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

April 8, 2013

	Yes	No
DOR Administrative Costs/Savings		x

Department of Revenue
Analysis of H.F. 1381 (Myhra)

	Fund Impact			
	F.Y. 2014	**F.Y. 2015**	**F.Y. 2016**	**F.Y. 2017**
	(000's)			
Greater Minnesota Transit Account	($50)	($45)	($35)	($25)
County State Aid Highway Fund	($50)	($45)	($35)	($25)
Total – All Funds	($100)	($90)	($70)	($50)

Effective for leases entered into after June 30, 2013.

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 at the time each payment is made under the terms of the lease agreement. Paying the tax on the periodic payments is limited to rent-to-own used vehicles where the lessee may purchase or return the vehicle at any time without penalty. The tax on these vehicles would continue to be deposited in the General Fund and subsequently transferred to transportation uses.

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 2014.
- The average down payment is assumed to be $1,400 and the average annual payments are estimated to be $3,000 in fiscal year 2014.
- It is assumed annual growth rates are 5% for car counts and 2% for payment amounts.
- It is assumed that this change to periodic lease payments would not apply to other types of leased vehicles (e.g. leases with buy-out options) and would apply only to cars, pick-up trucks, and vans.

Source: Minnesota Department of Revenue
Tax Research Division
www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx

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