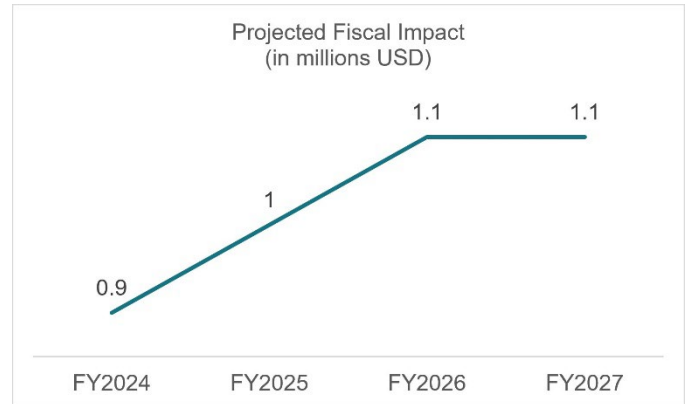


School Buses

Tax Expenditure Initial Review - TEB 14.1.02

Tax Expenditure Facts

Year Enacted	1933
Statute	Minnesota Statutes, section 168.012, subdivision 1(a)(2) and subdivision 10
Tax Type	Motor Vehicle Registration Tax
Provision Type	Exemption
Latest Fiscal Impact Estimate	\$1,100,000– Fiscal Year 2027
Latest Claims Estimate	5,300 vehicles
Expiration Date	None



Tax Expenditure Description

Vehicles owned or leased and used by educational institutions for the sole purpose of transporting students to and from those institutions are exempt from the motor vehicle registration tax. Government owned or leased buses other than school buses are included in the exemption for government vehicles (TEB 14.1.01). School buses used exclusively for student transportation under contract with a school district are not exempted from the tax but are subject to a flat tax of \$25 instead of the regular tax (TEB 14.2.01).

Additional Background Information

The beneficiaries of the School Buses Exemption are the educational institutions that own or lease vehicles for the sole purpose of transporting students. The administrator of this tax exemption is the Department of Revenue.ⁱ The School Buses Exemption reduces the amount of motor vehicle registration tax revenue that would otherwise be generated. Motor vehicle registration tax revenue is deposited in the Highway User Tax Distribution fund and distributed in accordance with Article XIV of the Minnesota Constitution.ⁱⁱ

Proposed Tax Expenditure Objective for Consideration

The objective of the School Buses Exemption from the motor vehicle registration tax is to reduce the cost of transporting students to and from educational institutions so more resources can be allocated for education purposes.

Sources

An explicit tax expenditure objective was not identified in the legislative record. The provision was first enacted in 1933 and was last modified in 1982 to extend the exemption to leased vehicles. The proposed tax expenditure objective draws from the economic impact of the Great Depression and the fiscal strain on the education system during the time of enactment and ongoing needs for school transportation.ⁱⁱⁱ

Since 1921, Minnesota has exempted vehicles owned solely by the federal government, the state, or any political subdivision from the motor vehicle registration tax.^{iv} The proposed objective statement is consistent with how the state has traditionally given tax exemptions to publicly funded institutions to reduce the cost of providing a public service^v.

Potential Metrics and Performance Measures

A review of the number of school buses and vehicles owned or leased by educational institutions for the sole purpose of transporting students to and from schools could be compared to the number of buses and vehicles that claimed the exemption to determine the utilization rate in addition to the amount of forgone revenue to the Highway User Tax Distribution fund.

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 Motor Vehicle Exemptions, "[Vehicle used for transit services](#)", Minnesota Department of Revenue, (2026): <https://www.revenue.state.mn.us/guide/motor-vehicle-exemptions>

ⁱⁱ Minn. Const. article XIV.

ⁱⁱⁱ [A History of The State Department of Education in Minnesota](#), <https://mn.gov/mnddc/past/pdf/60s/67/67-AHO-MDE.pdf>

^{iv} Laws of Minnesota 1921, chapter 461.

^v Minnesota Statutes, Sections 297A.70, Subd. 2 and 3; Minnesota Statutes, Sections 297B.03(12) and 473.448; Minnesota Statutes, Section 297B.03(10); Minnesota Statutes, Sections 168.012, Subd. 1(b) and 296A.16, Subd. 2 and 1(7); Minnesota Statutes, Section 297A.71, Subd. 23