

MINNESOTA • REVENUE

SALES TAX

Motor Vehicle Leases Dedication

March 14, 2006

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of S.F. 2651 (Bonoff) / H.F. 3127 (Abrams)

	Fund Impact			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
		(000's)		
General Fund	\$0	(\$32,100)	(\$25,060)	(\$32,210)
Highway User Tax Distribution Fund	\$0	\$18,400	\$14,920	\$19,330
Metropolitan Area Transit Fund	\$0	\$12,840	\$9,560	\$12,240
Greater Minnesota Transit Fund	\$0	\$850	\$580	\$640

Effective July 1, 2006

EXPLANATION OF THE BILL

Current Law: Leases of motor vehicles are subject to the general sales tax. The tax from vehicle leases is deposited in the general fund the same as other sales tax receipts. Purchases of motor vehicles are subject to the separate motor vehicle sales tax. Motor vehicle sales tax receipts are divided between transportation funds and the general fund.

Proposed Law: The bill provides a phased allocation of the sales tax from vehicle leases from the general fund to transportation funds, as follows:

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
Highway User Tax Distribution Fund	30.82%	32.0%	44.25%	50.25%	56.25%	60.0%
Metropolitan Area Transit Fund	21.5%	20.5%	28.025%	31.825%	35.625%	38.0%
Greater Minnesota Transit Fund	1.43%	1.25%	1.475%	1.675%	1.875%	2.0%
General Fund	46.25%	46.25%	26.25%	16.25%	6.25%	0.0%

REVENUE ANALYSIS DETAIL

- 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.

REVENUE ANALYSIS DETAIL (cont.)

- Amounts were allocated to the funds by the percentages specified in the bill.
- Annual growth was at the same rate as for the motor vehicle sales tax according to the February 2006 state revenue forecast.
- The estimates reflect 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. This is the main reason why the estimates for fiscal year 2008 are lower than those for fiscal year 2007.

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