

Motor Vehicle Sales and Purchases

125

Sales Tax
Fact Sheet

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 directly to the Driver and Vehicle Services Division of the Department of Public Safety or to a deputy registrar at the time the title is transferred. 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.*

For information on leases and rentals of motor vehicles refer to Fact Sheet #171, Motor Vehicle Leases and Fact Sheet #136, Motor Vehicle 6.2% Rental Tax and 5% Fee.

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. See Fact Sheet 131, Automotive Repairs and Service, for more information.

- **Modifications to make a vehicle disability accessible** 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.
- **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. Repair and replacement parts for emergency rescue vehicles, including fire trucks and ambulances, are not taxable. This exemption does not apply to marked or unmarked patrol cars, fire chief vehicles, or other non-emergency vehicles. See Fact Sheet 135, Fire Fighting Equipment, for more information.
- **Nonprofit groups.** 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 ten 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. To claim exemption from the sales tax on motor vehicles, nonprofit "charitable" organizations such as youth athletic groups and nursing homes must provide the exempt status number (ES #) or authorization issued to the organization by the Department of Revenue. Nonprofit "religious and educational" organizations such as churches and scouts, may, but are not required to have an exempt status number to claim exemption. Nonprofit religious or educational organizations may either provide the exempt status number if one has been issued, or indicate that they are a nonprofit religious or educational organization to claim exemption. When registering a qualifying vehicle, all of these organizations should note in the "sales tax declaration" area of the motor vehicle registration form that the vehicle is intended to be used primarily to transport tangible personal property or individuals, other than employ-

ees, to whom the organization provides services in performing its charitable, religious, or educational purpose.

- **Road maintenance vehicles for towns.** 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.

Related party transfers

Transfers between related companies are not taxable 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 (IRC). For more information on the IRC Sections see Fact Sheet 132, Occasional Sales of Business Equipment and Goods.

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

Disabled veterans. Vehicles purchased by disabled veterans who are assisted by grants under U. S. Code, title 38, section 3901, are not taxable.

Gifts. 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.

Job Opportunity Building Zone (JOBZ). A motor vehicle purchased by a qualified business is exempt if the vehicle is principally garaged in the Zone and is primarily used as part of, or in direct support of, the person's operations carried on in the Zone. To claim exemption, the buyer must submit a statement indicating that the business is a qualified JOBZ business and that they have a Business Subsidy Agreement with the local government.

Ready-mixed concrete trucks are not taxable.

Trusts. A transfer from an individual into the individual's *revocable* trust is exempt. However, a transfer into or out of an *irrevocable* trust is taxable.

Transit program vehicles. Purchases of motor vehicles to provide transit services are exempt from sales tax on motor vehicles. Vehicles used by public or private transit operations such as city or town buses, and vehicles used to provide special transportation services for the elderly, or disabled may also qualify. To qualify for the exemption, the provider must be receiving financial assistance or reimbursement under Minnesota Statutes, sections 174.24 or 473.384, or operate under Minnesota Statutes, sections 174.29, 473.388, or 473.405.

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 are not 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 fully completed Certificate of Exemption, Form ST3. The cost of the repair or service is taxed as part of the final sales price when the dealer sells the vehicle.

If you move to Minnesota

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.

Direct pay

Businesses with direct pay status are *not* allowed to use the direct pay number 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.

Disability accessible vehicles

Charges for parts, accessories, and labor to modify a vehicle solely to make the vehicle accessible to the disabled are not taxable. To claim this 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 fully completed Certificate of Exemption, Form ST3; use Exemption Code M, and write in, "Disabled 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/lessor 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.

Lemon law

Minnesota's vehicle warranty statute (M. S. 325F.665) was created to help protect buyers who buy or lease a *new* car, pickup truck, or van. *For more information about the lemon law, call the Attorney General's Office at 651-296-3353 or 1-800-657-3787.*

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.

Sales tax on dealer owned vehicles

M. S. 168.27, Subd. 16, allows motor vehicle dealers to use vehicles being held for resale exempt from the sales tax on motor vehicles and the general sales and use tax with **dealer plates** when used by:

- 1) the dealer or dealer's spouse, or any full-time employee of the dealership for private or business purposes;
- 2) a part-time employee for business transactions of the dealer;
- 3) by prospective buyers for demonstration purposes; and
- 4) for certain promotional events.

Dealers generally cannot lease or rent vehicles to someone who is not an employee or use vehicles as a loaner vehicle, tow truck, service truck or parts vehicle exempt. When a motor vehicle dealer uses a new or a used vehicle for these purposes the vehicles must be registered and have regular license plates, and the dealer must pay either the use tax on the reasonable rental value or pay the sales tax on motor vehicles on the full value of a vehicle. See Revenue Notice #05-05; Definition of Reasonable Rental Value of Motor Vehicles for more information.

Vehicles used by a motor vehicle dealer as a loaner vehicle for customers as a replacement for a vehicle being serviced or repaired are exempt from the sales tax on motor vehicles and the general sales and use tax if the loaner is provided under a manufacturer's warranty that was included in the original purchase price of a motor vehicle. This exemption does not apply to vehicles used under service contracts that were optional or to extended warranties.

Motor carriers

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

Sales to Indians

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.

Local sales and use taxes

Local sales tax does not apply to *sales* of vehicles. However, it applies 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 *Baxter, Brainerd, Clearwater, Mankato, Owatonna, Rochester and New Ulm*. For more information on the \$20 tax, contact the city offices directly, since they administer these taxes themselves.

New Transit Improvement Vehicle Excise Tax. Beginning July 1, 2008, a \$20 Transit Improvement Vehicle Excise Tax applies to *sales* of motor vehicles registered for road use, instead of the Transit Improvement sales tax. This fee must be collected by any person in the business of selling new or used motor vehicles at retail when the sale occurs in Anoka, Dakota, Hennepin, Ramsey, or Washington counties. This tax must be collected by the seller if the vehicle is sold in the transit tax area. The \$20 tax applies even if the buyer is from out of state and will take the vehicle out of Minnesota for registration. The \$20 tax is not connected to registration, but rather to the sale. The Deputy Registrar does not collect this tax.

This excise tax must be reported on your electronic sales tax return at the same time you report your Minnesota sales and use tax. You fill in the number of vehicles sold and the system will automatically calculate the \$20 fee for each vehicle.

Individuals, institutions, businesses, non-profit organizations, and state and local government agencies must pay the excise tax. Only the following are exempt:

- Federal government agencies,
- Vehicles that are not required to be licensed for road use, such as marked police cars, fire trucks and ambulances,
- Vehicles for resale.

Completing your return

Do *not* include the *Motor Vehicle Sales Tax* 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.) and the Transit Improvement vehicle excise tax 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. 168.27, Subd. 16, Dealer Plates
M. S. 297A.61, Subd. 3(g)(6)(ii) Motor vehicle washing, waxing, cleaning. . .
M. S. 297A.61, Subd. 18, Disabled
M. S. 297A.64, Rental motor vehicle tax imposed; rate
M. S. 297A.67, Subd. 11, Automobiles; disabled veterans
M. S. 297A.67, Subd. 12, Parts and accessories used to make a motor vehicle disabled accessible
M. S. 297A.815, Motor vehicle leases
M. S. 297A.90, Interstate motor carriers as retailers
M. S. 297B, Sales Tax on Motor Vehicles
Revenue Notice 96-20, Exemption for Rebates Used to Purchase Motor Vehicles
Revenue Notice 02-20, Technical Corrections of Prior Revenue Notices
Revenue Notice 05-05, Definition of Reasonable Rental Value of Motor Vehicles

Other fact sheets you may need:

Interstate Motor Carriers, #107
Motor Vehicle 6.2% Rental Tax and 3% Fee, #136
Sales to Governments, #142
Use Tax for Businesses, #146
Local Sales and Use Taxes, #164
Motor Vehicle Leases, #171