Exempt and Non-Exempt Status
State and local units of government are exempt from the federal excise tax, but are NOT exempt from the Minnesota motor fuel excise tax for gasoline and diesel fuel used in licensed vehicles. They may, however, purchase dyed diesel fuel for use in the vehicles.

Minnesota Motor Fuel Excise Tax
The motor fuel excise tax must be charged on the total sale if undyed diesel fuel or gasoline is delivered to a government unit. Excise tax is also due if dyed diesel fuel is sold and the governmental unit does not have a special fuel license.

State and Local Units of Government that are Licensed
If the unit of government holds a valid petroleum special fuel dealers license, the Minnesota tax liability will be handled as follows:

- The fuel supplier will deliver red dyed fuel to the bulk storage of the governmental unit tax free.
- The governmental unit must log how the product is used (i.e., on road or off road).
- The governmental unit must electronically file and pay Minnesota fuel excise tax for the dyed fuel used on roads.
- The governmental unit must report and pay use tax on the portion of the dyed fuel that was used off road when it files its sales and use tax return (see note).

State and Local Units of Government that are Not Licensed
If a unit of government does not hold a valid special fuel license, the governmental unit must pay all the appropriate taxes on gasoline, undyed diesel and dyed diesel fuel purchases. The following information applies:

- Off-Road Use. Off-road use of dyed diesel fuel is subject to the Minnesota sales tax (see note).
- Bulk Delivery. Any off-road use of tax-paid diesel fuel may qualify for a refund. Use Form PDR-1, Minnesota Motor Fuel Claim for Refund. The Minnesota sales tax must be paid on any refunded gallons (see note).

- Retail Stations. Tax-paid purchases made at retail outlets may also qualify for a refund. Use Form PDR-1. (These gallons must also be reported and paid on the sales tax return, see note.)

Note: If the state or local unit of government has separate tanks for on-road and off-road usage, the Minnesota excise tax should be charged on the on-road tank and sales tax charged on the off-road tank (see note).

- Refunds. Whenever a refund is claimed, there must be sufficient supporting documentation available for verification of the claim (see Form PDR-1).

Refunds of Tax Paid on Diesel Fuel Used in Emergency Vehicles
Diesel fuel used in emergency vehicles, such as fire trucks, ambulances, etc., is exempt from the petroleum excise tax.

To receive a refund of the excise tax paid on diesel fuel used in emergency vehicles, the vehicle must be all of the following:

- clearly marked as an emergency vehicle
- diesel powered
- owned by a governmental unit (city, county or municipality)

Use Form PDR-1.

Tax Paid on Fuel Used in Gasoline Powered Vehicles is Not Refundable
Refunds are not allowed for petroleum excise tax paid on gasoline used in gasoline powered vehicles. According to Minnesota law:

- Any gasoline powered vehicles using Minnesota roads and highways must pay the excise tax (M.S. 296A.07).

NOTE: Beginning Jan. 1, 2014, there is no sales tax on dyed diesel fuel for off-road use if the agency is exempt per Sales Tax Fact Sheet 176.