retail price. Cash down payments or capitalized cost reductions do not reduce the vehicle value.

Capitalized Cost Reduction

Capitalized cost reduction is an amount or a combination of amounts that reduce a monthly payment. Examples include:

- cash down payment
- trade-in allowance
- rebate
- discount
- credit

Rebate

Any rebate, regardless of origin, is deducted from the vehicle value.

Residual Value

Residual value is what a leased vehicle is worth at the end of the lease term. The amount is documented in the lease.

If the customer buys the vehicle at the end of the lease for the residual amount, that amount is taxable. If the residual amount is adjusted, sales tax applies to any additional amount collected by the lessor when the customer pays for the vehicle. For example, if the residual amount is adjusted at the end of the lease because of excess mileage, the additional amount is taxable.

Trade-In Allowance

The trade-in allowance reduces the vehicle value when a lessor accepts a used vehicle as part of the lease transaction. The customer must own (not lease) the trade-in vehicle and must trade it in to the lessor named on the lease agreement.

If the customer owes money on the trade-in vehicle, the payoff amount to a lender does not reduce the trade-in allowance, even if the payoff amount is included in the new lease transaction.

Interest/Finance Charges

Interest or finance charges are the cost to carry the amount capitalized under the lease. The example below shows how to calculate tax on a lease.

Vehicle value	\$25,000
- Rebates	- \$1,000
- Residual value	- \$10,000
- Trade-in allowance	- \$5,000
+ Taxable add-ons	+ \$400
+ Interest/finance charges	+\$2,116
<hr/>	<hr/>
= Total lease price	\$11,516
<hr/>	<hr/>
x 6.875% Minnesota general sales tax rate	
<hr/>	<hr/>
= Sales tax	\$791.73

If the customer finances the up-front tax, do not include the associated finance charge in the taxable amount. Instead, spread the tax amount and finance charge over the term of the lease as in the example below:

Taxable amount \$11,516.00
Term of lease ÷ 36 months

Base monthly payment \$319.88

Capitalized tax amount (791.73 ÷ 36 months) + 21.99
Interest on capitalized tax +1.50

Total lease monthly payment \$319.88

Who Collects the Tax?

Sales tax is collected by the lessor named on the lease. Typically, the dealer is the lessor on the lease; the dealer may later assign the lease to a leasing company.

Lessors must report and pay the tax on their Sales and Use Tax returns (do not pay the tax to a deputy registrar). If you have local tax to report, report it on the applicable local tax line.

Sales tax on excess mileage fees is collected by the lessor holding the lease contract at the end of the lease.

When the lessee buys a vehicle at the end of the lease term, the lessee must pay the tax on the buyout amount to the Department of Public Safety when they register the vehicle (transfer the title).

Sourcing Motor Vehicle Leases

For vehicle leases or rentals, the source of the transaction for sales tax purposes depends on whether the customer pays all at once or over time:

- **Single payment** – sourced to the location where the customer receives the property being leased.
- **Multiple payments** – sourced to the primary location of the property, which may not be the same location as the business. The primary location is the address the customer provides for the property and does not change by occasional use at different locations.

Note: These rules do not affect how sales tax applies to lump-sum or accelerated-basis leases, or to the acquisition of property for lease.

Nontaxable Charges

Do not charge sales tax on:

- Acquisition, document, title, and registration fees
- Gap and service contract premiums
- Insurance
- Warranty or extended warranty contracts
- Refundable security deposits

Lease Cancellation

Within 90 Days or Lemon Law

Sales tax may be refunded if a lease is cancelled within 90 days or the vehicle is returned to the manufacturer under Minnesota's Lemon Law. The customer may request a refund of the total sales tax paid minus any tax due for the period the vehicle was used.

The lessor must issue the refund if the amount of tax paid up-front is \$500 or less. If the tax is more than \$500, the customer may request a refund from the department using [Form ST11, Sales and Use Tax Refund Request](#).

After 90 Days

If a lease is cancelled after 90 days, the lessor can give the customer a credit, but cannot issue a refund for the tax paid. The customer has 30 days to use the credit on the lease or purchase of another vehicle. The credit reduces the tax on a new purchase or lease of a vehicle.

Note: Only the customer can use the credit; it cannot be transferred or assigned to another person.

Make sure you keep documentation of the lease cancellation, including:

- Origination date, initial term, and amount of sales tax paid on the cancelled lease
- Date of the cancellation
- How the credit was calculated

Tax Credit Calculation

The tax credit is calculated with a prorated lease term based on the number of full months left in the lease:

Months remaining in the lease ÷ Months in the original lease agreement = Prorated lease term
 Prorated lease term x Sales tax paid on the lease = Tax credit

Example: A 36-month lease is cancelled midway through the 12th month. There are 24 months left in the lease. The customer paid sales tax of \$1,375 on the vehicle lease. The tax credit is calculated as follows:

Prorated lease term = $24 \div 36 = 0.67$

Tax credit = $0.67 \times \$1,375 = \921.25

Lease Originating in Another State

If a lease originates in another state and the customer later transfers the motor vehicle to Minnesota, sales tax may be due in Minnesota. The lessor is responsible for collecting and remitting tax to Minnesota. The tax due depends on when the sales tax is paid and the other state's tax rate, as shown in the table below.

When is sales tax paid on the lease?	How does sales tax apply in Minnesota?
Up front on the total lease price	If the other state's sales tax rate is more than Minnesota: <ul style="list-style-type: none"> • No sales tax is due in Minnesota • No tax refund is allowed If the other state's sales tax rate is less than Minnesota: <ul style="list-style-type: none"> • Once the vehicle is registered in Minnesota, tax is due on each remaining lease payment • The amount is based on the difference in sales tax between the other state and Minnesota (including any local taxes that apply).

When is sales tax paid on the lease?	How does sales tax apply in Minnesota?
On each lease payment	<ul style="list-style-type: none"> • Once the vehicle is registered in Minnesota, tax is due on each remaining lease payment. • The amount is based on the state general sales tax rate and any local taxes that apply.

Short-Term Rentals

Short-term motor vehicle rentals are leases of vehicles under an agreement for 28 days or less. Short-term rentals for certain motor vehicles are subject to the following:

- Minnesota general sales tax rate
- Any local taxes that apply
- 9.2 percent Motor Vehicle Rental Tax
- 5 percent Motor Vehicle Rental Fee, if applicable

Individuals, institutions, businesses, nonprofit organizations, and Minnesota state and local government agencies must pay the rental tax and fee, in addition to the general state sales tax and any applicable local sales tax.

The Motor Vehicle Rental Tax and Fee are due on all rental agreements that meet the following requirements:

- The vehicle is a passenger automobile (designed to carry up to 15 passengers including the driver) including:
 - Passenger car
 - Passenger van with a carrying capacity of 3/4 ton or less (rated by the manufacturer)
 - Pickup truck with a carrying capacity of 3/4 ton or less (rated by the manufacturer)
- The period of the agreement is 28 days or less
- The customer takes possession of the vehicle in Minnesota

Note: The Motor Vehicle Rental Tax and Fee apply to short-term rentals, such as daily or weekly, even if the customer keeps the vehicle for more than 28 days. (Because the agreement is for 28 days or less, even if the customer keeps the vehicle for more than 28 days.)

Rentals Not Subject to Motor Vehicle Rental Tax and Fee

The 9.2 percent rental tax and 5 percent rental fee do not apply to rentals of:

- Ambulances rented to ambulance services
- Box trucks and trailers
- Buses, school buses, or specially licensed commuter vans
- Buses converted to provide temporary living quarters
- Conversion vans equipped with at least four of the following:
 - Liquid propane gas cooking stove

- Heating or air-conditioning unit separate from the vehicle engine
- Refrigerator
- Self-contained or externally connected toilet
- Separate electrical power supply
- Water supply system including a sink with a faucet
- Limousines that include the services of a driver
- Limousines used in a burial or funeral services
- Motorcycles and motor scooters
- Motor homes
- Passenger vehicles used to provide licensed taxi services
- Vans designed or adapted primarily for transporting property (with or without a barrier between the operator and the cargo areas)
- Vehicles rented to federal government agencies
- Vehicles that have a camper mounted on the chassis of the vehicle

Note: The 9.2 percent rental tax and 5 percent rental fee do not apply to short-term rentals if the vehicle is either:

- exempt from Minnesota general sales tax and local taxes
- not a passenger vehicle, pickup truck, or van as defined in this section

Rentals Not Subject to the Motor Vehicle Rental Fee

The 5 percent rental fee does not apply to rentals by certain nonprofit car-sharing entities whose members pay the organization for the use of a motor vehicle (passenger vehicles, pickup trucks, vans). The fee does not apply if the organization:

- Owns or leases a fleet of vehicles that are available to individual or group members to use for intervals of one hour or less
- Parks its vehicles at unstaffed, self-service locations that are accessible any time of day
- Provides maintenance, insurance, and fuel for the vehicle
- Does not provide discounts or lower rates for increased use

Note: Member fees are subject to the state general sales tax, the 9.2 percent rental tax, and any local taxes that apply.

Motor Vehicle Lessor Exemption

A lessor may choose to be exempt from collecting the 5 percent rental fee if, in the prior calendar year, the lessor had either:

- No more than 20 motor vehicles available for rent
- \$50,000 or less in gross receipts subject to the rental fee

Reporting the Rental Tax and Fee

These sections will show details about reporting the Motor Vehicle Rental Tax and Motor Vehicle Rental Fee.

Reporting the 9.2 Percent Rental Tax

Calculate the 9.2 percent rental tax on the same amount that you use to figure the general state sales tax. Report the calculated tax on the "Car Rentals" line of your sales tax return. Make sure you also report the general sales tax and any applicable local sales taxes on the return.

Reporting the 5 Percent Rental Fee

Calculate the 5 percent rental fee on the same amount that you use to figure the general state sales tax. You report the fee once a year on your sales tax return.

If your filing cycle is	Report the 5 percent rental fee on your
Monthly	December return
Quarterly	October through December return
Annual	Annual return (February 5)

Report the amount of 5 percent rental fees collected and registration taxes paid on your December sales and use tax return as follows:

1. Enter the total amount of the fees collected during the calendar year in the "Amount" column on the "Car Rental Fee (December)"
2. Enter the difference by subtracting the registration taxes paid from the fees collected in the "Tax Due" on the "Car Rental Fee (December)" If the difference is less than zero, enter "0" as Tax.
3. Enter the total amount of Minnesota registration taxes paid during the calendar year on the vehicle that you hold for rental purchases in the "Amount" column on the "Registration Taxes Paid" line.

If the fees you collected for the year are more than the amount you paid in Minnesota registration taxes on the rental vehicles, you must pay the excess fees with your December sales tax return. You cannot take credit or claim a refund for excess registration taxes paid.

Third Party Leases

If you are leasing a vehicle that will be leased or rented to a third party, you are not required to pay the 9.2 percent rental tax or the 5 percent rental fee. Give the vendor a completed [Form ST3, Certificate of Exemption](#). Specify the Resale exemption.

However, you must collect both the 9.2 percent rental tax and the 5 percent rental fee from the third party.

Loaner Vehicles

You must charge sales tax or accrue use tax on loaner vehicle rental fees depending on who pays for use of the vehicle.

If you get the loaner vehicle from a third party, do not pay sales tax or rental fees. Give your vendor a completed [Form ST3, Certificate of Exemption](#). Specify the Resale exemption.

Who is paying for use of the loaner vehicle?	How is sales and use tax handled
Customer	Charge these taxes on the rental fee:

Who is paying for use of the loaner vehicle?	How is sales and use tax handled
	<ul style="list-style-type: none"> • 9.2 percent rental tax • the 5 percent rental fee • general state sales tax • local sales taxes that apply
Dealer (dealer absorbs the rental cost)	<p>If you own the loaner vehicle, accrue use tax on the reasonable rental value, including any local taxes that apply.</p> <p>If you do not own the loaner vehicle, the dealer pays these taxes and fees when they pay the third party for the vehicle:</p> <ul style="list-style-type: none"> • 9.2 percent rental tax • the 5 percent rental fee • general state use tax • local use taxes that apply <p>Note: If you own the vehicle and paid the Motor Vehicle sales tax on the loaner vehicle, no additional tax is due.</p>
Transportation Assistance Program	Accrue general state use tax and any local use taxes that apply on the rental fee.
A third party (under the original manufacturer's warranty)	No 9.2 percent rental tax, 5 percent rental fee, or state or local sales taxes, is due.
A third party (under an extended warranty)	<div style="border: 1px solid black; padding: 5px;"> Charge these taxes on the rental charge: <ul style="list-style-type: none"> • 9.2 percent rental tax • the 5 percent rental fee • general state sales tax • local sales taxes that apply </div>

Tribal Governments and Members

Vehicles sold to a tribal member (all 11 tribes) are not subject to the Motor Vehicle sales tax if the sale meets both of these conditions:

- The purchaser lives on the reservation
- The sale occurs on the reservation (A sale occurs on the reservation when papers are signed, payment is made, or the vehicle is delivered to the purchaser on the reservation.)

For more information, see [Tribal Governments and Members](#).

Repair Services and Parts

During the vehicle repair process parts, labor, shop supplies, and more are all factors where you or the customer need to pay sales tax. Some items may also be exempt, see the sections below for more details.

Repair Materials and Repair Paint

Repair materials and repair paint become part of the vehicle or are consumed in providing the vehicle repair services. This does not include repair parts.

Examples of repair materials include:

- Abrasives
- Chamois
- Lubricants
- Waxes

Examples of repair paint include:

- Body paint
- Paint thinner
- Clear coat
- Primer

If you purchase repair materials and repair paint exempt for resale, you must charge sales tax to your customer when you use them. If you pay sales tax on the purchase of materials and repair paint, do not charge sales tax to your customer. You must use a consistent method throughout your business.

For more information, see the Motor Vehicle Repair Industry Guide.

Paint Sealer

Applying paint sealer is not a taxable service unless it is part of the initial sale of a vehicle. Paint sealer is exempt only when it is applied as part of the original sale of the motor vehicle.

Repair Labor

Auto body and automotive repair labor is not taxable when it is separately stated from repair parts on the invoice. Repair labor restores an item to its original condition so it can be used for its original purpose.

Parts

Parts used to repair or service a vehicle are taxable to the customer. Parts are easily assigned to a repair or service and have a fixed or definite price.

Do not pay sales or use tax when you purchase these parts to use in your business. Instead, give your supplier a completed [Form ST3, Certificate of Exemption](#). Specify the Resale exemption.

Examples include:

- Alternators
- Belts
- Catalytic converters
- Cylinder head gaskets
- Fuel pumps
- Ignition coils
- Oxygen sensors
- Piston rings
- Spark plugs
- Tires

Core Charges

A core charge is a deposit for a repair part charged at the time of purchase. The core charge is part of the taxable sales price when the part is subject to sales tax.

When the old part is returned, the core charge and the sales tax collected on the charge are refunded to the customer.

Shop Supplies

You must pay sales or use tax when you purchase shop supplies used to clean or maintain the shop, equipment, and tools. Common examples include “floor dry” products, cleaning products, and rags – though cleaning products and rags may be exempt if they are used up while making repairs.

For more information, see [Motor Vehicle Repair](#).

Subcontracted Repairs and Services

If you subcontract with another business for repair work or services, do not pay sales or use tax on your purchase. Instead, give the subcontractor a completed [Form ST3, Certificate of Exemption](#). Specify the Resale exemption. You must charge sales tax to your customer for any taxable subcontracted labor, parts, or materials. Charges for repair labor are not taxable.

Upgrades, Enhancements, and Maintenance

Labor to add or install something new or different to a vehicle is taxable. The installed parts are also taxable to the customer. Examples include:

- Installing remote starters, navigation systems, and sunroofs
- Installing bug deflectors and running boards
- Upgrading a sound system
- Installing customized vehicle accessories; such as adding dual exhaust, adding fuel injector control chips, etc.
- Adding power locks, remote starters, cruise control, or window defrosters
- Installing a remote car starter or theft alarms

Towing, Cleaning, and Rustproofing Services

Towing, cleaning, and rustproofing services to a motor vehicle are taxable unless an exemption applies. Some items used and consumed in the taxable service may be purchased exempt. See [Exempt Purchases](#).

Towing Services

The total price charged for towing a motor vehicle is taxable, including administrative fees relating to the service. For example, if charges for calling authorities, check cashing, and completing insurance forms are included, the total amount is taxable, even if those charges are separately stated. If tax is included in the total amount rather than separately stated, the invoice must state that tax is included.

Other towing and related services are not taxable.

Taxable Towing Services

The following towing services are taxable:

- Towing, pulling, or transporting motor vehicle on a flatbed truck to any location
 - Towing snowbirds or other illegally parked motor vehicles to impound lots
 - Pulling or winching motor vehicles out of ditches
 - Recovery services, such as up righting overturned semi tractors, trailers, or other motor vehicles
-

Nontaxable Services

The following are nontaxable towing services:

- Decking or stacking
 - Delivering fuel to stranded motorists
 - Jump starting vehicles
 - Roadside repair
 - Tire repair or other repair services on the road
 - Towing boats
 - Towing construction equipment or other equipment or machines not licensed for road use
 - Towing farm tractors or farm wagons
 - Towing auto hulks
-

Sales Tax Sourcing on Towing

Sales tax applies to the towing fees based on where the towing service began.

Example: A towing company in Maple Grove sends a tow truck to pick up a car in Minneapolis. The tow truck delivers the car to a body shop in Maple Grove. The towing service is subject to the tax rate in Minneapolis where the towing service began.

Cleaning, Rustproofing, and Undercoating Services

The following services provided to a motor vehicle are taxable:

- Applying fabric protector
 - Cleaning services (interior, exterior)
 - Coin-operated car washes and vacuums
 - Rustproofing
 - Undercoating
 - Vacuuming
 - Washing
 - Waxing
-

Free Car Wash

The customer owes no sales tax on a free car wash. However, you owe sales or use tax on the cost of the materials to provide the free car wash.

Exempt Purchases

Some materials used or consumed in providing taxable washing, waxing, cleaning, rustproofing, undercoating, and towing services are exempt from tax. You must use the materials directly in providing the service to qualify for the exemption.

Give your vendor a completed [Form ST3, Certificate of Exemption](#). Specify the Resale exemption.

Examples of materials include:

- Chemicals to treat waste generated as a result of providing a taxable service
 - Deodorizers
 - Disposable rags
 - Electricity, natural gas, and water used in providing the service
 - Fabric protection chemicals
 - Fuels to heat water
 - Lubricants and antifreeze used in vehicles that provide a taxable service (tow trucks)
 - Plugs for rustproofing
 - Rustproofing chemicals
 - Salt or softening agents for water
 - Soap
 - Vacuum filters and bags
 - Wax
-

Separate Detachable Units

Separate detachable units used to provide taxable services are exempt from tax.

To qualify, the item must meet the following requirements:

- It must be used to provide a taxable service.
- It must be an accessory tool, equipment, or other item that attaches to a machine while in use.
- Its ordinary useful life must be less than 12 months when used to provide taxable services under the normal use of the provider.

Examples of separate detachable units:

- Abrasive and polishing belts
- Cutting tools
- Drill bits
- Polishing strips and buffers
- Saw wires or blades
- Vacuum filters

Taxable items include:

- Clamps
- Crowbars
- Hand tools (hammers, pliers, screwdrivers, wrenches)
- Knives
- Repair parts
- Soldering irons
- Vacuum cleaners

Warranties, Recalls, and Service Contracts

Taxable and nontaxable items and services vary when dealing with warranties, recalls, and service contracts.

Optional Maintenance Contracts

Optional maintenance contracts provide prepaid coverage for maintaining a vehicle. These contracts include taxable items and nontaxable repair labor for one price. Examples include:

- Oil changes
- Tire rotation
- Wheel balancing

Optional maintenance contracts are taxable, unless the cost of the taxable items is insignificant and is not easily measured. No sales or use tax is due when the contracted maintenance is performed.

If an optional maintenance contract is sold with a motor vehicle, then the contract is taxed at the 6.875 percent general sales tax rate and applicable local taxes.

Repair Under Warranties and Service Contracts

Parts that are replaced or repaired under a warranty, recall, or service contract are taxed differently based on the terms of the agreement.

Manufacturer's Warranty or Recall

Repair labor or replacement parts are not taxable when they are covered by a manufacturer's warranty or recall. The parts used are considered an exchange of inventory.

Used Car Warranty

Used car dealers in Minnesota must provide a warranty with the sale of certain used cars. If you sell such a vehicle and later make repairs under the warranty, no tax applies to the parts used in the repair.

Rebuilt Parts

Repair or replacement parts covered by a warranty or guarantee are not taxable when included in the purchase price of a rebuilt engine, transmission, etc.

Extended Warranty Contracts

Extended warranties to cover unexpected repair costs are not taxable. However, sales or use tax does apply to the parts used for contracted repairs. The following examples will tell you when tax is due and who pays it.

If the warranty states	Then you must
No cost to the customer for parts	Pay sales or use tax on your cost of the parts
Customer is responsible for a percentage of parts and labor	Charge the customer sales tax on the amount for parts only
Customer pays a deductible for parts or labor	Pay sales or use tax on your cost of the parts. The deductible payment is not taxable.

Taxable Purchases

Items you use to operate your business are taxable unless an exemption applies. Several services are also taxable. If you do not pay sales tax on a taxable purchase, then use tax is due.

Taxable Purchases	Examples
General items	<ul style="list-style-type: none"> • Computer hardware and software • Desks and cubicles • Jacks and lifts • Hoists • Tire changes • Tools
Taxable services	<ul style="list-style-type: none"> • Building cleaning and maintenance • Detective and security services • Laundry and garden maintenance <p>For more information, see a complete list of taxable services.</p>
Advertising materials For more information, see Advertising .	<ul style="list-style-type: none"> • Business cards • Calendars • Cups and mugs • Frisbees • Key chains • License plate holders • Pens

Dealer-Owned Vehicle

When you use a vehicle purchased for resale, for a purpose other than for demonstration, you owe use tax on the reasonable rental value or sales tax on the vehicle's full value.

For more information on the reasonable rental value, see [Revenue Notice 05-05: Sales and Use Tax- Definition of Reasonable Rental Value of Motor Vehicles](#).

Use Tax

If you buy equipment, supplies, or other taxable items for your business and the seller does not charge Minnesota sales tax, you owe use tax on the cost of the items. If your business is located in an area with a local tax, you may also owe local use tax.

Some common situations where you may owe use tax include:

- You buy taxable items or services online without paying sales tax
- You withdraw an item from inventory to use (instead of selling it), donate, or give away
- You buy taxable items outside of Minnesota
- You buy taxable items in another Minnesota city or county with a lower (or now) local sales tax

For more information, see [Use Tax for Businesses](#) and [Local Sales and Use Taxes](#).

Filing Returns and Record-Keeping

You must report all sales tax collected and use tax you owe.

Filing Returns

When filing your return, you must report all sales tax collected and use tax you owe.

If you are not registered for Sales and Use Tax, you must contact the Minnesota Department of Revenue and register to collect and report taxes. Call Business Registration at 651-282-5225 [☎](#) or 1-800-657-3605 [☎](#) (toll-free).

For more information, see [Sales Tax Return Due Dates](#).

How to Report Sales and Use Tax

You can file a Sales and Use Tax return online through our e-Services system or by phone. For more information, see [Sales Tax Filing Information](#).

Note: Do not report the Motor Vehicle Sales Tax on your sales and use tax return. Report the Motor Vehicle Sales Tax to the [Driver and Vehicle Services of the Department of Public Safety](#).

Record-Keeping

It is important to keep good records to determine the correct amount of state and local tax you owe.

Your records should include:

- Bills, receipts, invoices, cash-register tapes, credit card slips, and any other documents that support the entries in your books.
- Exemption certificates
- Shipping documents
- Worksheets used to prepare your tax returns

For more information, see the [Sales and Use Tax Business Guide](#).

Legal References and Resources

The legal references and resources related to the motor vehicle industry are listed.

Minnesota Statutes

- [144E.10, Ambulance service licensing](#)
- [168.27, subd. 16, Dealer plates](#)
- [297A.61, Definitions](#)
 - [subd. 3 \(g\)\(6\) \(ii\), Motor vehicle washing, waxing, cleaning](#)
 - [subd. 7, Sales price](#)
 - [subd. 18, Disabled](#)
- [297A.64, Rental motor vehicle tax imposed](#)
 - [subd. 1, Tax imposed](#)
 - [subd. 2, Fee imposed](#)
 - [subd. 3, Administration](#)
 - [subd. 4, Exemptions](#)
 - [subd. 5, Payment of excess fees](#)

- [297A.67, General exemptions](#)
 - [subd. 11, Automobiles, disabled veterans](#)
 - [subd. 12, Parts and accessories used to make a motor vehicle disabled accessible](#)
- [297A.815, Motor vehicle leases](#)
- [297A.90, Interstate motor carriers as retailers](#)
- [297A.992, subd. 2, Authorization; rates](#)
- [297B.02, Tax imposed](#)

Minnesota Rules

- [8130.0700, Producing, fabricating, printing, or processing of property furnished by consumer](#)

Revenue Notices

- [96-20, Sales and Use Tax – Exemption for Rebates to Purchase Motor Vehicles](#)
- [05-05, Sales and Use Tax – Definition of Reasonable Rental Value of Motor Vehicles](#)
- [06-08, Sales and Use Tax – Motor Vehicle Leases-Taxes and Fee](#)
- [16-03, Optional Warranty and Maintenance Contracts on Equipment](#)

Fact Sheets

- [Advertising](#)
- [Laundry and Cleaning Service](#)
- [Lawn and Garden Maintenance, Tree and Shrub Services](#)
- [Local Sales and Use Taxes](#)
- [Sales to Governments](#)
- [Tribal Governments and Members](#)
- [Use Tax for Businesses](#)

Industry Guides

- [Building Cleaning and Maintenance](#)
- [Emergency Services](#)
- [Government – Federal and Foreign Diplomats](#)
- [Government – Local Governments](#)
- [Government – State Agencies](#)
- [Motor Vehicle Repair](#)
- [Off-Road Vehicle](#)
- [Transportation Service Providers](#)
- [Vending Machines and Other Coin-Operated Devices](#)