

Plan for replacement of revenues raised by taxes on short-term motor vehicle

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2001 First Special Session, Chapter 5, Article 12, Section 91, requires the commissioner of revenue to submit a plan to the legislature by January 1, 2003 for a new tax to replace the revenue currently raised by the existing higher motor vehicle rental tax.

The Streamlined Sales and Use Tax Agreement, formally adopted by the Streamlined Sales Tax Implementing States on November 12, 2002, clarifies that member states may treat sales and leases of certain specific services and personal property, including motor vehicles, differently for sales and use tax purposes. (See Article III, Section 308 below) As a result of this clarification, the commissioner suggests that the legislature take action to reinstate the 6.2 percent motor vehicle rental tax that is currently scheduled to expire December 31, 2005 **rather than create a new tax.**

History: Legislation was passed in 2001 adopting the Uniform Sales and Use Tax Administration Act proposed by the Streamlined Sales Tax Project. The Act allowed Minnesota to enter into the Streamlined Sales and Use Tax Agreement. The Agreement sets out uniform definitions for administration of the sales and use tax law, which were adopted along with other law changes necessary to bring Minnesota law into conformance with the requirements of the agreement.

Based on the proposals before the Streamlined Sales Tax Project at that time, it was believed that member states would be required to have a single state sales and use tax rate for all personal property and services by January 1, 2006. As a result, the legislature repealed the 6.2 percent motor vehicle rental tax currently imposed under Minnesota Statutes, section 297A.64, beginning December 31, 2005.

Streamlined Sales and Use Tax Agreement

Article III, Requirements Each State Must Accept to Participate

Section 308, State and Local Tax Rates.

- A. No member state shall have multiple state sales and use tax rates on items of personal property or services after December 31, 2005, except that a member state may impose a single additional rate, which may be zero, on food and food ingredients and drugs as defined by state law pursuant to the Agreement.
- B. A member state that has local jurisdictions that levy a sales or use tax shall not have more than one local sales tax rate or more than one local use tax rate per local jurisdiction. If the local jurisdiction levies both a sales tax and use tax, the local rates must be identical.
- C. The provisions of this section do not apply to sales or use taxes levied on electricity, piped natural or artificial gas, or other heating fuels delivered by the seller, or the retail sale or transfer of motor vehicles, aircraft, watercraft, modular homes, manufactured homes, or mobile homes.