

MINNESOTA • REVENUE

MOTOR VEHICLE SALES TAX Vehicle Donations

April 24, 2003

	Yes	No
Separate Official Fiscal Note Requested		
Fiscal Impact		
DOR Administrative Costs/Savings		

Department of Revenue
Analysis of H.F. 343 (Abeler), 1st Engrossment.

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>
	(000's)			
General Fund, Nondedicated (44.25%)	(\$9)	(\$9)	(\$9)	(\$9)
General Fund, Dedicated (2%)	(\$0)	(\$0)	(\$0)	(\$0)
Highway User Tax Dist. Fund (32%)	(\$7)	(\$7)	(\$7)	(\$7)
Metro Area Transit Fund (20.5%)	(\$4)	(\$4)	(\$4)	(\$4)
Greater MN Transit Fund (1.25%)	(\$0)	(\$0)	(\$0)	(\$0)
Total - All Funds	(\$20)	(\$20)	(\$20)	(\$20)

Effective August 1, 2003.

EXPLANATION OF THE BILL

Current Law: The transfer of a motor vehicle generally requires transfer of title. An exemption from the titling requirement is allowed to automobile dealers, when the vehicle is purchased for resale. A "limited used vehicle license" is allowed for qualifying nonprofit charitable organizations which acquire vehicles for sale through donation and use a licensed motor vehicle auctioneer to sell the vehicle to a retail customer. This used vehicle license does not apply to educational institutions that train students in the repair, maintenance, and sale of motor vehicles.

The sale of a motor vehicle is generally subject to the motor vehicle sales tax. The motor vehicle sales tax is linked by statute to the general sales tax and the tax rate is 6.5% with two exceptions: a \$10 flat tax for vehicles ten years old or older and a \$90 flat tax for registered collector vehicles. The gift of a motor vehicle between individuals is not subject to the sales tax.

Proposed Law: The bill would allow "limited used vehicle dealers" (i.e. nonprofit charitable organizations acting occasionally as used vehicle dealers) to sell vehicles directly to a licensed motor vehicle dealer.

The bill would also exempt from the motor vehicle sales tax a gift from a limited used vehicle dealer to an individual.

REVENUE ANALYSIS DETAIL

- The provision that allows the charitable organization to sell directly to a regular dealer has no tax impact. The provision only has relevance regarding titling and fees.
- It is estimated that approximately 25,000 vehicles are donated annually to entities with a limited used vehicle license.
- Of the 25,000 vehicles being received by donation, most are resold at auction. Dealers are purchasing many of these resold vehicles. It is estimated that 5% of the vehicles are distributed as gifts from the nonprofit organization to an individual.
- The vehicles are predominantly more than 10 years old, and therefore the motor vehicle sales tax would be the flat tax of \$10. It is estimated that 5% of the vehicles are less than 10 years old and the average sales tax paid on these newer vehicles is \$130 per vehicle.

Number of Taxpayers: The Charities Review Council reports that there are approximately 40 charities in Minnesota that are receiving automobiles as donations. Most of these charities are reselling the vehicles with a limited number of cars subsequently being donated to an individual.

Source: Minnesota Department of Revenue
Tax Research Division
<http://www.taxes.state.mn.us/polic.html#analyses>