MOTOR VEHICLE SALES TAX
Vehicles Purchased Abroad by MN Military

February 28, 2012

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 1948 (Urdahl) / S.F. 1812 (Parry)

	Fund Impact			
	F.Y. 2012	**F.Y. 2013**	**F.Y. 2014**	**F.Y. 2015**
		(000's)		
Highway User Tax Distribution Fund	$0	($30)	($55)	($55)
Transit Assistance Fund	$0	($20)	($35)	($35)
Total – All Funds	$0	($50)	($90)	($90)

Effective for sales and purchases made after June 30, 2012

EXPLANATION OF THE BILL

Currently, a vehicle not previously titled and registered in the United States that is brought into Minnesota is generally subject to the 6.5% motor vehicle sales tax.

The bill would provide an exemption from the motor vehicle sales tax for the first $25,000 of value for the purchase outside the United States of a passenger automobile or motorcycle by a member of the United States armed forces serving outside the United States in federal active service. The exemption is limited to one qualifying motor vehicle during the lifetime of the armed forces member.

REVENUE ANALYSIS DETAIL

- The Exchange New Car Sales program was authorized by Congress and created by the Department of Defense to provide members of the overseas military community with preferential pricing on new cars. This program, the Military Advantage Program, sells approximately 12,000 new vehicles annually to overseas military personnel (Ford, Chrysler, Dodge, Jeep, Lincoln, Harley-Davidson, and Honda).
- Minnesota military personnel stationed abroad may also purchase other vehicles during their military duty and subsequently title them in Minnesota. Other overseas sales programs for the military include BMW, Mini; Mercedes; Jaguar, Land Rover, Volvo; and Audi, Mazda, VW, Nissan, Infiniti.
- It is estimated that about 1%, or 120, of the Military Advantage Program sales are to Minnesota active duty military personnel stationed abroad. It is estimated that another 50 sales are made to Minnesota military personnel from other military vehicle sales programs, including used car sales.

REVENUE ANALYSIS DETAIL (Cont.)

- It is expected that the number of used car purchases would be limited due to import constraints (i.e. U.S. vehicle standards relative to foreign standards).
- There are potential timing issues related to when the vehicle is purchased abroad and when it is subsequently titled and registered in Minnesota.
- Representatives from the Department of Public Safety, Driver and Vehicle Services Division, and the Department of Military Affairs were contacted to determine how many of the vehicle purchases annually by Minnesota military personnel stationed abroad from Minnesota may become subject to the motor vehicle sales tax in Minnesota. It is estimated that this exemption might directly apply to approximately 60 vehicles annually.
- Ward's Automotive reports the average price of a motor vehicle as $24,300 ($26,800 for imports) for 2010. The average used car price is $13,000. It is assumed that the average exemption for military purchases of new cars, used cars, and motorcycles abroad would be $23,000.
- Prices are estimated to increase 1.5% annually.
- The effective date requires that the vehicle be purchased after June 30, 2012. This is expected to limit the number of these vehicles returning to Minnesota in the first year.
- It is uncertain what impact the exemption may have on additional vehicle sales to overseas military personnel and on the number of vehicles titled and registered in Minnesota after being shipped back to the United States from abroad. There is no adjustment for either of these possible impacts.

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

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