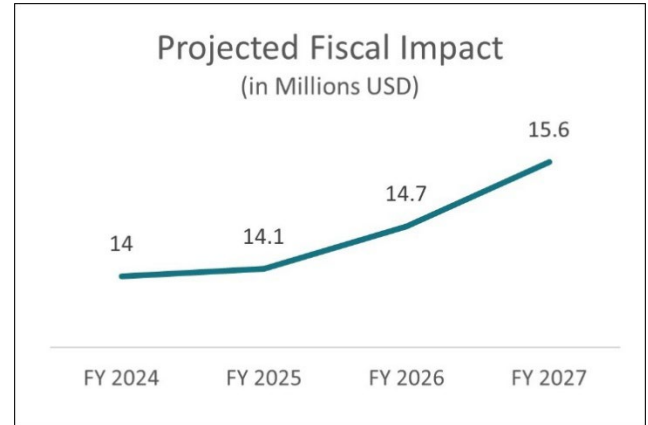


Local Government Vehicles

Tax Expenditure Initial Review - TEB 14.1.01

Tax Expenditure Facts

Year Enacted	1921
Statute	Minnesota Statutes 2025, section 168.012, subdivisions 1, 6, and 10
Tax Type	Motor Vehicle Registration Tax
Provision Type	Exemption
Latest Fiscal Impact Estimate	\$15,600,000 – Fiscal Year 2027
Latest Claims Estimate	~48,100 vehicles
Expiration Date	None



Tax Expenditure Description

Vehicles owned or leased by a political subdivision of the state are exempt from the motor vehicle registration tax. Exempt vehicles include ambulances, fire trucks, utility fleets, police vehicles, and buses owned by city transit companies.

Additional Background Information

This provision was first enacted in 1921 and was last modified in 1996 to include vehicles used by the Department of Health's Division of Disease Prevention and Control and fire suppression support vehicles in the list of local government vehicles that are tax exempt from the motor vehicle registration tax.ⁱ

As of 2025, the Minnesota Department of Revenue Tax Research Division estimated that 48,100 vehicles qualified for this exemption. The Minnesota Department of Public Safety, Driver and Vehicle Services Division administers the tax exemption.ⁱⁱ The direct beneficiaries of the Local Government Vehicles Exemption are the political subdivisions of Minnesota, including cities, counties, and townships.

The Local Government Vehicles Exemption results in less motor vehicle registration tax revenue than would otherwise be collected by the Minnesota Department of Public Safety, Driver and Vehicle Services Division.ⁱⁱⁱ This forgone revenue impacts the Highway User Tax Distribution Fund.^{iv}

Proposed Tax Expenditure Objective for Consideration

The objective of the Local Government Vehicles Exemption is to extend the general sales tax-exempt status for local governments to vehicles that are owned or leased by political subdivisions of Minnesota.

Sources

An explicit tax expenditure objective was not identified in the legislative record. The proposed tax expenditure objective draws from the general purpose of local governments being tax-exempt from any general sales tax imposed by the state. This tax expenditure extends that status to the motor vehicle registration tax, which would otherwise be imposed when owning or leasing a vehicle.^v The proposed objective statement is consistent with how the state has traditionally given tax exemptions to local governments to reduce the cost of providing a public service.

Potential Metrics and Performance Measures

A review of every political subdivision in Minnesota, indicating how many local government vehicles are owned by each subdivision, would indicate which political subdivisions benefit from this tax expenditure the most. Further, in Minnesota, the motor vehicle registration tax amount is dependent on the model of vehicle that it is applied to, and the cost associated with the tax is dictated by the manufacturer's suggested retail price of the car.^{vi} A review of each political subdivision's vehicle models that are exempt from the motor vehicle registration tax would be insightful data for a full evaluation.

Examination of how many local government vehicles claimed this motor vehicle registration tax exemption compared to the number of eligible recipients would highlight the participation rate across political subdivisions for the local government vehicles that each subdivision owns or leases. A survey of the Minnesota Department of Safety, Driver and Vehicle Services Division and the Minnesota Department of Revenue could help to understand the administrative effort each agency provides in order to administer this motor vehicle registration tax exemption.

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 Session Laws 1996, chapter 269; Laws of Minnesota 1996, chapter 435.

ⁱⁱ Motor Vehicle Exemptions, "[Local Government Exemption](#)", Minnesota Department of Revenue, (2026): <https://www.revenue.state.mn.us/guide/motor-vehicle-exemptions>.

ⁱⁱⁱ Vehicle Registration, "[Tax collected by DVS](#)", Minnesota Department of Safety, Driver and Vehicle Services, (2026): <https://dps.mn.gov/divisions/dvs/vehicle/vehicle-registration>.

^{iv} Transportation Funding, "[Highway User Tax Distribution Fund](#)", Minnesota Department of Transportation, (2026): <https://www.dot.state.mn.us/funding/>.

^v Minnesota Statutes 2025, Section 297A.98.

^{vi} Minnesota Statutes 2025, Section 168.013.