INFORMATION BRIEF
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Revised: August 2009

Motor Vehicle Sales Tax Chronology

The use of revenues from the motor vehicle sales tax (MVST) for transportation purposes has been a legislative issue for more than two decades. This information brief chronicles the issue from its emergence in 1981 to its reemergence in the 2000s.

Table of Contents

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Summary

Ever since the enactment of the motor vehicle sales tax (MVST) in 1967, some have argued that since its revenue is generated by motor vehicles, the funds should be dedicated to transportation. That concept was enacted into law in 1981, but in subsequent years the legislature altered the dedicated portion because of several budget crises. The dedication of MVST for transportation purposes ended entirely in 1991. In 2000 the transfer of MVST revenues to transportation was brought back, but for the purpose of providing motor vehicle tax and property tax relief rather than additional transportation spending.

After adjustments to the allocation over the following years, the 2005 Legislature proposed a constitutional amendment to dedicate all MVST revenue to transportation. The voters adopted the amendment at the 2006 general election. MVST will be phased in so that by fiscal year 2012, it will be dedicated to transportation with 60 percent allocated to highways and 40 percent to transit. The transit portion is further allocated 36 percent to the metropolitan area and 4 percent to greater Minnesota.

1967-1980: Establishment of MVST

The legislature enacted a state sales tax in 1967 and made it applicable to the sale of new and used motor vehicles. In 1971 the legislature put the sales tax on motor vehicles into a separate chapter of the statutes and renamed it the motor vehicle excise tax. (The tax was later renamed the motor vehicle sales tax, or MVST, the acronym used here.) At the time it was levied at the same rate as the sales tax on the sale price of motor vehicles, minus any trade-in allowance.[1] Its revenue, like sales tax revenue, was directed into the state's general fund.

For years many people argued (1) the motor vehicle excise tax was a highway user tax like the gas tax and the motor vehicle license tax, and (2) the revenue from it should be treated like the revenue from those other taxes—that is, dedicated to highways. The final report of the legislature's Select Committee on Transportation in 1980 recommended that MVST revenues be gradually transferred out of the general fund and into transportation funding.

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[1] The general sales tax and MVST have not always been imposed at the same rate and are currently imposed at different rates.

In the 1982 third special session, the legislature temporarily increased the general sales tax rate from 5 percent to 6 percent, but retained the 5 percent MVST rate. Laws 1982, 3rd spec. sess. ch. 1, art. 6 §§ 2, 5, and 7 (effective for sales made after December 31, 1982). In 1983, the general sales tax rate was permanently increased to 6 percent and the MVST rate was increased to 6 percent, making the two rates identical again. Laws 1983, ch. 342, art. 6, §§ 4, 10, and 14 (effective June 30, 1983).

In 2008, the voters approved a constitutional amendment that increased the general sales tax rate from 6.5 percent to 6.875 percent. Laws 2008, ch. 151. This increase in the general sales tax rate has been interpreted to not apply to MVST, an interpretation confirmed by legislation enacted in the 2009 legislative session. Laws 2009, ch. 88, art. 4 § 11. As a result, effective beginning on July 1, 2009, the two taxes are not being imposed at the same rate.

1981-1993: Introduction, Changes, and Elimination of the MVST Phase-In

1981

The highway financing bill the legislature passed in 1981 contained the first effort to transfer MVST revenues out of the general fund. The allocation to transportation was not to have taken place immediately and would have been phased in over several years.

MVST Allocation
FY 1982 and After

Biennium	General Fund	Transportation
1982-83	100%	0%
1984-85	75	25
1986-87	50	50
1988-89	25	75
1990-91 and after	0	100

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As use of the term "transportation" indicates, the money removed from the general fund would not have been used solely for highways and was instead to have been divided between highways and transit. Seventy-five percent of the transportation share was to go to highway funding while 25 percent was for a new transit assistance fund. The highway money would have been divided among the state, counties, and cities through the highway user tax distribution (HUTD) fund, which is constitutionally allocated 62 percent to the state's trunk highway system, 29 percent to counties, and 9 percent to cities. Minn. Const. art. XIV, § 5. Of the transit funding, 80 percent would have been allocated to transit in the seven-county metropolitan area and 20 percent to transit in the rest of the state.

1983

State budget problems in the 1983 session led the legislature to delay for two years the scheduled transfer of revenues from the general fund to the transportation funds. The 75/25 percent division of transportation share (between highways and transit, respectively) remained unchanged.

MVST Allocation
FY 1984 and After

Biennium	General Fund	Transportation
1984-85	100%	0%
1986-87	75	25
1988-89	50	50
1990-91	25	75
1992-93 and after	0	100

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1984

An easing of budget problems allowed the legislature in 1984 to shorten the phase-in delay. Allocation to transportation would begin to take effect in fiscal year 1985 instead of fiscal year 1986. This was a year behind the original 1981 schedule but a year ahead of the revised 1983 schedule. 1985 marked the first year in which MVST revenue was actually provided to transportation.

MVST Allocation
FY 1984 and After

Year/Biennium	General Fund	Transportation
1984	100%	0%
1985	75	25
1986-87	75	25
1988-89	50	50
1990-91	25	75
1992-93 and after	0	100

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1986

The 1986 Legislature again responded to overall budget challenges by canceling the allocation to transportation. The cancellation was made retroactive to the beginning of fiscal year 1986, but only applied to the 1986-87 biennium; the scheduled 50-percent allocation for the 1988-89 biennium and phase-in for subsequent years were left in place.

1987

The legislature restored the MVST allocation to transportation for fiscal year 1988, but at a much lower level: 5 percent instead of the planned 50 percent. At the same time it reduced the highway share by the amount needed to fund state subsidies to ethanol producers under a program begun in 1986 and previously paid for from the general fund.

1988

The transportation allocation was raised from 5 percent to 30 percent of total MVST revenue. For the first time, a change was made in the distribution of the highway share. Beginning in fiscal year 1992, the highway portion of the transportation allocation was set to go entirely to the trunk highway fund, which is used solely for the state's trunk highway system. Previously, the highway share had always gone into the highway user tax distribution (HUTD) fund for allocation to the state, counties, and cities. The constitutional allocation of HUTD revenue includes a portion for the trunk highway fund, so the impact was an increase in trunk highway funding through eliminating MVST funding for local highways.

MVST Distribution of Transportation Portion
FY 1989 and After

Distribution	FY 1989-1991	FY 1992 and after
Transportation distribution (30% of MVST):		
Highway user tax distribution fund	75%	0%
Trunk highway fund	0	75
Transit assistance	25	25

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1989

The legislature again increased the percent of MVST going to transportation by 5 percent, starting in fiscal year 1990 (so that the transportation portion would equal 35 percent of MVST revenue). The highway share of the additional 5 percent went to the trunk highway fund rather than to the HUTD fund.

MVST Distribution of Transportation Portion
FY 1990 and After

Distribution	FY 1990-1991	FY 1992 and after
Transportation distribution (30% of MVST in 1990-91; 35% of MVST in 1992 and after):		
Highway user tax distribution fund	75%	0%
Trunk highway fund	0	75
Transit assistance	25	25
Additional transportation distribution (5% of MVST in 1990-91):		
Trunk highway fund	75	
Transit assistance	25	

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1990

In the 1990 legislative session there were again budgetary challenges, and the legislature looked for a solution that included the allocation of MVST. The percentage of MVST going to transportation was reduced to 25 percent for fiscal year 1991, and 30 percent for fiscal year 1992 and after.

1991

The state faced a budget crisis more serious than those of the late 1980s, and the issue dominated the 1991 legislative session; subsequently, the MVST allocation to transportation was eliminated. Gov. Arne Carlson’s budget called for its elimination to help make up a substantial general fund shortfall. The legislature had to decide whether to permanently eliminate the transportation allocation or only suspend it for another two years. The legislature chose to suspend it for another two years. It enacted legislation to move $52 million in MVST revenue for fiscal year 1991 from transportation to the general fund, as well as restore a transportation dedication that would start in 1994 at 10.67 percent of the revenue.

However, the governor was generally opposed to dedicated funds and vetoed parts of the legislature's statutory change in the allocation of MVST revenues. The action was questioned at the time as possibly exceeding the governor's line-item veto power. No court action was taken against it, however, and the veto stood. The veto had the effect of allocating all MVST revenues to the general fund beginning in fiscal year 1992, eliminating any portion for transportation purposes.

The 1991 legislative session also included the final report from the Transportation Study Board, a body of legislators and nonlegislators who undertook a comprehensive study of the state's transportation needs. The board's recommendations included a proposal to dedicate 50 percent of MVST to transportation, with a portion going specifically for transit and the rest to a multimodal "transportation services fund." The financing recommendations were not enacted, having never been introduced in the legislature.

1994-1999: Bills Discussed Without Agreement

Although it did not act on the Transportation Study Board's recommendations, the legislature continued to propose alternatives to address the allocation of MVST in the ensuing years. The House and Senate each proposed and sometimes passed legislation to re-establish a transfer. But no two proposals were ever quite alike, and the legislature reached a deadlock. The two houses were unable to agree on (1) a distribution of MVST revenues, and (2) whether the allocation to transportation should be provided only in statute (meaning it could continue to be changed at any time) or be made permanent by being written into the constitution.

1994

In 1994 the House passed a wide-ranging transportation funding package that included indexing the state gasoline tax to inflation and a constitutional amendment that would have dedicated at least 40 percent of MVST revenues exclusively to transit assistance. In the same session, the Senate passed a finance bill that also included gas-tax indexing but dedicated only 23 percent of MVST revenues to transit, with the dedication in statute rather than in the constitution. The two sides did not reach a consensus and no action was taken.

1996

Two years later the House passed two proposals for MVST dedication. One would have dedicated 30 percent of the revenue exclusively for transit, first as a statutory dedication and eventually as a constitutional one. This proposal was part of an overall transportation finance bill that would also have raised the gasoline tax by five cents. An unrelated proposal (added to the omnibus tax bill) would have established a timetable for transferring MVST revenue to highways and transit at the rate of 25 percent per biennium, beginning in the 1998-99 biennium.

The Senate did not accept either proposal, and no changes were made.

1998

In 1998 the Senate shifted course and passed a bill proposing a constitutional amendment to dedicate 25 percent of MVST revenues to a new multimodal surface transportation fund. The bill was never heard in the House.

The House approach involved creating a new "Minnesota ISTEA Fund." This would have consisted of all of the revenue from motor vehicle registration taxes, plus 20 percent of MVST. After guaranteeing local governments their existing share of registration tax revenues, it would have distributed the remainder of the fund to provide the state and local match for all federal transportation funding to Minnesota. The bill passed the House Transportation Committee but not the Taxes Committee.

2000-2009: Renewed Activity and the Constitutional Amendment

2000

In the 2000 session the legislature acted for the first time in a decade to dedicate MVST funds for transportation. However, the allocation was not intended to increase the overall transportation funding level.

As part of the 2000 omnibus tax bill, the legislature adopted a modified version of Gov. Jesse Ventura's proposal to make substantial reductions in registration taxes on automobiles, capping those taxes at $189 in the second year of vehicle life and at $99 in subsequent years. Since the revenue from these taxes went into the HUTD fund, the tax reduction left a considerable hole in that fund.

The legislature chose to fill the hole by transferring money directly from the general fund to the HUTD fund—$149 million in fiscal year 2001 and $166 million in fiscal year 2002. For fiscal year 2003 and after, the tax bill replaced a general fund transfer with a dedication of 32 percent of MVST revenue.

2001

The 2001 Legislature increased the transfer of MVST revenues out of the general fund, to begin in fiscal year 2003. Only a small part of this re-allocation was designed to increase transportation spending, and as in 2000, the bulk of the transfer went to tax relief.

The money going to the metropolitan and greater Minnesota transit funds was intended to reimburse local governments and the Metropolitan Council for revenue lost when the legislature prohibited the use of property taxes for metropolitan transit operations. The metropolitan area transit appropriations account was intended for new transit operating costs such with Hiawatha light rail transit.

The amount of revenues going to the HUTD fund to replace lost vehicle registration tax revenue (enacted in the 2000 session) remained approximately the same, but the source was changed from a general fund transfer to an increased percentage of MVST revenue.

MVST Allocation
FY 2002 and After

Distribution	FY 2002	FY 2003	FY 2004 and after
Highway user tax distribution fund (to replace revenue from vehicle license taxes)	30.86%	32%	32%
Metropolitan area transit fund (to replace metro area transit property taxes)	0	20.5	20.5
Greater Minnesota transit fund (to replace greater Minnesota transit property taxes)	0	1.25	1.25
Metropolitan area transit appropriation account (for metro area transit operations)	0	0	2
General fund	69.14	46.25	44.25

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2003

In the 2003 session, the legislature made another significant change in the MVST distribution by increasing the percentages going to dedicated transit funds.

The increase in shares of MVST for the transit funds was intended not just to replace property tax revenue but also to make up for other transit revenue that was being lost. Overall budget cuts resulted in reduced general fund appropriations for both metropolitan and greater Minnesota transit assistance, as well as in the elimination of the 2 percent of MVST that would have gone into a metropolitan transit appropriations account beginning in fiscal year 2004. To make up for these cuts and to provide the state’s share of operating costs for the Hiawatha light rail transit line, the legislature increased the transit funds’ share of MVST.

However, the state’s budget situation precluded taking the additional money from the share of MVST directed to the general fund. MVST revenue allocated to the HUTD fund was instead decreased, allowing a greater portion for the transit funds. The county state-aid highway fund and the municipal state-aid street fund received direct allocations from MVST revenue in order to offset the reduction of their portions of the HUTD funding. The effect was a reduction in the amount of MVST revenue going towards the state’s trunk highway system.

MVST Allocation
FY 2004 and After

Distribution	FY 2004-2007	FY 2008 and after
Highway user tax distribution fund	30%	32%
County state-aid highway fund	0.65	0
Municipal state-aid street fund	0.17	0
Metropolitan area transit fund	21.5	20.5
Greater Minnesota transit fund	1.43	1.25
General fund	46.25	46.25

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2005

In the 2005 session, the House and Senate passed a bill that included placing a constitutional amendment proposal on the ballot at the 2006 general election. The bill (H.F. 2461) contained a number of transportation funding elements, including a gas-tax increase, and was vetoed by the governor. However, since constitutional proposals cannot be vetoed, two sections providing constitutional language and a ballot question became session law. Laws 2005, ch. 88, art. 3, §§ 9-10. The proposed constitutional language dedicated all MVST revenue to transportation purposes, to be phased in over fiscal years 2008 to 2012. The language also specified that "not more than 60 percent" of the revenue could go to highway purposes and "not less than 40 percent" must be dedicated to transit, thereby establishing a maximum percentage for highways and a minimum for transit.

2006

In 2006, several proposals to modify both the constitutional language and the constitutional amendment ballot question were offered. Proposals to change the constitutional language would have replaced the maximum amount for highways and minimum amount for transit with a percentage-split set at specific amounts. Possibilities included a hard 60/40 split and a hard 80/20 split (between highways and transit, respectively). They were referred to as creating a "hard" split since they would eliminate the minimum and maximum percentages, preventing future legislatures from changing the percentages.

Both the House and Senate passed omnibus transportation finance bills that would have established a hard 60/40 split and changed the ballot question phrasing (H.F. 3761, S.F. 3764). However, the conference committee did not reach an agreement due to other transportation finance issues, and the legislature did not enact any changes in the constitutional initiative.

At the 2006 general election, voters adopted the constitutional amendment. The amendment garnered 57.27 percent votes in favor, and 42.73 percent were either opposed or did not vote on the ballot question. Passage of the constitutional amendment established a framework for phasing in total dedication of MVST to transportation, along with limitations on minimum and maximum percentages devoted to transit and highways. However, the constitutional framework did not specify a particular allocation. This needed to be established in statute. (The governor's veto invalidated the statutory allocation language in the 2005 legislation.)

2007

While much of the 2007 session's legislative discussion over transportation finance dealt with funding options, proposals were also made for apportioning the new transportation revenue from MVST. The most common plan was 60 percent to highways and 40 percent to transit (which was the distribution proposed in the vetoed 2005 language).

Much of the MVST distribution debate focused on dividing the transit portion. Most proposals ranged from 35 percent to 38 percent for the metropolitan area, and 2 percent to 5 percent for greater Minnesota. Several MVST distribution schedules were included as part of larger financing packages that had provisions like a five- or ten-cent gas-tax increase, changes to registration taxes, trunk highway bonding, expansion of the local option wheelage tax, and a local option sales tax.

A transportation finance package that contained several such provisions for increasing transportation funding passed both the House and Senate (H.F. 946). The governor vetoed it in opposition to raising taxes, and the legislature enacted a budget bill that did not provide new revenue for transportation but did include an MVST phase-in schedule (H.F. 562). Laws 2007, ch. 143, art. 2, § 5.

After the phase-in over fiscal years 2008 to 2012, the allocation of MVST was set to be 60 percent to highways, 36 percent to metropolitan transit, and 4 percent to greater Minnesota transit. The legislation also included technical changes that established a new transit assistance fund containing a metropolitan area transit account and a greater Minnesota transit account.

MVST Phase-In
FY 2008 and After

Distribution	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012 and after
Highway user tax distribution fund	38.25%	44.25%	50.25%	56.25%	60%
Metropolitan transit account	24	27.75	30	33.75	36
Greater Minnesota transit account	1.5	1.75	3.5	3.75	4
General fund	36.25	26.25	16.25	6.25	0

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2009

The legislature addressed operating deficits for transit in both the metropolitan area and greater Minnesota through a package of changes that included modification to the MVST phase-in. Laws 2009, ch. 36, art. 3, § 19. The phase-in changes reallocated additional funds for transit, reducing the amount allocated to state and local highways for fiscal years 2010 and 2011. It did not alter the basic 60 percent/40 percent split between highways and transit after the phase-in is completed.

The changes, which are not total allocations, are as follows:

2009 Reallocation of MVST

Distribution	FY 2010		FY 2011		FY 2012 and after	
	Percent	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**
Highway user tax distribution fund	-2.75%	($10,885)	-1.75%	($7,782)	0.0%	$0
Metropolitan transit account	1.50	5,937	1.50	6,671	0.0	0
Greater Minnesota transit account	1.25	4,948	0.25	1,112	0.0	0
Notes: Amounts are in thousands. Amounts reflect expected changes in funding allocations due to changes in Laws 2009, chapter 36.						

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The restructured MVST phase-in also includes a cap established as part of the agreement to reduce the allocation for highways. The cap provides that any increase in MVST revenue over the February 2009 forecast coming from the reallocated portion of MVST (that was moved from highways to transit) would only go to highways. That is, the cap is designed to ensure that MVST funding for transit would not increase more than was expected to help cover the transit deficits. Any amount of funds attributable to the reallocated percentages that exceed $11 million in fiscal year 2010, and $8 million in fiscal year 2011, is directed to the HUTD fund.

The 2009 reallocation changed the percentage distribution between highways and transit, although it did not affect the percentage allocation between transportation and the general fund.

MVST Phase-In
FY 2009 and After

Distribution	FY 2009	FY 2010	FY 2011	FY 2012 and after
Highway user tax distribution fund	44.25%	47.5%	54.5%	60%
Metropolitan transit account	27.75	31.50	35.25	36
Greater Minnesota transit account	1.75	4.75	4.00	4
General fund	26.25	16.25	6.25	0

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For more information about transportation funding, visit the transportation area of our web site, www.house.mn/hrd/hrd.htm.