Motor Vehicles

Motor vehicle sales tax
The 6.5 percent Motor Vehicle Sales Tax is due on most purchases or acquisitions of motor vehicles. This is true whether the seller is a car dealer, a leasing company, a private individual, or any other type of business; exceptions are listed in the Nontaxable Transfers section.

Motor vehicle means any self-propelled vehicle required to be licensed for road use and any vehicle propelled or drawn by a self-propelled vehicle required to be licensed for road use. It includes, but is not limited to, cars, vans, pickups, trucks, truck-tractors, tractors, trailers, motor homes, and motorcycles.

The Motor Vehicle Sales Tax is paid at the time of transfer directly to the Driver and Vehicle Services Division of the Department of Public Safety or to a deputy registrar. The tax is the same rate as the general state sales tax. General questions about the Motor Vehicle Sales Tax should be directed to the Driver and Vehicle Services Division of the Department of Public Safety at 651-296-6911.

Taxable sales price
The Motor Vehicle Sales Tax applies to the total selling price of the vehicle, except for the items listed below. All charges for rustproofing, undercoating, dealer preparation, and transportation charges included by the dealer in the sales price of a vehicle are taxable.

The following are not included in the taxable sales price if the charges are separately stated:

- **Trade-in allowance** for a vehicle taken in trade by the seller may be deducted from the sales price of a vehicle before the tax is calculated. However, if the vehicle is sold to a third party, no trade-in allowance is permitted, because two separate transactions have occurred.
- **Federal excise tax on trucks** and the **luxury tax** on cars are not subject to sales tax.
- **Registration, license fees, and document fees** are not subject to sales tax.
- **Extended warranties and service contracts** are not taxable. Dealers must pay use tax on their cost of parts used to make repairs under such contracts. When repairs are made related to the original manufacturer’s warranty, there is no use tax on the parts used since they are considered an exchange of inventory. Request Fact Sheet 131, Automotive Repairs and Service, for more information.
- **Disabled modifications** are not taxable. See page three.

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

Special rules apply to the following vehicles. A more complete description of these vehicles is found in Minnesota Statutes, section 297B.025, Older Passenger Automobiles.

- **Older passenger vehicles.** Instead of the 6.5 percent tax, there is a $10 tax if the vehicle is in the tenth or older year of vehicle life, has a sale price of less than $3,000, and is not an above-market automobile as designated by the registrar of motor vehicles.
- **Collector passenger vehicles and fire trucks.** Instead of the 6.5 percent tax, there is a $90 tax for qualifying vehicles.

Vehicles that don’t require registration. All-terrain vehicles, mini-bikes, off-road motorcycles, and other vehicles that cannot be registered for road use are subject to the general sales tax, rather than the Motor Vehicle Sales Tax.

Vehicles purchased in another state. Minnesota allows credit for state sales tax required to be paid to another state. However, if the other state’s tax rate is lower, you owe the difference in rates to Minnesota.

Rebates on vehicles
Any rebate, regardless of origin, must be deducted from the selling price of a motor vehicle before calculating sales tax. The rebate must have a definite 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, or refunded directly to the customer.

In addition to manufacturers’ rebates, the deduction applies to rebates issued by third parties who entered into an agreement with vehicle manufacturers to offer rebates. For example, a credit card company offers car rebates based on an agreement with the manufacturer as an incentive for buyers to use their credit card. The credit card company rebate reduces the taxable sales price of the vehicle.

This deduction does not apply to rebates on watercraft, all-terrain vehicles, snowmobiles or other items that are not required to be registered for road use.
Nontaxable transfers

Following are the most common nontaxable transfers.

Government and nonprofit entities
State and local governments, schools, universities, and nonprofit organizations must pay sales tax on purchases, leases, and rentals of cars and trucks. There are a few exceptions:

- Vehicles purchased, leased, or rented by the federal government and its agencies are not taxable.
- Vehicles purchased or used by a private non-profit or public school for use as an instructional aid in a vehicle body and mechanical repair course are not taxable. This exemption does not include vehicles used in driver education programs.
- Vehicles purchased by a library for use as a bookmobile or delivery vehicle are not taxable.
- Vehicles given as gifts to qualifying nonprofit organizations if they are used exclusively for religious, charitable, or educational purposes are not taxable.
- Buses purchased or leased by the Metropolitan Transit Council (MTC) are not taxable.
- Vehicles purchased by disabled veterans who are assisted by grants under U. S. Code, title 38, section 3901, are not taxable.
- Municipal fire apparatus, marked police patrol vehicles and ambulances are not taxable since they are not required to be registered. This includes ambulances purchased by a licensed private ambulance service. If the owner of the vehicle chooses to register the marked vehicle with the Department of Public Safety, no Motor Vehicle Sales Tax will be collected. Accessory items used to initially equip these vehicles also are not taxable.

Related party transfers

Transfers between related companies are not taxable, beginning May 16, 2000, if the transfer is within the meaning of sections 118, 331, 332, 336, 337, 338, 351, 355, 368, 721, 731, 1031, 1033, or 1563(a) of the Internal Revenue Code. Before May 16, 2000, the exemption only applied to transfers under sections 351 and 721.

Transfers by inheritance are not taxable.

Transfers from joint tenancy to one of the joint tenants for no monetary consideration are not taxable.

Transfers between husband and wife in a divorce proceeding are not taxable.

Other transfers

Nonprofit groups. Beginning July 1, 2000, purchases and leases of motor vehicles that are used primarily to transport goods or people, other than employees, as part of the group’s nonprofit activities are exempt. To qualify, the vehicle must be a truck, bus or automobile designed to carry at least nine people. This exemption is limited to groups organized exclusively for charitable, religious or educational purposes; it does not apply to state or local government organizations or schools, or to private bus companies.

Gifts. Beginning July 1, 2000, the transfer of a motor vehicle between individuals is exempt if the transfer is a gift for no monetary or other consideration, or other expectation of consideration. The parties to the transfer must sign an affidavit to that effect at the time the title transfer is recorded. Before July 1, 2000, only gifts between husband and wife, parent and child, parent and foster child, and guardian and ward were exempt.

Ready-mixed concrete trucks are not taxable as of July 1, 1998.

Road maintenance vehicles for towns. As of July 1, 1998, snowplows, dump trucks, and other motor vehicles purchased by a town to be used exclusively for road maintenance are not taxable. The exemption does not apply to automobiles, vans or pickup trucks. "Town" means township. It does not include statutory or home rule charter cities, counties, or special taxing districts.

Buying for resale

In order to buy vehicles exempt for resale, the buyer must have a dealer’s or lessor’s license and be in the business of selling and/or leasing vehicles. An individual may never buy a vehicle exempt from tax in order to sell or lease it to another individual or business without a valid dealer’s license. There are different types of dealers’ licenses, and they may not be interchangeable— for example, if a person is licensed as a “used car dealer” that person cannot buy a “new” car exempt for resale. For more information about a dealer’s license, call the Dealer’s Unit of the Department of Public Safety at 651-296-2977.

Subcontracted repairs and services

Car dealers often subcontract with another business for repair work or services such as car washing, towing, or rustproofing. The car dealer may buy these repairs or services exempt from tax by giving the subcontractor a Certificate of Exemption, Form ST3, using Exemption Code F. The cost of the repair or service is taxed as part of the final sales price when the dealer sells the vehicle.
Leased vehicles
For sales tax purposes, each lease payment is treated as an individual transaction. Lease payments are subject to the general Minnesota state sales tax and any applicable local sales tax, rather than the Motor Vehicle Sales Tax. See the section on Local sales tax on page three for information on how local taxes apply to leases.

If you lease a vehicle that will be principally based or garaged outside Minnesota, use the following guidelines:
- None of the lease payments are subject to Minnesota tax even if the vehicle is picked up in Minnesota.
- If the lessee picks up the vehicle in Minnesota and a capitalized cost reduction or down payment is made here, Minnesota tax applies to that payment.

Vehicles are often acquired using a lease agreement that includes a buyout option at the end of the agreement. A transaction designated as a “lease” will be considered a “sale” for sales tax purposes if the agreement, at the end of the term, either:
- provides that the lessee obtains title, or
- gives the lessee the option to buy the vehicle for a nominal amount (nominal amount means one percent or less of the value of the vehicle at the time the contract is signed).

If a vehicle is sold rather than leased, Motor Vehicle Sales Tax is due at the time of registration.

Short term lease or rentals
General sales tax. Vehicles rented or leased on short term agreements, such as hourly, daily, or weekly, are subject to Minnesota tax if the agreement is entered into in Minnesota, even if the lessee intends to use the vehicle outside Minnesota. Local taxes apply as described in the Local sales taxes section.

6.2% rental tax and 3% fee. Persons and businesses who lease or rent passenger vehicles for periods of less than 29 days must charge a 6.2 percent sales tax and a 3 percent fee in addition to the 6.5 percent general state sales tax on leases or rentals of passenger automobiles, passenger vans, or pickup trucks. All three taxes, plus any local taxes described in the next section, are calculated on the lease or rental amount only.

The 6.2 percent vehicle lease and rental tax and the 3 percent car rental fee are reported when you electronically file your Minnesota sales and use tax return. Request Fact Sheet 136, Motor Vehicle 6.2% Rental Tax and 3% Fee, for more information.

If you move to Minnesota
Purchases - If you were a resident of another state when you bought a vehicle and the vehicle was titled in your name for at least 60 days in the other state, no tax is due when you register it in Minnesota.

Leases - If you were leasing a vehicle in another state and moved to Minnesota, the amount of Minnesota sales tax (and any applicable local tax) due depends on how the original lease was set up:
- If you were paying tax in the other state on the monthly lease payments, you must pay Minnesota tax on the monthly payments for periods the vehicle is registered in Minnesota.
- If you paid tax up front in the other state, you must pay tax up front in Minnesota. Tax due to Minnesota for an up-front payment is computed on the same basis as in the other state. Credit is allowed against the tax due to Minnesota for state sales tax required to be paid to the other state. If less than 6.5% was paid to the other state, the difference is due to Minnesota.

Direct Pay Permit holders
Direct pay permit holders are not allowed to use the permit to buy motor vehicles exempt from tax.

Vehicle services
Vehicle washing, waxing, cleaning, rustproofing, undercoating, towing, and parking services are subject to sales tax. Request Fact Sheet 113, Motor Vehicle Towing, Washing, Rustproofing, 131, Automotive Repairs and Services, and 166, Parking Services, for more information.

Disabled accessible vehicles
Charges for parts, accessories, and labor to modify a vehicle to make the vehicle accessible to the disabled are not taxable. To claim exemption, a statement from the applicant, describing the modifications and their value, must be attached to the application for title when buying the vehicle.

If the modifications are made after the vehicle is purchased, the purchaser must give the seller a Certificate of Exemption, Form ST3; use Exemption Code I, and write in, “Handicapped accessible (vehicle costs).”

Federal excise tax
Any federal excise tax imposed at the retail level and separately stated on the customer’s invoice is not subject to sales tax. However, federal excise tax imposed at the wholesale or other level is subject to sales tax. For example, the gas guzzler tax is imposed on the manufacturer and passed on to the consumer; therefore, the tax is subject to sales tax.

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 has been issued, the tax is not refundable unless it falls under the lemon law discussed previously.
**Motor carriers**

Interstate truckers may qualify for a Motor Carrier Direct Pay Permit that allows them to pay a prorated tax on their vehicles when they register them with the Department of Public Safety. Request Fact Sheet 107, Interstate Motor Carriers, for more information.

**Sales and leases to Indians**

**Purchases.** Vehicles sold to members of any Minnesota reservation are exempt from sales tax if the purchaser lives on the reservation where they are a member and the sale occurs on the reservation. For purposes of this exemption, a member of the Minnesota Chippewa Tribe is considered to be a member of any of the six constituent Bands of the Tribe. A sale occurs on the reservation if papers are signed on the reservation, or payment is made on the reservation, or the vehicle is delivered to the purchaser on the reservation. Vehicles sold to tribal governments for their own use are not taxable, regardless of where the sale occurs.

**Taxable vehicle leases.** The Department of Revenue has entered into agreements with ten of the eleven Indian tribal governments in Minnesota. Long term lease payments made by members of the nine tribes listed below are subject to the same tax as applies off the reservation to non-Indians.

- Bois Forte Band of Chippewa Indians
- Fond du Lac Band of Chippewa Indians
- Grand Portage Band of Chippewa Indians
- Leech Lake Band of Chippewa Indians
- Lower Sioux Community
- Mille Lacs Band of Chippewa Indians
- Shakopee Mdewakanton Sioux Community
- Upper Sioux Community
- White Earth Band of Chippewa Indians

**Nontaxable vehicle leases.** The agreement with the Red Lake Chippewa Reservation specifies that no sales tax is collected on sales occurring on the Red Lake Reservation. There is no agreement with the Prairie Island Sioux Community. Members of these two tribes who enter into long term leases are exempt from sales tax only if the tribal member lives on the reservation and the vehicle is principally garaged there.

**Local sales and use taxes**

Local sales tax applies to vehicles as described below. For information on how local sales and use taxes apply to other items, and for a listing of current local taxes, see Fact Sheet 164, Local Sales and Use Taxes.

**Vehicle sales**

Local sales tax does not apply to sales of vehicles. However, they do apply to repair parts and taxable services performed in the local taxing area. In addition, an excise tax of $20 applies to sales of vehicles made by dealers located within the cities of Mankato, Rochester and New Ulm. For more information on the $20 tax, contact the city offices directly, since they administer these taxes themselves.

**Vehicle leases**

**Long term leases:** When a resident of an area with a local tax enters into a long term lease of a vehicle, local sales tax applies to the lease payments. The local tax applies even if the leasing company is located outside the city or county. If the leasing company fails to charge the local tax, the lessee owes use tax at the same rate as the local sales tax.

**Short term rentals:** Vehicles leased or rented on short term agreements, such as hourly, daily, or weekly, are subject to local tax if the lease agreement is entered into in an area with a local tax, even if the lessee intends to use the vehicle outside the city or county.

**Completing your return**

Do not include the sales of vehicles when you electronically file your sales and use tax return. That tax is reported and paid to the Driver and Vehicle Services Division of the Department of Public Safety.

Report all other sales and use taxes (from sales of parts, services, leases, etc.) when you electronically file your sales and use tax return. See the Minnesota Sales and Use Tax Instruction Booklet for more information on reporting local taxes or use tax at other rates.

**References**

M. S. 297A.64, Rental motor vehicle tax imposed; rate.
M. S. 297A.90, Interstate motor carriers as retailers
M. S. 297A.61, Subd. 3(g)(6)(ii) Motor vehicle washing, waxing, cleaning. . .
M. S. 297A.67, Subd. 11, Automobiles; disabled veterans
M. S. 297A.67, Subd. 12, Parts and accessories used to make a motor vehicle handicapped accessible
M. S. 297B, Sales Tax on Motor Vehicles
Revenue Notice 96-20, Exemption for Rebates Used to Purchase Motor Vehicles
Revenue Notice 97-14, Leases of Tangible Personal Property
Revenue Notice 02-20, Technical Corrections of Prior Revenue Notices

**Other fact sheets you may need:**
Sales to Governments, #142
Use Tax for Businesses, #146
Local Sales and Use Taxes, #164
Guide to Filing and Paying Sales and Use Tax Electronically, #170