

MINNESOTA DEPARTMENT OF REVENUE

Revenue Notice #05-05: Sales and Use Tax – Definition of Reasonable Rental Value of Motor Vehicles

Background

Minnesota Statutes provide that when a motor vehicle dealer uses, other than for demonstration purposes, a vehicle purchased for resale, the dealer may pay either the use tax under chapter 297A, based on the reasonable rental value of the vehicle, or the motor vehicle sales tax under chapter 297B on the full purchase price at the time converted to the dealer's use. This revenue notice is being issued to set forth the commissioner's position on the meaning of "reasonable rental value" in the statute to provide certainty and fairness in the amount of taxes paid in these circumstances.

Statutory Provision

Minnesota Statutes, section 297B.035, subdivision 5, provides: "If a motor vehicle dealer uses a vehicle, purchased for resale in the ordinary course of business, other than for demonstration purposes, the dealer may elect to pay the motor vehicle sales tax under this chapter or the use tax under chapter 297A based on the reasonable rental value of the vehicle. If the motor vehicle dealer fails to report the use tax under chapter 297A, it is presumed that the dealer elected to pay the motor vehicle sales tax under this chapter."

Department Position

It is the commissioner's position that the reasonable rental value for purposes of this statute is determined by calculating the daily rental value times the number of days or portions of days on which use, for other than demonstration purposes, occurred. The commissioner will accept a daily lease value calculated using the Annual Lease Value Table found at 26 C.F.R. § 1.61-21(d)(2)(iii), as amended through June 1, 1994, divided by 365 to determine the daily lease value. The Annual Lease Value Table is reprinted below. Tax payments based on this value or any greater value will be accepted as reasonable rental value. The fair market value used in calculating the daily rental values is the base value as determined by the registrar of motor vehicles pursuant to Minnesota Statutes, section 168.013, subdivision 1a, plus the retail price of accessories and items of optional equipment if not included in the registrar's calculation.

Annual Lease Value Table			
Automobile Fair Market Value	Annual Lease Value	Automobile Fair Market Value	Annual Lease Value
\$0 to 999	\$600	\$22,000 to 22,999	\$6,100
1,000 to 1,999	850	23,000 to 23,999	6,350
2,000 to 2,999	1,100	24,000 to 24,999	6,600
3,000 to 3,999	1,350	25,000 to 25,999	6,850
4,000 to 4,999	1,600	26,000 to 27,999	7,250
5,000 to 5,999	1,850	28,000 to 29,999	7,750
6,000 to 6,999	2,100	30,000 to 31,999	8,250
7,000 to 7,999	2,350	32,000 to 33,999	8,750
8,000 to 8,999	2,600	34,000 to 35,999	9,250
9,000 to 9,999	2,850	36,000 to 37,999	9,750
10,000 to 10,999	3,100	38,000 to 39,999	10,250
11,000 to 11,999	3,350	40,000 to 41,999	10,750
12,000 to 12,999	3,600	42,000 to 43,999	11,250
13,000 to 13,999	3,850	44,000 to 45,999	11,750
14,000 to 14,999	4,100	46,000 to 47,999	12,250
15,000 to 15,999	4,350	48,000 to 49,999	12,750
16,000 to 16,999	4,600	50,000 to 51,999	13,250
17,000 to 17,999	4,850	52,000 to 53,999	13,750
18,000 to 18,999	5,100	54,000 to 55,999	14,250
19,000 to 19,999	5,350	56,000 to 57,999	14,750
20,000 to 20,999	5,600	58,000 to 59,999	15,250
21,000 to 21,999	5,850		

**For vehicles having a fair market value in excess of \$59,999, the annual lease value is equal to: (.25x the fair market value of the car) + \$500.

For example, using the table, an automobile with a fair market value of \$ 25,000.00 would have a daily rental value of \$17.12 and an automobile with a fair market value of \$30,000.00 would have a daily rental value of \$22.60, calculated as follows:

- $\$ 6,850.00 \div 365 = \$ 17.12$
- $\$ 8,250.00 \div 365 = \$ 22.60$.

Multiplying the daily rental value times the days of use would yield the rental value amount to use in calculating the tax for taxable use under the statute. For purposes of this calculation, use for any portion of a day is considered a full day of use.

JOHN H. MANSUN, Assistant Commissioner
For Tax Policy and External Relations
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