

MINNESOTA • REVENUE

SALES AND USE TAX Leases for Rent-To-Own Vehicles

March 28, 2011

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 985 (DeKruif)

	Fund Impact			
	<u>F.Y. 2012</u>	<u>F.Y. 2013</u>	<u>F.Y. 2014</u>	<u>F.Y.2015</u>
	(000's)			
General Fund (6.5%)	(\$150)	\$0	\$0	\$0
Natural Resources and Arts Funds (0.375%)	(\$10)	(\$10)	(\$5)	(\$5)
Greater Minnesota Transit Account	\$0	(\$70)	(\$50)	(\$40)
County State Aid Highway Fund	<u>\$0</u>	<u>(\$70)</u>	<u>(\$50)</u>	<u>(\$40)</u>
Total – All Funds	(\$160)	(\$150)	(\$105)	(\$85)

Assumed to be effective for new leases entered into after June 30, 2011.

EXPLANATION OF THE BILL

Current Law: For new and used motor vehicle leases, excluding vehicles with a manufacturer's gross vehicle rate greater than 10,000 pounds, the sales tax rate of 6.875% is required to be paid upfront on the total lease price. Prior to 2005, the tax was paid on each monthly payment.

On July 1 of the following fiscal year, the estimated proceeds from the upfront sales tax on leased vehicles (net of \$31.1 million for fiscal year 2012 and \$32 million for all subsequent years) is transferred from the General Fund to the Greater Minnesota Transit Account (50%) and the County State-Aid Highway Fund (50%).

Proposed Law: The bill would provide an exception to the upfront payment of the sales tax for rent-to-own and lease-to-own used vehicles where the lessee may purchase or return the vehicle at any time for any reason without penalty. The sales tax would be imposed on the down payment and on each periodic lease payment.

REVENUE ANALYSIS DETAIL

- The estimates assume that the change would apply to contracts executed after June 30, 2011.
- The estimates use information from February 2011 forecast of the motor vehicle lease tax transfers for fiscal years 2012 through 2015. No transfer from the general fund to the transit funds is forecast for fiscal year 2012.

REVENUE ANALYSIS DETAIL (Cont.)

- Information was received from an industry representative. It is estimated that there will be approximately 260 new rent-to-own contracts in fiscal year 2012.
- The average annual payments on the rental are estimated to be \$2,400 in fiscal year 2011.
- The average down payment is assumed to be \$1,200 in fiscal year 2011.
- Fiscal year 2012 estimates were adjusted for 11 months of impact.
- It is assumed that this exemption would not apply to other types of leased vehicles (e.g. leases with buy-out options).

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