

This notice was modified on February 23, 2009.

Department of Revenue

Modification of Revenue Notice # 06-08: Sales and Use Tax – Motor Vehicle Leases – Taxes and Fee*

***With modifications shown (see “Key” below).**

Background

Leases or rentals of most passenger automobiles, vans, and pickup trucks to customers in Minnesota for periods of no more than 28 days are subject to the 6.5 percent state sales tax and an additional 6.2 percent motor vehicle rental tax. The transaction may also be subject to a ~~3~~ 5 percent motor vehicle rental fee if the lessor does not meet a statutory exemption based upon sales activity in the previous calendar year. These leases may also be subject to a local sales tax if the vehicles are leased in a political subdivision with a local sales tax. This revenue notice sets forth the department’s position on which amounts must be included in the tax base on which state and local sales taxes and the motor vehicle rental fee are computed.

Department Position

The taxes and fee on short-term vehicle leases and rentals are imposed upon the total amount of consideration paid by the customer to the lessor subject to any exclusions from the sales price as defined under *Minnesota Statutes*, section 297A.61, subdivision 7. When computing state and local sales taxes, the rental motor vehicle tax, and the ~~3~~ 5 percent motor vehicle rental fee, the lessor would compute the taxes and fees on the same base amount for each transaction that is subject to taxation.

The sales price includes any charges by the lessor for goods or services that are necessary to complete the transaction. Any mandatory charges are part of the sales price when computing the taxes and fee. However, damage waiver fees and optional personal accident liability insurance are not part of the sales price.

The sales price also includes any taxes, charges, fees, or assessments that are legally imposed upon the lessor but that are passed on to the lessee, even when separately stated on the invoice or bill to the lessee. Any fees or charges, such as a facility usage fee or a franchise fee, that are imposed upon the lessor are part of the lessor’s cost of doing business and are therefore part of the sales price. Examples of charges that are imposed upon the lessor are the Concession Recovery Fee and the Rental Auto Facility Charge imposed by the Metropolitan Airports Commission. Any taxes imposed directly on the lessee are excluded from the sales price if they are separately stated on the billing or invoice to the lessee.

Examples

A car rental firm leases a vehicle to a customer at its Minneapolis location. The lease is for a period of four days at the rate of \$30 per day. The total lease payment of \$120 would be subject to the 6.5 percent state sales tax, the 6.2 percent motor vehicle rental tax, the .15 percent Hennepin County tax, the .25 percent transit improvement tax, the ~~3~~ 5 percent motor vehicle rental fee and the 0.5 percent Minneapolis city sales tax.

A car rental firm leases a vehicle to a customer at the Mpls.-St.Paul airport for a day. The one-day rental rate is \$30. In addition to the daily rental charge there is a \$2 per day facility usage fee or Rental Auto Facility Charge and a Concession Recovery Fee of 9.5 percent which equals \$2.85. The total rental charge to the customer of \$34.85 is subject to the 6.5 percent state sales tax, the 6.2

percent motor vehicle rental tax, the .15 percent Hennepin County tax, the .25 percent transit improvement tax and the ~~3~~ 5 percent motor vehicle rental fee.

Note should be made that the motor vehicle rental fee was increased from 3 to 5 percent effective July 1, 2008 and as of July 1, 2009, the 6.5 percent state sales tax rate will be increased to 6.875 percent.

~~John H. Mansun, Assistant Commissioner
for Tax Policy and External Relations~~

~~Publication Date: July 31, 2008~~

Publication Date: February 23, 2009

ELIZABETH KADOUN, Assistant Commissioner
for Tax Policy and External Relations

***Key:** Underlining indicates additions to existing Revenue Notice language. Strikeouts indicate deletions from existing Revenue Notice language.

Please see next page for a clean, printable copy of this notice as modified.

Department of Revenue

Modification of Revenue Notice # 06-08: Sales and Use Tax – Motor Vehicle Leases – Taxes and Fee**

****As modified.**

Background

Leases or rentals of most passenger automobiles, vans, and pickup trucks to customers in Minnesota for periods of no more than 28 days are subject to the 6.5 percent state sales tax and an additional 6.2 percent motor vehicle rental tax. The transaction may also be subject to a 5 percent motor vehicle rental fee if the lessor does not meet a statutory exemption based upon sales activity in the previous calendar year. These leases may also be subject to a local sales tax if the vehicles are leased in a political subdivision with a local sales tax. This revenue notice sets forth the department's position on which amounts must be included in the tax base on which state and local sales taxes and the motor vehicle rental fee are computed.

Department Position

The taxes and fee on short-term vehicle leases and rentals are imposed upon the total amount of consideration paid by the customer to the lessor subject to any exclusions from the sales price as defined under *Minnesota Statutes*, section 297A.61, subdivision 7. When computing state and local sales taxes, the rental motor vehicle tax, and the 5 percent motor vehicle rental fee, the lessor would compute the taxes and fees on the same base amount for each transaction that is subject to taxation.

The sales price includes any charges by the lessor for goods or services that are necessary to complete the transaction. Any mandatory charges are part of the sales price when computing the taxes and fee. However, damage waiver fees and optional personal accident liability insurance are not part of the sales price.

The sales price also includes any taxes, charges, fees, or assessments that are legally imposed upon the lessor but that are passed on to the lessee, even when separately stated on the invoice or bill to the lessee. Any fees or charges, such as a facility usage fee or a franchise fee, that are imposed upon the lessor are part of the lessor's cost of doing business and are therefore part of the sales price. Examples of charges that are imposed upon the lessor are the Concession Recovery Fee and the Rental Auto Facility Charge imposed by the Metropolitan Airports Commission. Any taxes imposed directly on the lessee are excluded from the sales price if they are separately stated on the billing or invoice to the lessee.

Examples

A car rental firm leases a vehicle to a customer at its Minneapolis location. The lease is for a period of four days at the rate of \$30 per day. The total lease payment of \$120 would be subject to the 6.5 percent state sales tax, the 6.2 percent motor vehicle rental tax, the .15 percent Hennepin County tax, the .25 percent transit improvement tax, the 5 percent motor vehicle rental fee and the 0.5 percent Minneapolis city sales tax.

A car rental firm leases a vehicle to a customer at the Mpls.-St.Paul airport for a day. The one-day rental rate is \$30. In addition to the daily rental charge there is a \$2 per day facility usage fee or Rental Auto Facility Charge and a Concession Recovery Fee of 9.5 percent which equals \$2.85. The total rental charge to the customer of \$34.85 is subject to the 6.5 percent state sales tax, the 6.2

percent motor vehicle rental tax, the .15 percent Hennepin County tax, the .25 percent transit improvement tax and the 5 percent motor vehicle rental fee.

Note should be made that the motor vehicle rental fee was increased from 3 to 5 percent effective July 1, 2008 and as of July 1, 2009, the 6.5 percent state sales tax rate will be increased to 6.875 percent.

Publication Date: February 23, 2009

ELIZABETH KADOUN, Assistant Commissioner
for Tax Policy and External Relations