

Motor fuels and other petroleum products are subject to either petroleum tax or sales and use tax, but never both. The petroleum tax applies to fuel used in licensed motor vehicles. Either sales tax or petroleum tax applies to fuels for non-highway use. Some exemptions may also apply. This fact sheet will help to explain which tax applies.

Petroleum tax

Most fuel used for highway purposes is subject to petroleum tax. This includes motor fuel (gasoline or diesel fuel, also called “special fuel”) used in all licensed motor vehicles. It also includes fuel for motorboats, all-terrain vehicles, aircraft, and most snowmobiles.

When you buy gasoline from a pump at a gas station, the price already includes petroleum tax (both state and federal).

State petroleum tax refund

If you pay *state petroleum tax* on motor fuel but later receive a refund or credit of the state tax, you must pay *use tax* on the cost of fuel used for taxable purposes. See the section *Sales and use tax exemptions* for specific exemptions that may apply. If no petroleum refund is received, no use tax is due on that fuel.

State petroleum tax paid on fuel used to operate a power take-off unit (PTO) or auxiliary engine fueled from the same supply tank as the highway vehicle is refundable. To request a refund of state petroleum tax paid on fuel used for a qualifying non-highway use or in a PTO, call the Minnesota Petroleum Tax Division at 651-296-0889 or toll-free at 1-800-657-3596 for the applicable forms or download them from our web site, www.taxes.state.mn.us.

Use Form PDR-1, Minnesota Motor Fuel Refund, to request a refund of state petroleum tax. If the refund is for a PTO, also attach Schedule PDR-1PTO, Power Take-Off Worksheet. Request Petroleum Fact Sheet 400, Power Take-Off Refunds, and Revenue Notice 1999-09, Power Take-off Unit Refunds, for more information. Other petroleum tax fact sheets are also available.

Dyed fuel

Diesel fuel (not gasoline) to be used for *non-highway* purposes is dyed red at the terminal to show that no *federal* petroleum tax has been levied on the fuel. This fuel is also sold without the *state* petroleum tax, since it is not intended for use on the highway. In fact, by law, dyed fuel **must not** be used on the highway, except for government use. (See *Sales to governments* on page two.)

Dyed fuel may be subject to sales or use tax, depending on how it's used, as explained in the following sections.

If you suspect unlawful use of dyed diesel fuel, please call the Tipline at 1-800-657-3500 or 651-297-5195.

Sales or use tax

Sales or use tax is due on petroleum products used for non-highway purposes unless the petroleum tax was paid and not refunded, or a specific sales tax exemption applies (see below). Generally, sales or use tax applies to fuel used in construction activities or for heating commercial buildings.

The amount subject to use tax includes the cost of the fuel, *federal* petroleum tax (which is a tax imposed at the wholesale level) the Petrofund “clean-up” fee, and any inspection fees imposed. Use tax is due for the period when the refund or credit is received.

Sales and use tax exemptions

Residential exemption. Fuel oil, coal, steam, propane gas, LP gas, and kerosene delivered to residential customers for residential heating are exempt from both petroleum tax and sales or use tax. These fuels are also exempt when picked up from the supplier, if the customer gives the supplier a written statement that the fuel will be used for residential heating. Request Fact Sheet 157, Residential Utilities, for more information.

Agricultural or industrial production exemption. Fuel *used or consumed in agricultural or industrial production* of items that will ultimately be sold at retail are also exempt from both petroleum tax and sales or use tax. The purchaser must give the supplier a Fuels and Energy Exemption Certificate, Form ST-4, to claim exemption from sales tax. This exemption applies to fuel used:

- to operate **farm equipment** used in producing crops (request Fact Sheet 100, Agricultural Production);
- to operate **manufacturing equipment** (request Fact Sheets 129, Utilities Used in Production, and 145, Industrial Production);
- to improve **agricultural land** by constructing, maintaining and repairing drainage ditches, tile drainage systems, grass waterways, water impoundment, and other **erosion control** structures (request Fact Sheet 100, Agricultural Production);
- to operate **logging equipment** (request Fact Sheets 108, Logging Equipment, and 153, Loggers and Log Home Builders);

- to operate *PTO's used in agricultural or industrial production*, for example, *PTO's that power fertilizer spreaders or ready-mixed concrete truck mixers*;
- to operate off-road equipment or vehicles used directly in *mining ore and producing taconite* (request Fact Sheet 147, Taconite and Iron Mining).

Note: The sales and use tax exemption for agricultural and industrial production does not apply to fuel used for general *space heating or lighting* or for the *preservation* of raw materials or completed goods. Also, petroleum tax must be paid on fuel used in any *licensed motor vehicle* for highway use, including ready-mixed concrete trucks, even though the vehicle may be used in agricultural or industrial production.

Passenger snowmobile exemption. Petroleum products used in a passenger snowmobile for off-highway business use as part of the operations of a resort are exempt from sales tax. The snowmobile must have an enclosed passenger section that provides seating for four to twelve passengers and be designed to travel on snow or ice.

If state petroleum tax was paid on any of the above, a refund may be requested by filing Form PDR-1, Minnesota Motor Fuel Refund.

Trains and barges

Diesel fuel for trains and barges is exempt from the petroleum tax but is subject to sales or use tax.

Sales to governments

The **federal government** may buy all fuel exempt from both state petroleum tax and sales or use tax.

State and local governments are exempt from *federal* petroleum tax.

State and local governments are **not** exempt from *state* petroleum tax. State and local governments often buy dyed fuel, since dyed fuel is not subject to federal petroleum tax. If state and local governments buy dyed fuel and use the fuel in taxable ways as described in the *Petroleum tax* section on page one, they must pay the state petroleum tax directly to the State of Minnesota or to the supplier at the time of purchase. Contact the Petroleum Tax Division at the phone number on page one to set up an account to pay any state petroleum tax due.

State and local governments owe *sales tax* unless petroleum tax has been paid and not refunded, or unless a sales tax exemption (described previously) applies.

Exception. Fuel used by the state or a local government in **marked police vehicles, ambulances, and fire apparatus** is exempt from sales or use tax.

Nonprofit organizations

Petroleum tax. Nonprofit organizations must pay *petroleum tax* on all fuel as described in the *Petroleum tax* section—no exemptions apply.

Sales tax. Qualifying nonprofit organizations may buy fuel for off-highway use without paying *sales tax* by giving the seller an exemption certificate (either Form ST-17 or ST-3).

Paying sales or use tax

Sellers should charge sales tax on petroleum products unless state petroleum tax is included in the price, or the buyer gives the seller an exemption certificate.

If no exemption applies, the customer must pay use tax if:

- the price doesn't include state petroleum tax and the seller doesn't charge sales tax, or
- the customer receives a refund of petroleum taxes.

To pay use tax, report the purchase price of the petroleum products for non-highway use on Line 200, Purchases - use tax due, on Form ST-1, State and Local Sales and Use Tax Return. If you don't receive sales and use tax returns, call the Sales and Use Tax Division at (651) 296-6181 or toll-free at 1-800-657-3777.

Request Fact Sheets 146, Use Tax for Businesses, and 156, Use Tax for Individuals, for more information on use tax.

Local sales and use taxes

The Minnesota Department of Revenue administers and collects local sales and use taxes on behalf of the local governments listed below. All local taxes are in addition to the state sales and use tax. Local taxes are explained in more detail in Fact Sheet 164, Local Sales and Use Taxes.

Cook County, 1.0%	Rochester, 0.5%
Hermantown, 0.5%	St. Paul, 0.5%
Mankato, 0.5%	Two Harbors, 0.5%
Minneapolis, 0.5%	Willmar, 0.5%
Proctor, 0.5%	Winona, 0.5%

Duluth administers its own sales and use tax. For more information, contact Duluth Sales Tax, 105 City Hall, Duluth, MN 55802, phone 218-723-3271.

References

M.S. 297A.25, Subd 7. Petroleum Products
 M.S. 297A.25, Subd. 9. Materials consumed in production
 M.S. 296A.16, Subd. 2(2)(ii). Petroleum Refunds
 Rule 8125.1301. PTO Refunds
 Revenue Notice 1999-09, Power Take-off Unit (PTO) Refunds

This fact sheet is a tax information bulletin intended to help you become more familiar with Minnesota tax laws and your rights and responsibilities under the tax laws. Nothing contained in this fact sheet supersedes, alters, or otherwise changes any provisions of the Minnesota tax law, administrative rules, court decisions, or revenue notices.