

Motor Vehicle Lease and Rental Taxes

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This publication discusses the taxes and fees that are imposed in various forms on the lease and rental of motor vehicles in Minnesota.¹

Taxation of Motor Vehicle Leases

The general state sales tax of 6.875 percent is imposed on all motor vehicle leases, regardless of the duration of the lease. Lease agreements that extend more than 28 days are termed “long-term leases,” whereas lease agreements that extend for 28 or fewer days are termed “short-term leases” or “rentals” (and are discussed further below). Although it is part of the general sales tax, the tax on long-term leases is also colloquially known as the “motor vehicle lease sales tax,” or MVLST.

For long-term leases, the total sales tax owed over the entire lease agreement is due at the time that the lease is executed. However, for short-term leases, the tax is due incrementally at the time of each lease payment.

The state receives the revenue at the time of the lease agreement, either because the lessee pays the tax when the lease is executed or the lessor pays the tax at the time of the agreement and builds the amount of the tax into the periodic lease payments.

Taxation of Motor Vehicle Rentals

As a practical matter, the terms “rental” and “lease” may be used to describe the same transactions, especially when discussing short-term transactions. This section discusses the taxes and fees imposed on rentals of 28 days or fewer.

These transactions are subject to the state general sales tax of 6.875 percent, as well as an additional 9.2 percent motor vehicle rental tax. Additionally, these rentals are subject to a fee of 5 percent.² Combined, the total taxes plus fees on a rental is 21.075 percent of the lease price. ([Minn. Stat. § 297A.64](#), subs. 1 and 2).

Motor vehicles subject to the rental tax and additional fee include automobiles, passenger vans with a carrying capacity of three-fourths of a ton or less, and pickup trucks with a carrying capacity of no more than three-fourths tons or a gross vehicle weight of less than 10,000 pounds.

Exempt from the rental tax and additional fee are taxicabs, hearses or limousines used for funerals, and cargo vans ([Minn. Stat. § 297A.64](#), subd. 4).

¹ For information on the tax imposed on motor vehicle sales (MVST), please see the House Research publication [Motor Vehicle Sales Tax](#).

² A lessor with no more than 20 vehicles for lease and no more than \$50,000 in gross receipts in the previous calendar year may opt out of charging the 5 percent fee.

Car-Sharing

A nonprofit corporation that runs a short-term vehicle rental service for members only (often known as a car-sharing company) is exempt from the additional tax and fee on short-term motor vehicle leases ([Minn. Stat. § 297A.64](#), subd. 2, para. (b)) provided that:

- 1) the charge to members is priced based on intervals of one hour or less, and the rate does not decline with increased use (measured by time or distance);
- 2) vehicles are parked at unstaffed self-service spots that are accessible 24 hours a day; and
- 3) the nonprofit corporation insures the vehicle on the members' behalf, and pays for all fuel.

A for-profit car-sharing company is still subject to the additional short-term tax and fee.

Distribution of taxes and fees

The table below shows the state accounts into which the taxes and fees imposed on the lease or rental of motor vehicles are deposited.

Distribution of Taxes and Fees Imposed on Motor Vehicle Leases

Tax or Fee	Allocation of Revenue
6.5% general sales tax	<p>For revenues from vehicles leases subject to the upfront sales tax payment:</p> <ul style="list-style-type: none"> ▪ 38% to the county state-aid highway fund ▪ 38% to the greater Minnesota transit account ▪ 13% to the Minnesota state transportation fund ▪ 11% to the highway user tax distribution fund (HUTDF) <p>For revenues from vehicles leases subject to the extra short-term tax and fee:</p> <ul style="list-style-type: none"> ▪ 100% to the HUTDF <p>For revenues on all other motor vehicle leases:</p> <ul style="list-style-type: none"> ▪ 100% to the general fund
0.375% additional general sales tax*	<p>All revenue is allocated as follows:</p> <ul style="list-style-type: none"> ▪ 33% to the outdoor heritage fund ▪ 33% to the clean water fund ▪ 14.25% to the parks and trails fund ▪ 19.75% to the arts and cultural heritage fund
9.2% motor vehicle rental tax	100% to the HUTDF
5.0% short-term fee	The lessor of the vehicle retains the fee to cover the motor vehicle registration tax on the rental vehicle; any fee collected in excess of that amount is remitted to the state with 100% going to the HUTDF

*Constitutionally imposed additional sales tax rate set to expire after June 30, 2034.

For information on other motor vehicle-related taxes such as the motor fuels tax and registration tax, please see the House Research publication [Highway Finance](#). This publication also provides greater detail on the various transportation funds listed in the table above.



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