

Motor Vehicle 9.2% Rental Tax and 5% Fee

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Sales Tax
Fact Sheet

What's New in 2015

This fact sheet was updated to clarify that rentals of pickup trucks are subject to the rental tax and fee, and cargo vans are not.

If you lease or rent motor vehicles to customers in Minnesota, you may be required to collect the **9.2 percent motor vehicle rental tax** from your customers. (The rental tax increased from 6.2 percent to 9.2 percent, effective for leases or rentals entered into on or after July 1, 2013.)

In addition, a **5 percent fee** is imposed on charges to lease or rent vehicles. The purpose of this fee is to reimburse lessors for the cost of registering vehicles. If the 9.2 percent rental tax applies to a lease or rental, the

5 percent fee generally applies also. However, a motor vehicle lessor may choose to be exempt from collecting the 5 percent fee if, in the prior calendar year:

- the lessor had no more than 20 motor vehicles available for rent; or,
- the lessor had \$50,000 or less in gross receipts subject to the 5 percent fee.

The 9.2 percent tax and the 5 percent fee are separate charges. The general state sales tax (currently 6.875 percent) and any applicable local taxes also apply to leases or rentals of motor vehicles. If the lease or rental of a vehicle is exempt from the general state sales tax, it is also exempt from the 9.2 percent tax and the 5 percent fee.

What types of rentals are taxable?

You must collect the rental tax and the fee if the lease or rental agreement meets the following requirements:

- the vehicle is a passenger automobile (designed to carry up to 15 passengers including the driver) including
 - a passenger car,
 - a passenger van with a manufacturer's nominal rated carrying capacity of three-quarter ton or less, or
 - a pick-up truck with a manufacturer's nominal rated carrying capacity of three-quarter ton or less;

- the period of the lease or rental agreement is less than 29 days; and
- the customer takes possession of the vehicle in Minnesota.

The rented vehicle can be licensed in any state.

If a vehicle is rented on a short term basis, such as daily or weekly, the rental tax and fee apply because the *agreement* is for less than 29 days, even if the customer keeps the vehicle for more than 28 days.

What rental agreements are not subject to the 9.2% tax and 5.0% fee?

All leases of vehicles under an agreement for more than 28 days are exempt from the 9.2 percent rental tax and the 5 percent fee. Also, all rentals of the following types of vehicles (regardless of rental period or lease agreement) are exempt from the 9.2 percent rental tax and the 5 percent fee:

- all trucks and cargo vans with a manufacturer's nominal rated carrying capacity of more than three-quarter ton
- vans designed or adapted primarily for transporting property rather than passengers (includes vans with a barrier between the operator and the cargo areas)
- box trucks and trailers
- motorcycles and motor scooters
- buses, school buses, or specially licensed commuter vans
- vehicles rented to provide a licensed taxi service
- limousines that include the services of a driver
- limousines and hearses used as part of a funeral or burial service

- ambulances rented to ambulance services
- motor homes
- buses converted to provide temporary living quarters
- vehicles that include a camper mounted on the chassis of the vehicle
- conversion vans equipped with at least four of the following:
 - liquid propane gas cooking stove
 - refrigerator
 - self-contained or externally connected toilet
 - water supply system including a sink with faucet
 - heating or air-conditioning unit separate from the vehicle engine
 - separate electrical power supply

Who is exempt?

- Individuals, institutions, businesses, non-profit organizations, and Minnesota state and local government agencies must pay the 9.2 percent rental tax and the 5 percent fee, in addition to the general state sales tax and any applicable local sales tax.
- If the lease or rental of a vehicle is exempt from the general state sales tax, it is also exempt from the 9.2 percent tax and the 5 percent fee.
- Federal government agencies are exempt from the 9.2 percent rental tax and the 5 percent fee.
- In addition, there is an exemption from the 5 percent motor vehicle rental fee for certain nonprofit car sharing entities whose members pay the organization for the use of a motor vehicle, if the organization:
 - owns or leases a fleet of vehicles that are available to individual members or group members to use on the basis of intervals of an hour or less;
 - parks its vehicles at unstaffed, self-service locations that are accessible any time of the day;
 - provides maintenance, insurance, and fuel for the vehicles; and
 - does not provide discounts or lower rates for increased use.

Charges to members for the use of the vehicles are subject to the general sales and use tax, the 9.2 percent rental tax, and any applicable local sales and use taxes.

9.2% Rental Tax

- **Calculate** the 9.2 percent rental tax on the same amount that you use to figure the general state sales tax.
- **Collect** the tax from your customer at the time you collect payment for the rental.
- **Report** the 9.2 percent rental tax on the “Car Rentals” line, along with the general state sales tax and any applicable local sales taxes to the Minnesota Department of Revenue on your sales tax returns.

5% Fee

- **Calculate** the 5 percent fee on the same amount that you use to figure the general state sales tax.
- **Collect** the fee from your customer at the time you collect payment for the rental.
- **Report** the 5 percent fee to the Minnesota Department of Revenue on your December sales tax return (quarterly filers report on their October through December return, and annual filers on their annual return). The option for reporting the 5 percent fee is given only on the December return because the fee is required to be reported only once a year.

Reporting the 5 percent fee and Minnesota registration taxes on the December sales and use tax return

Lines for reporting the 5 percent fees collected and the Minnesota registration taxes paid in the calendar year are on the December sales and use tax return. If the fees you collected during the year were *more* than the amount you paid in Min-

nesota registration taxes on the rental vehicles, you must pay the excess fees with your December sales and use tax.

You cannot take credit or claim a refund for excess registration taxes paid.

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

1. Enter the total amount of the 5 percent fees collected during the calendar year in the “Amount” column on the “Car Rental Fee (December)” line. Subtract the registration taxes paid from the 5 percent fees collected and enter the difference in the “Tax Due” on the “Car Rental Fee (December)” line on your sales tax return. If the amount is less than zero, enter “0” as Tax.
2. Enter the total amount of Minnesota registration taxes paid during the calendar year on the vehicles that you hold for rental purposes in the “Amount” column on the “Registration Taxes Paid” line.

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 fee. To claim exemption, give a completed Form ST3, Certificate of Exemption, to the business from whom you

are leasing the vehicle. Form ST3 is available on our website. You are then responsible for collecting the 9.2 percent rental tax and the 5 percent fee from the third party.

Dealers and repair services that provide loaner vehicles

When you own the loaner vehicle:

- If you are charging your customer for use of the vehicle, you must collect the 9.2 percent rental tax and the 5 percent fee, as well as the general state sales tax and any applicable local sales tax from the customer.
- If you are not charging your customer (or anyone else), no 9.2 percent rental tax or 5 percent fee is due. However, the dealer should pay use tax on the reasonable rental value of the vehicle. For more information, see Revenue Notice 05-05, Reasonable Rental Value of Motor Vehicles.
- If you are not charging your customer, but you are receiving a Transportation Assistance Program (TAP) payment from the car manufacturer, the dealer owes general state use tax and any applicable local use tax on the reasonable rental value, but no 9.2 percent tax and 5 percent fee are due. The TAP payment is a service initiative to assist the dealer in providing alternate transportation to customers.
- If you are billing a third party for the vehicle because the vehicle is provided under the manufacturer's original warranty, no tax or fee is due.
- If you are billing a third party for the vehicle because the vehicle is provided under an extended warranty or service contract, include the 9.2 percent rental tax, the 5 percent fee, the general state sales tax, and any applicable local sales tax in the billing to the third party. Do not charge tax to your customer.

When you do not own the loaner vehicle, but instead obtain it from a third party:

- If you are charging your customer for the use of the vehicle, present a completed Form ST3, Certificate of Exemption, to the third party from whom you are obtaining the vehicle. Collect the 9.2 percent rental tax, the 5 percent fee, the general state sales tax, and any applicable local sales tax from your customer.
 - If you are not charging your customer (or anyone else) for your cost of obtaining the vehicle from a third party, you must pay the 9.2 percent rental tax, the 5 percent fee, the general state sales tax, and any applicable local sales tax to the vehicle owner.
 - If you are billing a third party (i.e., manufacturer) for the vehicle because the vehicle is provided under the manufacturer's original warranty, no 9.2 percent rental tax, 5 percent fee, or general state sales tax is due.
 - If you are charging your costs for the loaner vehicle to the business from which the customer bought an extended warranty or service contract, present a completed Form ST3, Certificate of Exemption, to the vehicle owner. Charge the 9.2 percent rental tax, the 5 percent fee, the general state sales tax, and any applicable local sales tax to the business from which your customer bought the extended warranty or service contract.
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Local sales and use taxes

If you sell, lease, or rent taxable items or services in an area with a local tax, these taxes must be collected in addition to the general state sales tax, the 9.2 percent rental tax, and the 5 percent fee. For more information, see Fact Sheet 164, Local Sales and Use Taxes.

Legal References

Minnesota Statutes 297A.64, Rental motor vehicle tax
Minnesota Statutes 168.011, Definitions

Revenue Notices

05-05, Reasonable Rental Value of Motor Vehicles
06-08, Motor Vehicle Leases – Taxes and Fee

Other Fact Sheets

125, Motor Vehicle Sales and Purchases
164, Local Sales and Use Taxes
171, Motor Vehicle Leases