SALES AND USE TAX
Rent/Lease-To-Own Used Vehicles

February 16, 2012

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 2032 (Myhra) / S.F. 1636 (DeKruif)

	Fund Impact			
	F.Y. 2012	**F.Y. 2013**	**F.Y. 2014**	**F.Y.2015**
		(000's)		
General Fund (6.5%)	$0	$25	$55	$85
Natural Resources and Arts Funds (0.375%)	$0	($5)	($5)	($5)
Greater Minnesota Transit Account	$0	($70)	($80)	($85)
County State Aid Highway Fund	$0	($70)	($80)	($85)
Total – All Funds	$0	($120)	($110)	($90)

Effective for leases entered into after June 30, 2012.

EXPLANATION OF THE BILL

Current Law: For all 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. The statutory provision directs that the retail sale on the lease of a motor vehicle occurs at the time the lease is executed. Prior to 2005, the tax was paid on each monthly payment. The estimated proceeds from the upfront sales tax on leased vehicles (net of $32 million for fiscal years after 2012) are transferred from the General Fund to the Greater Minnesota Transit Account (50%) and the County State-Aid Highway Fund (50%).

Proposed Law: The bill provides that the retail sale occurs on rent-to-own and lease-to-own used vehicles, where the lessee may purchase or return the vehicle at any time without penalty, at the time each payment is made under the terms of the lease agreement (i.e. down payment and periodic payments). Because the sales tax would not be paid for upfront for these vehicles, the sales tax revenue would no longer be transferred to the Greater Minnesota Transit Account and County State-Aid Highway Fund.

REVENUE ANALYSIS DETAIL

- Information was received from an industry representative. It is estimated that there will be approximately 130 new rent-to-own contracts in fiscal year 2013.
- The average down payment is assumed to be $1,600 and the average annual payments are estimated to be $3,000, in fiscal year 2013.
- It is assumed annual growth rates are 5% for car counts and 2% for payment amounts.
- Fiscal year 2013 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) and would apply only to passenger class vehicles.

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