

**What's New**

We made formatting updates to this fact sheet.

Motor fuels and other petroleum products are subject to either petroleum tax or sales and use tax, but never both. Petroleum tax applies to fuel used in licensed motor vehicles. Fuels for off-highway use are subject to either sales tax or petroleum tax. This fact sheet will help to explain which tax applies and when.

**Petroleum Tax**

Most fuel used for highway purposes is subject to petroleum tax. This includes motor fuel (gasoline or diesel fuel, also called “special fuel”) used in all licensed motor vehicles. It also includes fuel for motorboats, all-terrain vehicles, aircraft, and most snowmobiles.

When you buy gasoline from a pump at a gas station, the price already includes petroleum tax (both state and federal).

**State Petroleum Tax Refund**

State petroleum tax paid on fuel used to operate a power take-off unit or auxiliary engine fueled from the same supply tank as the highway vehicle is partially refundable.

To request a refund, submit a completed Form PDR-1, *Minnesota Motor Fuel Refund*. You can get this form on our website. Go to [www.revenue.state.mn.us](http://www.revenue.state.mn.us) and type **PDR-1** into the Search box.

If the refund is for a power take-off unit, attach Schedule PDR-1PTO, *Power Take-Off Worksheet*. For more information, see Revenue Notice 1999-09, *Power Take-off Unit Refunds*.

If you pay state petroleum tax on a motor fuel purchase and later receive a refund or credit of that tax, you must pay use tax on the cost of any fuel used for taxable purposes.

See “Sales and use tax exemptions” for specific exemptions that may apply. If no petroleum refund is received, no use tax is due on that fuel.

**Dyed Fuel**

Diesel fuel (not gasoline) to be used for off-highway purposes is dyed red at the terminal to show that no federal petroleum tax has been levied on the fuel. This fuel is also sold without the state petroleum tax since it is not intended for use on the highway. By law, dyed fuel must not be used on the highway, except for government use. See Sales to governments on page 2.

Dyed fuel may be subject to sales or use tax, depending on how it's used, as explained in the following sections. If you suspect unlawful use of dyed diesel fuel, please call our Tipline at 1-800-657-3500 or 651-297-5195.

**Sales or Use Tax**

Sales or use tax is due on petroleum products used for non-highway purposes unless the petroleum tax was paid and not refunded, or a specific sales tax exemption applies. Generally, sales or use tax applies to fuel used in construction activities or for heating commercial buildings.

The amount subject to use tax includes the cost of the fuel, federal petroleum tax (which is a tax imposed at the wholesale level) the Petrofund “clean-up” fee, and any inspection fees imposed. Use tax is due for the period when the refund or credit is received.

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## Sales and Use Tax Exemptions

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### Residential heating

Fuel oil, coal, steam, propane gas, LP gas, and kerosene delivered to residential customers for residential heating are exempt from both petroleum tax and sales or use tax.

These fuels are also exempt when picked up from the supplier, if the customer gives the supplier a written statement that the fuel will be used for residential heating. For more information, see the *Residential Utilities* Fact Sheet.

### Agricultural or Industrial Production

Fuel used or consumed in the agricultural or industrial production of items that will ultimately be sold at retail are exempt from both petroleum tax and sales or use tax.

The purchaser must give the supplier a completed Form ST3, *Certificate of Exemption*, to claim exemption from sales tax.

This exemption applies to fuel used to:

- Operate farm equipment used in producing crops, see the *Agricultural and Farming Guide*
- Operate manufacturing equipment, see *Utilities Used in Production* and *Industrial Production* fact sheets
- Improve agricultural land by building, maintaining, or repairing: drainage ditches, tile drainage systems, grass waterways, water impoundment, or other erosion control structures, see the *Agricultural and Farming Guide*
- Operate logging equipment, see *Logging Equipment* and *Loggers and Log Home Builders* fact sheet
- Operate PTO’s used in agricultural or industrial production, for example, PTO’s that power fertilizer spreaders or ready-mixed concrete truck mixers
- Operate off-road equipment or vehicles used directly in mining ore and producing taconite, see *Taconite and Iron Mining* Fact Sheet

**Note:** The sales and use tax exemption for agricultural and industrial production does not apply to fuel used for general space heating or lighting, or for the preservation of raw materials or completed goods. Also, petroleum tax must be paid on fuel for highway use in any licensed motor vehicle, including ready-mixed concrete trucks, even if the vehicle may be used in agricultural or industrial production.

### Passenger Snowmobiles

Petroleum products used in a passenger snowmobile for off-highway business use as part of the operations of a resort are exempt from sales tax. The snowmobile must have an enclosed passenger section that provides seating for four to twelve passengers and be designed to travel on snow or ice.

### Transit Systems

Petroleum products are exempt when purchased by a transit system that receives financial assistance under Minnesota Statutes 174.24, 256B.0625, subd. 17, or 473.384.

### Used Motor Oil

Sales of used motor oil are exempt.

### Medical Service Providers

Petroleum products are exempt when purchased by transportation provider that serves qualified recipients enrolled in day programs.

Examples include:

- Adult day care
- Daily adult day care
- Day treatment and habilitation
- Pre-vocational services
- Structured day services

Petroleum products are exempt when used in a motor vehicle used exclusively as a mobile medical unit that provides medical or dental services for a federally qualified health center.

You may claim a refund on state petroleum tax paid on fuel purchased for any of the exempt uses listed above. Submit a completed Form PDR-1, *Minnesota Motor Fuel Refund*.

### Trains and Barges

Diesel fuel for trains and barges is exempt from the petroleum tax and sales or use tax.

### Special Fuel Exemption

Special fuel for one of the following purposes is exempt from sales tax:

- to power a refrigeration unit mounted on a licensed motor vehicle,
  - provided that the unit has an engine separate from the one used to propel the vehicle and
  - the fuel used is exclusively for the unit
- to power an unlicensed motor vehicle that is used solely or primarily to move semitrailers within a cargo yard, warehouse facility, or intermodal facility
- to operate a power take-off unit or auxiliary engine in or on a licensed motor vehicle
  - the engine may be fueled from the same or a different fuel tank than from which the motor vehicle is fueled

## Sales to Governments

### Federal Government

The federal government may buy all fuel exempt from state petroleum tax or sales and use tax.

### State and Local Governments

State and local governments are exempt from federal petroleum tax, but not from state petroleum tax. Since they are exempt from federal petroleum tax, these governments often buy dyed fuel, which is not subject to the federal tax.

Any state or local government that buys dyed fuel and uses the fuel in taxable ways must pay the state petroleum tax because the state tax is not added at the time of purchase.

If the	Then
State or local government has a special fuel dealer's license	Report the petroleum tax on your petroleum tax return.
State or local government does not have a special fuel dealer's license and use dyed fuel in a taxable way (for example: in a licensed motor vehicle)	Your supplier must remit the petroleum tax on their monthly petroleum tax return.
Supplier is not licensed	They must send detailed sales records of dyed fuel gallons sold for taxable use and submit payment to their master jobber for reporting on their monthly petroleum tax return.

State and some local governments owe sales tax on fuel purchases unless they have paid petroleum tax and not received a refund, or unless the fuel is for an exempt use as described above.

For more information, call our Petroleum Tax Unit at 651-296-0889.

### **Cities, Counties, and Townships**

Cities, counties, and townships are generally exempt from state sales tax on dyed diesel used in off-road equipment. They are not exempt from the state road tax on gasoline or undyed diesel. For more information, see the Government – Local Governments Guide.

**Note:** Fuel used by the state or a local government in marked police vehicles, ambulances, and fire apparatus is exempt from sales or use tax.

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### **Nonprofit Organizations**

Nonprofit organizations must pay petroleum tax on all fuel as described in the Petroleum tax section—no exemptions apply.

Qualifying nonprofit organizations may buy fuel for off-highway use without paying sales tax by giving the seller a completed Form ST3, *Certificate of Exemption*.

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### **Paying Sales or Use Tax**

Sellers should charge sales tax on petroleum products unless state petroleum tax is included in the price, or the buyer gives the seller an exemption certificate.

If no exemption applies, the customer must pay use tax if:

- the price doesn't include state petroleum tax and the seller doesn't charge sales tax, or
- the customer receives a refund of petroleum taxes.

To pay use tax, report the purchase price of the petroleum products for off-highway use when you file your sales and use tax return.

For more information on use tax, see the following fact sheets:

- *Use Tax for Businesses*
- *Use Tax for Individuals*

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### **Local Sales and Use Taxes**

If you are located in or make sales into an area with a local tax, you may owe local sales or use tax. For more information, see the Local Sales and Use Tax Guide.

## **Legal References**

Minnesota Statutes 297A.68

subd. 19, Petroleum Products

subd. 2, Materials consumed in industrial production

Minnesota Statutes 297A.70

subd. 2, Sales to Government

subd. 3, Sales of certain goods and services to government

Minnesota Statutes 174.24 Public Transit Participation Program

Minnesota Statutes 473.384 Contracts

Minnesota Statutes 256B.0625 Subd 17 Transportation Costs

Minnesota Rules 8125.1301, PTO Refunds

## **Revenue Notices**

12-08, Exemption for Towns

## **Fact Sheets**

*Industrial Production*

*Loggers and Log Home Builders*

*Logging Equipment*

*Taconite and Iron Mining*

*Use Tax for Businesses*

*Utilities Used in Production*

## **Guides**

Agricultural and Farming

Government – Local Governments

Local Sales and Use Tax