

MINNESOTA • REVENUE

MOTOR VEHICLE SALES TAX GENERAL SALES TAX Disposition Changes

April 24, 2006

Department of Revenue

Analysis of H.F. 3761 (Holberg), 1st Engrossment,

Article 1, Sections 7 and 8; Article 2, Section 5, **As Amended (H3761A9)**

	Yes	No
DOR Administrative Costs/Savings	X	

Fund Impact

<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
(000's)			

A. If Constitutional Amendment Approved:

Sales Tax on Motor Vehicle Leases

General Fund	\$0	\$0	(\$29,700)	(\$32,200)
Highway User Tax Distribution Fund	\$0	\$0	\$17,800	\$19,300
Transit Fund	\$0	\$0	\$11,900	\$12,900

B. If Constitutional Amendment Fails (current law allocation):

Sales Tax on Motor Vehicle Leases

General Fund	\$0	\$0	(\$25,060)	(\$23,480)
Highway User Tax Distribution Fund	\$0	\$0	\$14,920	\$13,980
Metropolitan Area Transit Fund	\$0	\$0	\$9,560	\$8,950
Greater Minnesota Transit Fund	\$0	\$0	\$580	\$550

The motor vehicle sales tax changes are effective July 1, 2007, upon passage of a constitutional amendment at the November 2006 general election.

As amended, the general sales tax provision is effective July 1, 2007.

EXPLANATION OF THE BILL

Purchases of motor vehicles (cars, SUVs, vans, motorcycles, pickup trucks, and heavy trucks) are subject to the motor vehicle sales tax under Minnesota Statutes, chapter 297B. Leases of these vehicles are subject to the general sales tax (chapter 297A). The bill would:

1) specify the disposition of the motor vehicle sales tax in statute and alter the language of the ballot question for the proposed constitutional amendment, which under current law will be voted on at the 2006 general election, and

2) dedicate the general sales tax revenue from motor vehicle leases to highway and transit funds in the same manner as the motor vehicle sales tax. The sales tax on vehicle leases is now deposited in the general fund the same as all other general sales and use tax receipts.

EXPLANATION OF THE BILL (cont.)

The bill creates a new transit fund and several new accounts within funds.

Current law allocates the motor vehicle sales tax as follows.

Through June 30, 2007:	30.0% - Highway User Tax Distribution Fund 21.5% - Metropolitan Area Transit Fund 1.43% - Greater Minnesota Transit Fund 0.65% - County State-Aid Highway Fund 0.17% - Municipal State-Aid Street Fund 46.25% - General Fund
July 1, 2007, and after:	32.0% - Highway User Tax Distribution Fund 20.5% - Metropolitan Area Transit Fund 1.25% - Greater Minnesota Transit Fund 46.25% - General Fund

The bill allocates the motor vehicle sales tax as follows, effective upon adoption of the constitutional amendment:

July 1, 2007, to June 30, 2008:	38.25% - Highway User Tax Distribution Fund 25.50% - Transit Fund (newly created) 36.25% - General Fund
July 1, 2008, to June 30, 2009:	44.25% - Highway User Tax Distribution Fund 29.50% - Transit Fund 26.25% - General Fund
July 1, 2009, to June 30, 2010:	50.25% - Highway User Tax Distribution Fund 33.50% - Transit Fund 16.25% - General Fund
July 1, 2010, to June 30, 2011:	56.25% - Highway User Tax Distribution Fund 37.50% - Transit Fund 6.25% - General Fund
July 1, 2011, and after:	60.00% - Highway User Tax Distribution Fund 40.00% - Transit Fund

REVENUE ANALYSIS DETAIL

Motor Vehicle Sales Tax

- The constitutional amendment regarding the disposition of the motor vehicle sales tax will be on the ballot under current law. The new language does not change the general fund impact or the amount available for transportation funding. Of the amount available for transportation funding each year, the bill allocates 60% to the Highway User Tax Distribution Fund and 40% to the Transit Fund. The proposed constitutional amendment provides that, of the amount available for transportation each year, at least 40% is dedicated for public transit and not more than 60% for highway purposes.

General Sales Tax – Vehicle Leases

- The estimate was based on lease payment data from the U.S. Bureau of Economic Analysis. In state fiscal year 2002, national personal consumption expenditures on vehicle leasing were \$31.5235 billion.
- This amount was increased by 25% to account for leases by businesses.
- The adjusted amount was apportioned to Minnesota at 1.72%, the state portion of new passenger car and truck registrations in 2002.
- Annual growth was at the same rate as for the motor vehicle sales tax according to the February 2006 state revenue forecast.
- The estimates include the effect of the 2005 law change which requires sales tax on vehicle leases to be paid in full at the beginning of the lease, effective for new leases entered into after September 30, 2005. For this reason, under the current-law disposition of the motor vehicle sales tax, the estimates for fiscal year 2008 are higher than those for fiscal year 2009.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy