

Motor Vehicle Sales and Purchases

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Sales Tax
Fact Sheet

What's New in 2015

We updated the layout to make this fact sheet easier to use.

Motor Vehicle Sales tax

Most sales of motor vehicles are subject to the 6.5 percent Motor Vehicle Sales tax. This includes sales by car dealers, leasing companies, private individuals, or any other type of business. For exceptions, see Nontaxable Transfers (page 2).

Motor vehicle means any:

- self-propelled vehicle required to be licensed for road use; and
- vehicle propelled or drawn by a self-propelled vehicle required to be licensed for road use.

Motor vehicle examples include:

- Cars
- Motorcycles
- Motor homes
- Pickups
- Tractors
- Trailers
- Trucks
- Truck-tractors
- Vans

Off-road use vehicles

Vehicles that are for off-road use are not subject to the 6.5 percent Motor Vehicle Sales tax. These vehicles are subject to the 6.875 percent general sales tax and any applicable local taxes.

Examples include:

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

Vehicles purchased in another state

When you are required to pay another states sales tax, Minnesota allows credit for that sales tax paid. However, if the sales tax rate you paid is lower than Minnesota's, you owe the difference.

The Motor Vehicle Sales Tax is paid directly to a deputy registrar or the Driver and Vehicle Services Division (DVS) at the time the title is transferred.

Note: For general questions about the Motor Vehicle Sales Tax contact DVS at 651-297-2126.

Motor vehicle sales price

The Motor Vehicle Sales tax applies to the total sales price of the vehicle. Charges for rustproofing, undercoating, dealer preparation, and transportation charges included in the sales price of a vehicle are taxable.

The following are not taxable when the charges are separately stated on the invoice:

- Trade-in allowance for a vehicle taken in trade by the seller and deducted from the sales price of a vehicle
- Federal excise tax on trucks

- Luxury tax on cars
- Registration, license fees, and document fees

Disability accessible vehicles

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

If the modifications are made when the vehicle is purchased, the applicant must provide a statement describing the modifications and the value. Attach the statement to the application for title of the vehicle.

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If the modifications are made after the vehicle is purchased, the purchaser must give the seller a completed Form ST3, Certificate of Exemption.

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.

Older passenger vehicles

A \$10 tax applies (instead of the 6.5 percent tax) if all of the following are met:

- the vehicle is ten years or older;
- 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

A \$150 tax applies (instead of the 6.5 percent tax) on qualifying vehicles. Before July 1, 2013, the tax on collector vehicles was \$90.

Motor vehicle rebates

You must deduct any rebate, regardless of origin, from the sales price of a motor vehicle before calculating sales tax. The rebate must have a fixed value at the time of purchase. You may:

- show the rebate on the purchase agreement as a reduction in the vehicle purchase price;
- apply the rebate as a down payment; or
- refund the rebate 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 manufacture entered into a third-party agreement to offer the rebate. The rebate is deducted from the taxable sales price of the vehicle.

Note: You cannot deduct rebates from the sales price of vehicles that are not registered for road use (watercraft, all-terrain vehicles, snowmobiles).

Motor vehicle warranties

Motor vehicle warranties that cover future unexpected repair cost are not taxable. Dealers must pay tax on their cost of parts used to make repairs under such contracts.

Original manufacturer's warranty

Parts used in repairs covered under the original manufacturer's warranty are not taxable. The parts used are considered an exchange of inventory. For more information, see Fact Sheet 131, Automotive Repairs and Service.

Optional maintenance contracts

Optional maintenance contracts provide prepaid coverage for maintenance services (oil changes, tire rotation).

These contracts include taxable items and nontaxable repair labor for one price.

These 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, the contract is subject to the 6.875 percent general sales tax rate and applicable local taxes.

Motor vehicle 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 most motor vehicles.

However, some motor vehicles are exempt when purchased by government and nonprofit entities. They include:

- Vehicles purchased, leased, or rented by the federal government and its agencies.

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- Vehicles purchased or used by a private nonprofit or public school for use as an instructional aid in a vehicle body and mechanical repair course. This exemption does not include vehicles used in driver education programs.
- Vehicles purchased by a library for use as a bookmobile or delivery vehicle.
- Vehicles given as a gift to qualifying nonprofit organizations if they are used exclusively for religious, charitable, or educational purposes.
- Buses purchased or leased by the Metropolitan Transit Council (MTC).
- Municipal fire trucks, marked police patrol vehicles, and ambulances including ambulances purchased by a licensed private ambulance service. Accessory items used to initially equip these vehicles are also not taxable.

Any motor vehicle purchased by an ambulance service licensed under Section 144E.10 is exempt if it is equipped and specifically intended for emergency response. Starting Oct. 1, 2011, this also applies to leases.

For more information see Fact Sheet 135, Fire Fighting, Police, and Emergency Equipment.

- Starting Jan. 1, 2011, the purchase of a motor vehicle used exclusively as a mobile medical unit to provide medical and dental services by a federally qualified health center is exempt. Leases of these vehicles are taxable.
- Nonprofit groups can purchase and lease certain motor vehicles exempt from sales tax. Qualifying motor vehicles include trucks, buses, or automobiles designed to carry at least ten people. The vehicle must primarily transport goods or people (other than employees) as part of the nonprofit activities.

To claim this exemption charitable organizations (youth athletic groups, nursing homes) must provide the exempt status number or authorization issued by the Department of Revenue. Churches and schools may provide their exempt status number or indicate that they are a nonprofit religious or educational organization.

The nonprofit organizations must note this exemption in the "sales tax declaration" area of the

registration form. Deputy registrars do not accept Form ST3, Certificate of Exemption.

- Road maintenance vehicles for towns. Snowplows, dump trucks, and other motor vehicles purchased by a town used exclusively for road maintenance. The exemption does not apply to automobiles, vans, or pickup trucks.

Related party transfers

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.

Related company transfers

Transfers between related companies are not taxable if the vehicle was previously registered in Minnesota and the transfer is within the meaning of the Internal Revenue Code (IRC) sections 118, 331, 332, 336, 337, 338, 351, 355, 368, 721, 731, 1031, 1033, or 1563(a). For details about each section, consult your accountant or tax preparer.

Other transfers

Disabled veterans

A vehicle purchased by a disabled veterans who is assisted by grants under U. S. Code, title 38, section 3901, are not taxable.

Gifts

Starting July 1, 2013, the gift of a motor vehicle is only exempt when transferred between the following individuals: spouses; parents and a child; or grandparents and a grandchild. (A signed affidavit is not required.)

Before July 1, 2013, the transfer of a motor vehicle between individuals is exempt if the transfer is a gift. No monetary, other consideration, or other expectation of consideration must occur. The parties must sign an affidavit agreeing to these terms at the time the title transfer is recorded.

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.

Buying for resale

You must have a dealer's or lessor's license and be in the business of selling and/or leasing vehicles to buy them exempt for resale.

There are different types of dealers' licenses, and they are not interchangeable. For example, a person licensed

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as a “used car dealer” 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.

Sales tax on dealer owned vehicles

A new or a used vehicle purchased for resale and used for purposes other than demonstration is taxable. The dealer must pay:

- use tax on the reasonable rental value; or
- sales tax on the full value of the motor vehicle

For more information, see Revenue Notice 05-05; Definition of Reasonable Rental Value of Motor Vehicles.

Dealer plates

When a motor vehicle dealer uses a vehicle being held for resale for demonstration purposes, they place dealer plates on the vehicle. Demonstration purposes include use by:

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

Dealer plates cannot be used on vehicles that are used for other purposes such as loaner vehicles, tow trucks, service trucks, or parts vehicles.

Loaner vehicles

Loaner vehicles provided under a manufacturer's warranty included in the original purchase price of a motor vehicle are exempt from the sales tax on motor vehicles and the general sales and use tax.

Loaner vehicles provided optional or extended warranties do not qualify for this exemption.

Subcontracted repairs and services

Motor vehicle dealers often subcontract with another business for repair work or services.

Examples include:

- repairs and repair parts
- vehicle washing, waxing, cleaning
- towing
- rustproofing and undercoating
- parking services

The vehicle dealer may buy the repair parts or services exempt from tax by giving the subcontractor a completed Form ST3, Certificate of Exemption. Specify the resale exemption.

The cost of the repair or service is taxed as part of the final sales price when the dealer sells the vehicle.

Nontaxable vehicle sales

Concrete trucks

Ready-mixed concrete trucks are not taxable.

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
- primarily used as part of (or in direct support of) the business’s operations carried on in the Zone.

To claim exemption, the business must provide a written statement indicating they:

- are a qualified JOBZ business; and
- have a Business Subsidy Agreement with the local government.

Transit program vehicles

Purchases of motor vehicles to provide transit services are exempt. Vehicles used by public or private transit operations (city or town buses), or vehicles used to provide special transportation services for the elderly, or disabled may also qualify.

To qualify for the exemption, the provider must receive financial assistance or reimbursement under Minnesota Statutes 174.24 or 473.384, or operate under Minnesota Statutes 174.29, 473.388, or 473.405.

Sales to Tribal Governments and Members

Vehicles sold to a tribal member (all eleven tribes) are not subject to the Motor Vehicle sales tax if both conditions are met:

- the purchaser lives on the reservation; and,
- the sale occurs on the reservation. (A sale occurs on the reservation when papers are

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signed, payment is made, or the vehicle is delivered to the purchaser on the reservation.)

For more information, see Fact Sheet 160, Tribal Governments and Members.

Miscellaneous

If you move to Minnesota

If your 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.

Insurance reimbursements

If your car is totaled and you receive reimbursement for the value of the vehicle, a sales tax refund is not allowed. Once a title is issued, the tax is not refundable unless it falls under the lemon law.

Lemon law

Minnesota's vehicle warranty statute (lemon law) was created to help protect buyers who buy or lease a new car,

pickup truck, or van. For more information, call the Attorney General's Office at 651-296-3353 or 1-800-657-3787.

Direct pay authorization

Businesses that have Direct Pay Authorization numbers cannot use them to buy motor vehicles exempt from tax.

Motor carrier direct pay authorization

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

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.

Transit Vehicle Excise Taxes

A \$20 Transit Vehicle Excise Tax applies to the sale of motor vehicles registered for road use. This tax only applies to vehicles sold within certain locations. For a list of locations that have a vehicle excise tax, see Fact Sheet 164, Local Sales and Use Taxes.

Note: Some locations also administer a vehicle excise tax on their own. To see if your city collects this tax, contact the city office directly.

The vehicle excise tax must be collected by any person in the business of selling new or used motor vehicles at retail within certain areas. Individuals, institutions, busi-

nesses, 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 (marked police cars, fire trucks, and ambulances); and,
- Vehicles for resale.

The \$20 tax applies even if the buyer is not from Minnesota and will register the vehicle in another state.

Businesses selling motor vehicles must collect this tax and report it on your Minnesota sales and use tax return. Enter the number of vehicles sold and the system automatically calculates the \$20 fee for each vehicle.

Note: This fee is not collected by the Deputy Registrar.

How to report sales and use tax

Do not report the Motor Vehicle Sales tax on your sales and use tax return. Report the Motor Vehicle Sales tax to DVS.

You can report state, local sales, vehicle excise, and use taxes electronically at www.revenue.state.mn.us. If you do not have Internet access, you can file by phone at 1-800-570-3329.

For more information on how to file:

1. Go to our website, www.revenue.state.mn.us
2. Click "Sales and Use Tax"
3. Under "I need to file Sales and Use Tax...", click "Electronically" or "Phone".

Legal References

Minnesota Statutes 168.27, subd. 16, Dealer plates: distinguishing number, fee, tax, use

Minnesota Statutes 297A.61:

subd. 3(g)(6)(ii) Motor vehicle washing, waxing, and cleaning services

subd. 18, Disabled

Minnesota Statutes 297A.64, Rental motor vehicle tax imposed; rate

Minnesota Statutes 297A.67:

subd. 11, Automobiles; disabled veterans

subd. 12, Parts and accessories used to make a motor vehicle disabled accessible

Minnesota Statutes 297A.815, Motor vehicle leases

Minnesota Statutes 297A.90, Interstate motor carriers as retailers

Minnesota Statutes 297B, Sales Tax on Motor Vehicles

Revenue Notices

96-20, Exemption for Rebates Used to Purchase Motor Vehicles

02-20, Technical Corrections of Prior Revenue Notices

05-05, Definition of Reasonable Rental Value of Motor Vehicles

06-08, Motor Vehicle Leases – Taxes and Fee

16-03, Optional Warranty and Maintenance Contracts on Equipment

Other fact sheets

107, Interstate Motor Carriers

113, Motor Vehicle Towing, Washing, Rustproofing

131A, Motor Vehicles – Auto Body Repair and Services

131B, Motor Vehicle – Mechanical Repair and Service

135, Motor Vehicle 9.2% Rental Tax and 3% Fee

142, Sales to Governments

146, Use Tax for Businesses

160, Tribal Governments and Members

164, Local Sales and Use Taxes

171, Motor Vehicle Leases