

MINNESOTA • REVENUE

MOTOR VEHICLE SALES TAX SALES AND USE TAX Propane School Bus Purchases/Leases

March 11, 2008

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue

Analysis of S.F. 2717 (Olson, M.) As Proposed to be Amended (SCS2717A-1)

	Fund Impact			
	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>	<u>F.Y. 2010</u>	<u>F.Y. 2011</u>
			(000's)	
Highway User Tax Distribution Fund	\$0	(\$10)	(\$25)	(\$25)
Transit Assistance Fund	\$0	(\$5)	(\$15)	(\$20)
General Fund	<u>\$0</u>	<u>(\$5)</u>	<u>(\$10)</u>	<u>(\$5)</u>
Total – All Funds	\$0	(\$20)	(\$50)	(\$50)

Effective for sales and purchases made after June 30, 2008.

EXPLANATION OF THE BILL

Currently, the purchase of a new or used school bus is subject to the 6.5% motor vehicle sales tax. Similarly, the lease of school bus is subject to the 6.5% sales tax. The bill would exempt from the motor vehicle sales tax the purchase by school districts of school buses that are powered by propane fuel. Leases of propane powered school buses would also be exempted from the sales and use tax. The exempted buses are required to be used solely for the purpose of transporting students.

REVENUE ANALYSIS DETAIL

- It is assumed that the exemption would be used primarily for purchases of school buses and that there would be no leases of propane powered buses during the forecast period.
- Information on the Minnesota Department of Education website indicates that there are approximately 13,300 school buses in the statewide fleet. About 5,500 of these buses are district-owned and 7,700 contractor-owned. The remaining 100 buses are owned by private schools.
- Assuming an average life of 12-15 years, about 400 new buses per year are being purchased by school districts each year. Most of the school buses, and new bus purchases, have diesel-powered engines.
- A recent U.S. Department of Energy, Clean Cities publication reported no alternative fuel school buses in Minnesota. Of the approximately 4,000 alternative fuel buses nationwide about 70% were located in California and Texas.

REVENUE ANALYSIS DETAIL (continued)

- There are three primary manufacturers of school buses nationwide, and one of these manufacturers recently started to produce buses with propane dedicated fuel systems. The two Minnesota distributors for this manufacturer advise that, while they have had a few recent inquiries, they have not sold any propane powered school buses in the last several years. The 2010 revised EPA criteria for emissions could have an impact on the utilization of the propane technology.
- With an average cost of approximately \$85,000, the exemption is about \$5,500 for each bus.
- It is expected that three to five propane-powered buses would be purchased by school districts in the first year and that nine or ten such buses would be purchased annually in the following years.

Number of Taxpayers: It is expected that a few school districts would benefit from this exemption. The growth of propane use for powering school buses is uncertain.

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