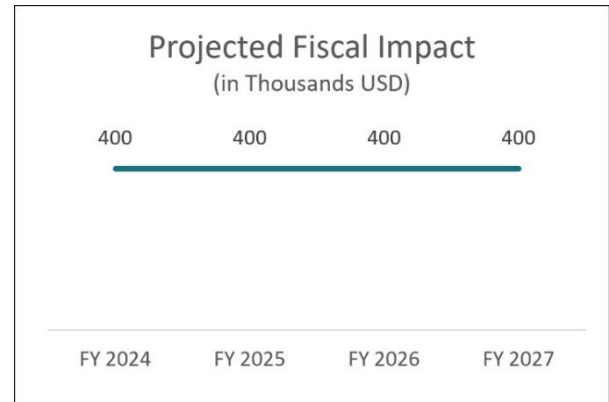


Buses Contracted for Student Transportation

Tax Expenditure Initial Review - TEB 14.2.01

Tax Expenditure Facts

Year Enacted	1971
Statute	Minnesota Statutes 2025, section 168.013, subdivision 18
Tax Type	Motor Vehicle Registration Tax
Provision Type	Preferential Computation
Latest Fiscal Impact Estimate	\$400,000 – Fiscal Year 2027
Latest Claims Estimate	~7,400 school buses in 2023
Expiration Date	None



Tax Expenditure Description

An annual tax of \$25 applies to each school bus used exclusively for student transportation under contract with a school district or used for nonprofit educational institutions. The \$25 tax is lower than the regular tax on buses which is based on weight. School buses owned by the educational institutions are exempt from the registration tax and are estimated separately in TEB 14.1.02.

Additional Background Information

The beneficiaries of this preferential computation are bus companies who contract with school districts to provide transportation services to students. This preferential computation is administered by the Department of Revenue. Collected revenues are deposited in the Highway User Tax Distribution Fund and distributed in accordance with Article XIV of the Minnesota Constitution.ⁱ

Minnesota school districts provide transportation services to students by operating a district owned school bus fleet, contracting with a private vendor of transportation services, or a combination of both.ⁱⁱ Establishing a preferential computation for contracted school bus providers reduces the tax burden on companies who are providing the same transportation services as school districts that lease or own buses which are exempted from the motor vehicle registration tax. The preferential computation does not apply to the motor vehicle sales tax, which is still owed for these buses.ⁱⁱⁱ

Proposed Tax Expenditure Objective for Consideration

The objective of the Buses Contracted for Student Transportation Preferential Computation is to reduce the tax burden on companies contracted by Minnesota school districts to provide the same service as school buses owned or leased by a school district.

Sources

An explicit tax expenditure objective was not identified in the legislative record. Minnesota school districts began using contracted bus services in the early 1900's, and by 1948 private contractors had formed the Minnesota School Bus Operators Association to represent their growing presence in the state public education system and were instrumental in adopting the \$25 license plate fee.^{iv} HF1222 was first introduced in the Education Committee on March 4, 1971, and was re-referred to the Transportation committee. The legislation was enacted in Chapter 700 of the 1971 Regular Legislative Session law, adding the subdivision on taxation and school buses.^v

The proposed tax expenditure objective draws from the general tax-exempt status of schools. Schools are exempt from a variety of tax types to benefit institutions that meet certain purposes under the Internal Revenue Code 501(c)(3), because their main activity is to provide education. The proposed objective is similar to the tax-exempt status of other non-profit organizations to remove cost burdens from organizations deemed to provide a public good or service, in this case, education.

Potential Metrics and Performance Measures

Descriptive statistics analyzing the number of school districts that contract for bus services rather than own or lease school buses for transportation services could illustrate the need for a separate tax expenditure for contracted services. Evaluating the historical utilization rate of school buses using the preferential computation could help understand trends regarding usage rates in various parts of the state.

Contact Information and Disclaimer

This tax expenditure review was prepared by the Legislative Budget Office for the Tax Expenditure Review Commission pursuant to Minnesota Statutes 2025, section 3.8855, subdivision 4.

Notice: Proposed Tax Expenditure Objective statements are not binding authority and should not be used as a legal interpretation of any tax expenditure statute.

For questions regarding this review, please contact the Legislative Budget Office at 651-297-7146 or lbo@lbo.mn.gov.

For more information, please visit the [Tax Expenditure Review Commission website](#).

ⁱ Minnesota Constitution, Article XIV.

ⁱⁱ Minnesota House Research, "[Minnesota Pupil Transportation](#)", November 2001, <https://www.house.mn.gov/hrd/pubs/pupiltrn.PDF>.

ⁱⁱⁱ Minnesota House Research, "[School Transportation Regulation](#)", July 2023, <https://www.house.mn.gov/hrd/pubs/schoolbus.pdf>.

^{iv} Minnesota School Bus Operators Association, "[MSBOA History](#)". Available at: <https://msboa.com/About/History>.

^v Laws of Minnesota 1971, chapter 700.